



Susan Montee, CPA  
Missouri State Auditor

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# City of St. Louis Supply Division

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September 2008  
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Office of  
Missouri State Auditor  
Susan Montee, CPA

September 2008

The following findings were included in our audit report on the City of St. Louis Supply Division.

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It appears that some city departments may be using emergency purchases to circumvent normal city purchasing procedures. Auditors reviewed 28 emergency purchases, totaling \$371,845, made by various city departments that were processed through the Supply Division and approved by both the Supply Division and the Comptroller's Office. Of the 28 items reviewed, 22 did not appear to meet the city's definition of an emergency. Some of these purchases included the following:

- The Street Department purchased a traffic signal detection system for \$234,215. It appears this purchase was delayed to the point where an emergency purchase was required to complete the project on a timely basis, and there was no documentation to indicate why the purchase had been delayed.
- The Supply Commissioner purchased a new car for \$25,567 for the newly-elected President of the Board of Aldermen.
- The Health Department purchased satellite telephones for \$9,390, a digital camera for \$4,034, and other photo equipment for \$1,131.
- The Information Technology Services Agency purchased W-2 forms for \$626. This purchase included all W-2 forms needed for city employee tax records for the 2007 tax year. A similar purchase was made for the 2006 tax year.

Other items that did not appear to meet the definition of an emergency purchase included a sno-cone machine, magnetic baseball schedules, fleece blankets, polo shirts, and couches.

For 13 of the 22 items purchased that did not appear to meet the definition of an emergency purchase, justification of the emergency nature of the purchase was not adequately documented, and no justification was documented for two of the 22 purchases.

Nineteen items purchased included invoices with dates prior to the creation and approval of the emergency requisition form. Further, 26 of the applicable 27 emergency purchases were not bid as required. In addition, two of six applicable purchases did not have a letter requesting waiver of advertising for bids, including one purchase exceeding \$200,000.

(over)

YELLOW SHEET

Invoice prices for some purchases did not agree to the applicable contracted bid prices. In addition, some invoices did not provide specific pricing information to allow invoices to be verified for accuracy.

The city may be limiting available bidders due to the city's performance bonding requirements. The Supply Division requires all contractors maintain a performance bond equal to 50 percent of the value of the contract. The Supply Commissioner indicated some companies are choosing not to do business with the city because the performance bonding requirement can be a financial hardship. In addition, the city requires performance bonds for routine supply contracts where products would appear to be readily available from other vendors if the contractor defaults.

The Supply Division received approximately \$431,000 in checks and money orders during the year ended June 30, 2007. Checks and money orders may be handled by as many as three individuals prior to being recorded for transmittal to the City Treasurer, which could cause delays in transmitting receipts on a timely basis. In addition, there is no process to allow for the reconciliation of amounts received to amounts transmitted to the City Treasurer.

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CITY OF ST. LOUIS  
SUPPLY DIVISION

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STATE AUDITOR'S REPORT



**SUSAN MONTEE, CPA**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Supply Commissioner  
City of St. Louis, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of St. Louis. The city engaged KPMG LLP, Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended June 30, 2007. To minimize duplication of effort, we reviewed the CPA firm's audit report. We have conducted an audit of the City of St. Louis Supply Division. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2007. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.
2. Determine if the division has adequate internal controls over significant management and financial functions.
3. Determine if the division has complied with certain legal provisions.

Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the division, as well as certain external parties; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of

noncompliance significant to those provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the division's management and was not subjected to the procedures applied in our audit of the division.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of St. Louis Supply Division.

Additional audits of various officials and departments of the city of St. Louis, fulfilling our obligations under Section 29.230, RSMo, are still in process, and any additional findings and recommendations will be included in subsequent reports.



Susan Montee, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA
Audit Manager:	Mark Ruether, CPA
In-Charge Auditor:	Kelly Davis, CPA
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MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

CITY OF ST. LOUIS  
SUPPLY DIVISION  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

<b>1.</b>	<b>Emergency Purchases</b>
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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 purchases. In addition, some city departments did not follow required emergency purchase procedures, including soliciting price quotes or bids and requesting approval before purchase. The Supply Division processed approximately 395 emergency purchase requisitions during the year ended June 30, 2007.

