



Office of Missouri State Auditor
Nicole Galloway, CPA

**City of St. Louis
Supply Division**

Report No. 2018-089
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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of City of St. Louis - Supply Division

Emergency Purchases	City personnel made emergency purchases that did not meet the city's definition of "emergency" or include adequate documentation to justify the emergency nature of the purchase, in violation of the City Charter and City Code. City departments did not always obtain the required approvals prior to initiating an emergency purchase, or did not document that the purchases were made on a night or weekend, in violation of the Supply Division Procedures Manual. The Supply Division has not enforced current policies to ensure departments comply with competitive bidding requirements for emergency purchases exceeding \$500.
Contracting	A vendor contracted to supply automotive batteries refused to continue selling products at contracted prices. Instead of terminating and rebidding the contract, in August 2017, the Supply Division approved a price increase that violated the contractual terms and conditions, and was inconsistent with recommendations provided by other city departments. The Supply Division does not always retain information to allow division personnel to properly verify the invoice price agrees to the contract terms.
Advertising of Bid Solicitations	The division does not always follow advertising requirements for purchases valued above \$5,000.
Elected Official Bond	The Supply Commissioner did not obtain a bond as required by City Code for a period of more than 7 months after taking office, when we brought the issue to her attention.

In the areas audited, the overall performance of this entity was **Good**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

City of St. Louis - Supply Division

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NICOLE GALLOWAY, CPA

Missouri State Auditor

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

We have audited certain operations of the City of St. Louis Supply Division in fulfillment of our duties under Section 29.200.3, RSMo. The State Auditor initiated audits of the City of St. Louis in response to a formal request from the Board of Aldermen. The city engaged KPMG LLP, Certified Public Accountants (CPAs), to audit the city's financial statements for the years ended June 30, 2017, and June 30, 2018, respectively. To minimize duplication of effort, we reviewed the CPA firm's report for the fiscal year 2017 audit, since the fiscal year 2018 audit had not been completed. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2018. The objectives of our audit were to:

1. Evaluate the division's internal controls over significant management and financial functions.
2. Evaluate the division's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

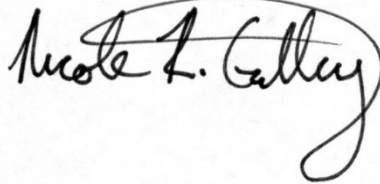
Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the division, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also 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 applicable contract, grant agreement, 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.

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 Organization and Statistical Information 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.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) no significant deficiencies in management practices and procedures. 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 are still in process, and any additional findings and recommendations will be included in subsequent reports.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

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City of St. Louis - Supply Division

Management Advisory Report

State Auditor's Findings

1. Emergency Purchases

Controls and procedures over emergency purchases need improvement. The city allows personnel to bypass standard procurement procedures in emergency situations, such as when there is an environmental hazard or disruption to city services. However, we identified some purchases processed as emergencies that did not (1) meet the allowable definition, (2) follow required procedures, or (3) include adequate documentation. The Supply Division processed 129 and 241 emergency purchase requisitions during the fiscal years ended June 30, 2018 and June 30, 2017, respectively.

The Supply Division, Comptroller's Office, and the Board of Standardization each have a role in the city's procurement activities. The Comptroller is the Chief Fiscal Officer of the city and assists with the city's daily financial operations, including processing payments to vendors. The Board of Standardization (Board) consists of the Comptroller, Supply Commissioner, and President of the Board of Public Service. The Board assists with setting standards and specifications for supplies and materials purchased by the city, approves advertising waivers for bid solicitations that would otherwise require advertising, and approves all new contracts recommended by the Supply Division.

1.1 Improper emergency purchases

City personnel made emergency purchases that did not meet the city's definition of "emergency" or include adequate documentation to justify the emergency nature of the purchase, in violation of the City Charter and City Code.

We reviewed 18 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 18 purchases were made during the 2 fiscal years ended June 30, 2018, and totaled approximately \$28,000. Of the 18 purchases reviewed, 2 totaling about \$10,100 did not meet the city's definition of an emergency based on documentation provided.