We reviewed 28 emergency purchases made by various city departments that were processed through the Supply Division and approved by both the Supply Division and the Comptroller's Office. These emergency purchases were made between July 1, 2006 and March 27, 2008 and totaled \$371,845. We noted the following concerns:

A. Of the 28 items reviewed, 22 did not appear to meet the city's definition of an emergency. City policy states an emergency purchase can only be made when a condition exists which might cause injury to a person, property damage, or seriously impair public health or services. These 22 purchases included the following:

- The Street Department purchased a traffic signal detection system for \$234,215. It appears this purchase was delayed to the point where an emergency purchase was required to complete the project on a timely basis, and there was no documentation to indicate why the purchase had been delayed.
- The Supply Commissioner purchased a new car for \$25,567 for the newly-elected President of the Board of Aldermen.
- The Health Department purchased satellite telephones for \$9,390, a digital camera for \$4,034, and other photo equipment for \$1,131.
- The Information Technology Services Agency purchased W-2 forms for \$626. This purchase included all W-2 forms needed for city employee tax records for the 2007 tax year. A similar purchase was made for the 2006 tax year.

Other items that did not appear to meet the definition of an emergency purchase included a sno-cone machine, magnetic baseball schedules, fleece blankets, polo shirts, and couches.

- B. For 13 of the 22 items purchased that did not appear to meet the definition of an emergency purchase (as noted in Part A), justification of the emergency nature of the purchase was not adequately documented, and no justification was documented for 2 of the 22 purchases. For the remaining 7 purchases, even though the items purchased did not appear to meet the city's definition of an emergency, the justification that was provided did appear to meet the city's documentation requirements (for example, "time sensitivity" is considered an appropriate justification).

The Supply Division Procedures Manual requires the applicable city department or division to provide documentation of the need for each emergency purchase in the justification section of the emergency requisition form; however, the following represent examples of inadequate justifications provided:

- The Health Department stated the \$4,100 digital camera was needed for publicity photos.
- Couches and office chairs were purchased for two departments to replace worn-out furniture.
- The Building Division needed six vehicles to replace worn-out vehicles for building inspectors.

- C. Nineteen items purchased included invoices with dates prior to the creation and approval of the emergency requisition form. The Supply Division Procedures Manual requires the Comptroller's and Supply Division's approval before an item can be purchased on an emergency basis, unless the offices are closed. If the offices are closed such as at night or on a weekend, purchases must be approved by the department head at the lowest possible price. No documentation was provided to indicate that these 19 purchases were made while the applicable offices were closed.

- D. Twenty-six of the applicable twenty-seven emergency purchases were not bid as required. The Supply Division Procedures Manual requires two to three vendor letterhead price quotations be obtained prior to making an emergency purchase, unless a bid waiver is requested and approved by the Supply Division (a waiver was requested and approved for one of the 28 purchases reviewed).

In addition, two of six applicable purchases did not have a letter requesting waiver of advertising for bids. The Supply Division Procedures Manual requires a letter be sent to the Supply Division at least two days prior to purchase requesting the waiver of advertising for bids if the purchase price exceeds \$5,000 (price quotes must still be obtained even when advertising for bids is waived). One purchase exceeded \$200,000 but did not include the required waiver.

In some cases, it may not be possible or practical to obtain price quotes, bids, or bid waiver letters prior to purchase. In these cases, the reasons for not following the applicable policy should be fully documented.

It appears that some city departments may be using emergency purchases to circumvent normal city purchasing procedures. The Supply Division should work with the Comptroller's Office and all city departments to ensure emergency purchases meet the city's definition of an emergency and that all applicable procedures are followed for such purchases. In addition, the Supply Division should work with the Mayor and Board of Aldermen to determine if disciplinary action can be taken against city departments that abuse emergency purchasing procedures. This would ensure non-emergency purchases are made in accordance with standard city purchasing procedures, which helps ensure purchases are reasonable and necessary and the city receives the best price for all purchases.

**WE RECOMMEND** the Supply Division work with the Comptroller's Office to:

- A. Ensure only emergency purchases that meet the definition of an emergency are approved. In addition, the Supply Division should work with the Mayor and the Board of Aldermen to determine if disciplinary action can be taken against city departments that abuse emergency purchasing procedures.
- B. Ensure all emergency purchases include adequate documentation to justify the emergency.
- C. Ensure all emergency purchases are approved prior to initiating the actual purchase, or the reason for initiating the purchase prior to approval is adequately documented.
- D. Ensure two or three vendor letterhead price quotes are received for all emergency purchases, and letters to waive advertising for bids are received for applicable emergency purchases over \$5,000. If there are valid reasons for not following applicable city policies for such purchases, these reasons should be fully documented.