- The Equipment Services Division (ESD) purchased various parts totaling about \$8,800 to repair machines or machine attachments used for street paving projects. Documentation provided indicates at least some of the parts were requested for preventative maintenance, while others were needed to repair inoperable equipment. ESD personnel notified the Supply Division that they needed to get the parts installed before the next round of paving began, but did not provide any information on the dates of the next planned paving projects or how long the machines would take to repair.

While some parts were ordered and received in August 2017, additional parts were not ordered and received until November 2017. While discussing this purchase with the current Commissioner of the ESD, he indicated the employee who made the purchase intentionally split the



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order for unknown reasons, but he believes all parts purchased met the city's definition of an emergency.

- The St. Louis Metropolitan Police Department (SLMPD) purchased various office supplies totaling about \$1,300. In February 2017 the previous Supply Commissioner requested the invoices be paid as an emergency purchase, and documented that the emergency requisition was needed because one of the SLMPD's employees had failed to follow required purchasing procedures.

Some city departments may be using emergency purchases to circumvent normal city purchasing procedures. The Supply Division is responsible for ensuring that supplies, equipment, and materials are purchased in accordance with policies and standards established by the Board of Standardization. The Supply Division should not approve emergency purchases that do not meet the definition of an emergency. This would ensure purchases are reasonable and necessary and the city receives the best price for all purchases.

Emergency purchases are authorized by Article XV, Section 29 of the City Charter and Section 5.58.050 of the City Code. The city's Board of Standardization defines an emergency purchase as "when a condition or situation exists which may result in loss of life, limb, or property, eliminates an environmental hazard, addresses a condition which requires immediate attention in order to avoid further damage to a facility or additional costs to the City, affords the City the opportunity to use its resources in the most effective and efficient manner, or prevents the disruption or hindrance of normal delivery of City services."

In an effort to help reduce the abuse of emergency purchase provisions, the current Supply Commissioner indicated she has notified departments that emergency requisitions will be heavily scrutinized, held training classes for various departments making improper emergency purchases, and requested discipline for at least one city employee.

1.2 Prior approvals not obtained

City departments did not always obtain the required approvals prior to initiating an emergency purchase, or did not document that the purchases were made on a night or weekend, in violation of the Supply Division Procedures Manual. The departments or divisions responsible for the 2 purchases described in section 1.1 did not follow required procedures and failed to request and obtain proper approvals prior to ordering the parts and supplies.

Each of the purchases included invoices with order dates prior to the creation and approval of the related emergency requisition form, and did not include any documentation to indicate the purchase was made during non-business hours. Invoices were dated 7 days (ESD) and 167 days (SLMPD) prior to the



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first documented approval on the emergency requisition form. The emergency requisition form is required to be approved by the Supply Division's buyer, another representative of the Supply Commissioner's office, and the Comptroller's Office. Approval is also required from the Board of Standardization if the department requests a waiver of advertising for emergency purchases greater than \$5,000.

Section 3.d. of the Supply Division Procedures Manual requires departments to obtain a verbal approval from the Supply Division and Comptroller's Office before ordering an item on an emergency basis, unless the emergency occurs during non-business hours. City personnel are instructed to document who provided the verbal approvals when submitting the necessary documentation to pay the vendor. If the emergency occurs during non-business hours, the purchase must be approved by the department head at the lowest possible price.

1.3 Bidding requirements

The Supply Division has not enforced current policies to ensure departments comply with competitive bidding requirements for emergency purchases exceeding \$500.

For 16 of the 18 emergency purchases we reviewed (all exceeding \$500), the Supply Division could not provide any documentation to demonstrate personnel in the department purchasing the items solicited price quotes or obtained a bid waiver as required. Section 3.d of the Supply Division Procedures Manual requires departments to obtain 2 or 3 bids on vendor letterhead before initiating an emergency purchase (if possible), and requires the departments submit this documentation to the Supply Division unless the department requests a bid waiver and it is approved.

Supply Division personnel said city departments rarely submit documentation of bids or price quotes for emergency purchases, and the division does not enforce the policy. They indicated the division relies on each department head to ensure compliance with existing procurement policies. It is unreasonable to assume that city departments could never obtain bids because some emergencies occur during normal business hours.

Failure to obtain competitive price quotes can result in the city not receiving the best price for emergency purchases. In some cases, it may not be possible or practical to obtain price quotes or bids prior to purchase. In these cases, the reasons for not following applicable policies should be documented.

Similar conditions previously reported

Similar conditions were noted in our prior audit report. In the *Follow-Up Report on Audit Findings City of St. Louis Supply Division*, Report No. 2018-052, released in August 2018, the division stated these previous recommendations had been implemented; however, we found that corrective action taken was not always effective and problems continue to exist.



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Recommendations

The Supply Division work with the Comptroller's Office to:

- 1.1 Ensure emergency purchases meet the city's definition of an emergency and reject purchases that do not meet the definition or obtain additional written justification. In addition, the Supply Division should continue to work with the Mayor, Board of Aldermen, or individual departments to pursue disciplinary action against city departments or employees abusing emergency purchasing procedures.
- 1.2 Ensure city departments obtain approval for any emergency purchases prior to initiating the actual purchase, or clearly document the allowable reasons for initiating the purchase prior to approval.
- 1.3 Ensure vendor price quotes have been received for all emergency purchases prior to approving the purchase for payment. If there are valid reasons for not following applicable city policies for such purchases, these reasons should be fully documented.

Auditee's Response

1.1 *The Supply Division agrees with the audit finding, and had already begun to address this issue before auditors arrived. The Supply Division will continue to work with the Mayor's Office, Comptroller's Office, and the Board of Aldermen to ensure that city policies and procedures are followed. New procedures are also being created to reduce the issues significantly.*

- *The number of emergencies has gone down considerably in the last 11 months, and the trend will continue. The Supply Division understands that the past practice of using the emergency process to correct errors was overused when no other option for purchases made in error existed. The lack of an error handling process could create false emergencies.*
- *The city recently implemented a new Exception Requisition process for when items are purchased improperly or in error. Accountability and consequences are now required for employees misusing or not following correct city purchasing processes. It also provides the opportunity to find ways to improve and update our existing contracts or bidding processes.*
- *The Supply Division continues to hold training classes for various departments and request discipline for those who abuse the processes intentionally or excessively.*

The new Exception Requisition Policy should correct the audit finding.



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- 1.2 *The new Exception Requisition process will eliminate this problem as well. The City Charter says that prior approval need not be obtained in a true emergency situation. More departments are now more aware of and following the rules about the definition of a true emergency and the Supply Division is actively providing training on the correct procedures to each department as well. The city does require prior phone or written approvals when feasible.*
- 1.3 *Not every department submits bids to the Supply Division every time they make an emergency purchase but, in a real emergency, they may not have time to go out and obtain 2-3 bids. Water main breaks, broken windows in the winter in the correctional facility, and office break ins require immediate remedies and often occur after hours. This situation has been aggressively addressed and from now on, per your suggestion, the Supply Division will require copies of the department's request for quotes, or documentation of why obtaining quotes was not feasible.*

2. Contracting

Controls and procedures over contracting activities need improvement. The Supply Division processed 2,391 contractual purchases during the fiscal year ended June 30, 2018, and currently manages approximately 200 contracts.

2.1 Unallowable price increase and vendor's refusal to comply

A vendor contracted to supply automotive batteries refused to continue selling products at contracted prices. Instead of terminating and rebidding the contract, in August 2017, the Supply Division approved a price increase that violated the contractual terms and conditions, and was inconsistent with recommendations provided by other city departments. The city paid this vendor about \$156,000 during the year ended June 30, 2018.

In January 2017, the Supply Division modified the contract after the vendor requested a price increase averaging about 5 percent for each battery. The previous Supply Commissioner approved this increase after considering comments and recommendations from departments who buy the majority of automotive batteries. This increase complied with the contract terms and conditions because it did not exceed 5 percent per year.

In July 2017, the vendor requested an additional price increase that averaged about 23 percent per battery. The vendor's correspondence with the Supply Division indicated the vendor was losing money on most batteries sold to the city due to the rising cost of lead and the city's desire to purchase a brand not specifically mentioned in the contract; however, the contract did not specify a brand. It is not clear why division officials approved the price increase. Both the Airport Fleet Maintenance Manager and Commissioner of the ESD had reported customer service concerns to the Supply Division and recommended the contract be rebid. The Supply Division did not retain any other documentation to justify why the division ignored the recommendations of



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other departments and approved the additional price increase that exceeded price escalation limits included in the original contract.