**AUDITEE'S RESPONSE**

*The Supply Division agrees with the audit finding. The Supply Division will work in conjunction with the Mayor's Office, Comptroller's Office and the Board of Aldermen to ensure city policy and procedures are followed. A joint letter will be sent to all departments and agencies by November 30, 2008, requesting compliance and recommending departmental actions, if appropriate, be imposed against repeat offenders.*

Invoice prices for some purchases did not agree to the applicable contracted bid prices. In addition, some invoices did not provide specific pricing information to allow invoices to be verified for accuracy. The Supply Division is responsible for negotiating contracts for the purchase of city supplies and materials. In addition, city accounting procedures require the Supply Division review invoices for items purchased on an existing contract to ensure the prices agree to the applicable contracts. If the prices agree, the Supply Division authorizes a purchase order in the accounting system which allows for the payment of the invoice. If the prices do not agree, the Supply Division is required to send the invoice back to the applicable city department to resolve the differences.

We reviewed 14 contracts negotiated by the Supply Division between July 1, 2006 and February 29, 2008 for compliance with city bidding and invoicing procedures. This included a review of various invoices for each contract to ensure the invoice price agreed to the bid price. We noted the following concerns:

- A. Invoices for 2 of the 14 contracts included charges for items that were not bid nor included in the contracted bid prices. While the Supply Division's Multigraph Section provides printing services for most city departments, the Supply Division contracts for printing services that cannot be provided by the Multigraph Section or when the Multigraph Section cannot handle the capacity of certain printing requests. The invoices for one printing order included items that were not included in the contract. Instead, according to division personnel, the bid price was for basic printing, and additional embellishments were purchased but not bid. Division personnel indicated a supply clerk will contact the Multigraph Section to determine if the invoiced prices are acceptable, but this verification is not documented.

In the other instance, the city purchased rock at a pick-up price rather than the negotiated delivery price. While the pick-up price was lower than the negotiated delivery price, it appears the Supply Division should have obtained bids for pick-up price, as well as delivery price, to ensure the best possible price was obtained.

To ensure the city only pays the negotiated prices and to help prevent over-billing, the Supply Division should ensure all prices correspond with contracted prices prior to authorizing the applicable purchase orders.

- B. Invoices for 6 of the 14 contracts did not include necessary information to allow the Supply Division to verify that the invoice price agreed to the contract price. For one diesel fuel contract, the invoice prices were raised without consulting the Supply Division as required. The invoices did not include specific unit pricing information to allow for the pricing differences to be found, causing the city to potentially overpay for fuel. In another instance, tree removal was contracted based on an amount per ton of debris removed. The number of tons removed was

not included on the invoices to allow Supply Division personnel to verify that the correct amount was billed.

The Supply Division should ensure invoices include detailed information regarding per unit rates to allow adequate comparison of invoice prices to contract prices. This would help ensure the city pays the negotiated contract price.

**WE RECOMMEND** the Supply Division:

- A. Ensure invoice prices correspond to contract prices before processing the purchasing order in the accounting system.
- B. Ensure invoices include sufficiently detailed information, such as per unit rates, to allow adequate comparison of the invoice prices to the contract prices.

**AUDITEE'S RESPONSE**

*The Supply Division agrees with the audit finding. The Supply Division's buyers have been instructed to insure that all contracts contain the appropriate per unit pricing. Accounting personnel have been instructed to verify per unit pricing on all invoices with the corresponding contract. Accounting personnel have also been instructed to refer all pricing discrepancies to vendors and/or buyers for resolution before processing the invoice for payment. Action completed as of June 30, 2008.*

**3.**

**Performance Bonding**

The city may be limiting available bidders due to the city's performance bonding requirements. The Supply Division requires all contractors maintain a performance bond equal to 50 percent of the value of the contract. St. Louis City Revised Code Section 5.58.160 states, the "Supply Commissioner shall require all parties contracting through his department to give good and sufficient bond for the faithful performance of the contracts, to be approved by the Mayor."

Performance bonds are a useful tool to ensure the city is indemnified if a contractor fails to fulfill the contract. However, the Supply Commissioner indicated some companies are choosing not to do business with the city because the performance bonding requirement can be a financial hardship. In addition, the city requires performance bonds for routine supply contracts where products would appear to be readily available from other vendors if the contractor defaults. The State of Missouri Office of Administration, Purchasing Division does not require performance bonds for routine items such as office supplies. Instead, the wishes of the contracting departments and details of the contract are evaluated to determine performance bond requirements.