All city contracts managed by the Supply Division include a price escalation clause allowing for price increases in some situations, but limit the increase to no more than 5 percent in any year. Each contract also includes a termination clause allowing the city to cancel the contract for any reason by giving 30 days written notice to the vendor. As a result of this contract modification, the city may not be getting the best price. If a similar situation occurs in the future, the Supply Division should consider terminating and rebidding the contract. Competitive bidding helps ensure all parties are given an equal opportunity to participate in city business.

2.2 Price verification

The Supply Division does not always retain information allowing division personnel to properly verify the invoice price agrees to the contract terms. In some instances, the price list is an attachment to the contract or, for larger contracts, the vendor may offer a fixed percentage discount off the list price of items in its catalog. 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 allowing for the payment of the invoice. If the prices do not agree, division personnel are required to send the invoice back to the applicable city department to resolve any differences.

We reviewed 20 contractual purchases to test the Supply Division's compliance with required procedures for validating the propriety of invoiced prices. These purchases totaled approximately \$346,000 and occurred during the 2 fiscal years ended June 30, 2018. The division did not retain a price list, price catalog, or have access to agreed-upon pricing information for 3 of the 20 purchases. These purchases were for miscellaneous supplies for the ESD totaling approximately \$4,800. Even though she did not have the information needed to verify the accuracy of the pricing, the Account Clerk signed and approved each invoice for payment.

To ensure the city only pays the contractually negotiated prices and to help prevent over-billing, the Supply Division should follow city policy and ensure all prices correspond with contracted prices prior to authorizing the applicable purchase orders. It is imperative division personnel retain the necessary information to allow comparison of contract prices against invoiced prices.

Recommendations

The Supply Division:

- 2.1 Comply with existing contractual terms and conditions regarding price increases. If a vendor requests a price increase that does not comply with contract terms or significant concerns are reported to the



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Supply Division, the division should consider terminating and rebidding the contract.

- 2.2 Ensure invoice prices correspond to contract prices before processing purchase orders in the accounting system, and implement procedures to ensure adequate record retention for all active contracts.

Auditee's Response

- 2.1 *This situation occurred before the current Supply Commissioner was in place. The ESD Commissioner said that the automotive parts industry poses unique issues, as prices fluctuate periodically throughout the industry. In this case, even with the increase requested, the prices were still comparable to what other vendors were charging at the time. City taxpayers realized no additional costs. When that specific vendor came back to the city and asked for another price increase in December 2017, the current Supply Commissioner refused and gave the vendor the option to terminate their contract or wait until the contract price increase was due next time on the anniversary date for a 5 percent increase. Documentation for the justification would have to be provided. After meeting on January 3, 2018, the vendor chose not to terminate their contract and to supply the city with parts at the agreed upon contract price.*

The Supply Division completely agrees that competitive pricing is optimal. The city now solicits bids for more items, even if they are on state contract, so we can compare pricing and get the taxpayers the best possible price. New processes are in place to ensure contract pricing equals invoice pricing, and that no vendor can overcharge the city or receive excess price increases.

Under the current Supply Commissioner, the city has terminated several contracts due to lack of performance and/or billing inaccuracies. The Supply Division has also improved our contract model (bidding, terms, etc.) to reduce confusion and potential problems.

- 2.2 *When the auditors discovered that the Supply Division was not verifying pricing on 100 percent of contractual purchases, we immediately updated all of the price lists and began full verification. Note that the departments are also required to price check, so the Supply Division price check is actually a second level verification.*

The employee responsible has been reminded that everything must be checked thoroughly. Also note that the proposed new accounting system to be purchased in 2018/2019 will eliminate most of this concern, as will the addition of another Account Clerk I focused on ESD.



3. Advertising of Bid Solicitations

Division personnel do not always follow advertising requirements for purchases valued above \$5,000.

We reviewed 5 bid solicitations processed through the Supply Division that city policy required to be advertised. These solicitations resulted in purchases totaling about \$212,000 during the 2 fiscal years ended June 30, 2018. Of the 5 bid solicitations reviewed, 3 were not advertised in the City Journal for the full 21 days as required. The 3 solicitations totaled about \$33,000 and included purchases of supplies and chemicals, an all-terrain vehicle, and storage containers. An advertising waiver was not in the bid documentation to indicate the departments purchasing the items requested a shorter solicitation period.

In addition, we reviewed the City Journal for January 7, 2017 and September 5, 2017 and identified 8 other competitive bid solicitations that were only advertised for 14 days instead of the required 21 days. The following solicitations were processed on behalf of 4 different city departments:

- tulip bulbs (\$5,300)
- trailer (\$20,000)
- mower (\$26,000)
- van (\$58,000)
- gravel (\$22,700)
- storage containers (\$16,700)
- blower (\$19,400)
- expansion material (\$5,600)

Mayor's Executive Order No. 47 (effective April 30, 2013) extended previous Executive Order No. 28. Section 3.2(b)(i) of the order states the city will advertise every bid in the City Journal no less than 21 days before bids are due. Competitive bidding helps ensure all parties are given an equal opportunity to participate in city business. Limiting the period of advertising, may result in the exclusion of eligible bidders.

We also reviewed the City Journal for October and November 2017, after the current Supply Commissioner took office, and noted all competitive bid solicitations were advertised with a due date of 21 days from the date of publication as required.

Recommendation

The Supply Division ensure applicable purchases over \$5,000 are advertised for at least 21 days, as required by city policy, unless a waiver of advertising is properly requested and approved, or there are other documented and justified reasons to shorten the advertising period.

Auditee's Response

The Supply Division agrees with the audit finding and has already addressed this issue. Please note that the short advertisements all happened before the



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current Supply Commissioner was in place. Bid opportunities are now advertised in more locations than in the past. We now advertise not only in the City Journal, but also on our website (<https://www.stlouis-mo.gov/supply>), Twitter, and Facebook.

4. Elected Official Bond

The Supply Commissioner did not obtain a bond as required by City Code for a period of more than 7 months after taking office, when we brought the issue to her attention.

Section 5.56.030 of the City Code requires the Supply Commissioner to obtain a bond of \$20,000 that must be approved by the Comptroller. The bond must include the following conditions (1) the commissioner will honestly and faithfully execute and perform the duties of the office; (2) the commissioner will not have any interest in the sale of goods to the city; and (3) the commissioner will not receive any bribe, gift, or consideration from any person or vendor who has an interest in supplying goods to the city.

Failure to obtain a proper bond exposes the city to the risk of financial or other damages caused by potential errors, omissions, or improper actions of the Supply Commissioner.

Recommendation

The Supply Commissioner should obtain bond coverage upon appointment to the position and maintain coverage during the term of office.

Auditee's Response

The bond was obtained and is effective until April 27, 2021.

City of St. Louis - Supply Division

Organization and Statistical Information

The City of St. Louis Supply Division is responsible for the procurement of all supplies, equipment, and selected services for almost all city-wide departments, including police, fire, parks, and the airport, as well as providing printing and mail services for the city. The division operates under the direction of the Supply Commissioner.

The position of Supply Commissioner was vacant from approximately March 2017 through August 2017. During that time, the Deputy Supply Commissioner directed daily operations. Effective September 5, 2017, Pamela Kuehling was appointed Supply Commissioner and took office.

The division administers approximately 200 contracts and processes about 3,200 requisitions per year fulfilled by hundreds of vendors and employs 24 individuals in the procurement functions, Multigraph Section, and Mail Room Services Section.

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 section provides production assistance and advice to city departments as needed. The section is currently taking over printing operations from the St. Louis Metropolitan Police Department as a cost savings measure. Linda Wessels, Printing & Duplicating Graphics Manager, oversees the operations of this section.

Mail Room Services Section

According to the Supply Division's website, 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 section in an average year. The section also folds and inserts approximately 250,000 pieces of mail annually, and offers a courier service to city departments. Lynn Crawford, Procurement and Purchasing Manager, and Michael McKinney, Mailroom Supervisor, oversee the operations of this section.