Performance bonds should be used to ensure the city remains protected if a contractor fails to fulfill a contract. However, requirements should be evaluated to determine the

necessity of performance bonds in situations which may limit the city's ability to receive the best pricing and services available.

**WE RECOMMEND** the Supply Commissioner work with the Mayor and Board of Aldermen to evaluate the need of performance bonds for various types of contracts and revise the City Code as applicable.

**AUDITEE'S RESPONSE**

*The Supply Division agrees with the audit finding. The Supply Commissioner will work with the Mayor's Office, Comptroller's Office, Board of Aldermen, and the City Counselor's Office to evaluate the need for performance bonds and seek revision of the City Code as applicable. If the City Code is approved for revision, operating departments will be consulted in determining when performance bonds are necessary. Estimated completion date is November 30, 2008.*

**4.**

**Receipt Controls**

The Supply Division does not maintain an initial record of checks received, and checks are not restrictively endorsed immediately upon receipt. Checks may be handled by as many as three individuals prior to being recorded for transmittal to the City Treasurer, which could cause delays in transmitting receipts on a timely basis. In addition, there is no process to allow for the reconciliation of checks received to checks transmitted.

The Supply Division received approximately \$431,000 in surplus property receipts during the year ended June 30, 2007. All receipts are in the form of check or money order received through the mail; no cash is accepted by the Supply Division. After the mail receipts are opened, monies may be forwarded to one of the purchasing staff or directly to the Executive Secretary depending on the type of receipt. After review by the purchasing staff, those monies are then forwarded to the Executive Secretary. The Executive Secretary endorses the checks and money orders and completes the paperwork to transmit the receipts to the City Treasurer. Our review noted at least one check was not transmitted within one business day after it was recorded by the Executive Secretary, and the lack of initial recording makes it impossible to determine whether receipts are transmitted on a timely basis after they are received in the mail.

To adequately safeguard receipts and reduce the risk of loss or misuse of funds, an initial record or mail log should be prepared and checks and money orders should be endorsed immediately upon receipt. In addition, receipts should be transmitted to the City Treasurer's office on a daily basis, and receipt logs should be reconciled to transmittal records to ensure all receipts are transmitted.

**WE RECOMMEND** the Supply Division prepare and maintain an initial record or log of all monies received, restrictively endorse all checks and money orders immediately upon receipt, and transmit receipts to the City Treasurer daily. In addition, the record or log of monies received should be reconciled to amounts transmitted to the City Treasurer.

**AUDITEE'S RESPONSE**

*The Supply Division agrees with the audit finding. A log of all checks and money orders received by the division was established and implemented on May 23, 2008. All personnel involved in the receiving and disposition of monies for the division have been trained on the proper maintenance of the log. An endorsement stamp has been made readily available to all personnel initially receiving checks/money orders. The Deputy Supply Commissioner has been given the responsibility for reconciling the check log with the receipt coding form to insure that all monies are deposited in a timely manner.*

## HISTORY AND ORGANIZATION

CITY OF ST. LOUIS  
SUPPLY DIVISION  
HISTORY AND ORGANIZATION

The City of St. Louis Supply Division is responsible for the procurement of supplies and materials, printing, and mail services for the city. The division operates under the direction of the Supply Commissioner, Freddie Dunlap, and employs 26 people in the following three departments:

1. Office of the Supply Commissioner

The Office of the Supply Commissioner is responsible for the procurement of all supplies, equipment, equipment maintenance, and selected services for all city departments. The Supply Division only procures supplies and equipment for certain elected officials and the police department upon request. The division processes nearly 7,000 requisitions per year and administers over 200 purchase contracts. During the year ended June 30, 2007, the Supply Division awarded approximately \$54.5 million in purchase contracts.

2. Multigraph Section

The Multigraph Section provides copying, printing and design/typesetting services to all city departments. Promotional and customized graphic design work is created according to customer specifications. In addition, the Multigraph Section provides production assistance and advice to city departments as needed.

3. Mail Room Services Section

The Mail Room Services Section delivers mail twice daily to 67 different city departments. Approximately 1 million pieces of outgoing first class mail are processed by the Mail Room Services Section in an average year. This section also folds and inserts approximately 250,000 pieces of mail annually, and offers a courier service to city departments.