

OFFICES OF THE
STATE AUDITOR OF MISSOURI
JEFFERSON CITY

DIVISION OF SUPPLY
CITY OF ST. LOUIS, MISSOURI
YEAR ENDED JUNE 30, 1988

MARGARET KELLY, CPA



DIVISION OF SUPPLY
CITY OF ST. LOUIS, MISSOURI

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| STATE AUDITOR'S TRANSMITTAL LETTER..... | 1-2 |
| HISTORY AND ORGANIZATION..... | 3-5 |
| MANAGEMENT ADVISORY REPORT..... | 6-19 |
| SUMMARY OF FINDINGS | 7-8 |

| <u>Number</u> | <u>Description</u> | |
|-------------------|---------------------------------------|----|
| 1. | Cash Controls..... | 10 |
| 2. | Account Receivable Controls | 11 |
| 3. | Purchasing Procedures | 13 |
| 4. | Emergency Purchasing Procedures | 15 |
| 5. | Performance Bonds | 17 |
| 6. | Leasing Procedures..... | 18 |
| APPENDICES: | | 20 |

Appendix

| | | |
|-----|--|----|
| A-1 | Schedule of Appropriations, Expenditures, and Lapsed Balances – Supply Section, Year Ended June 30, 1988 | 21 |
| A-2 | Schedule of Appropriations, Expenditures, and Lapsed Balances – Multigraph Section, Year Ended June 30, 1988 | 22 |
| B-1 | Comparative Schedule of General Fund Expenditures – Supply Section, Five Years Ended June 30, 1988 | 23 |
| B-2 | Comparative Schedule of General Fund Expenditures – Multigraph Section, Five Years Ended June 30, 1988..... | 24 |
| C | General Summary, Five Years Ended June 30, 1988 | 25 |



STATE AUDITOR OF MISSOURI
JEFFERSON CITY, MISSOURI 65102

MARGARET KELLY, CPA
STATE AUDITOR

(314) 751-4824

Honorable Vincent C. Schoemehl, Jr.
Mayor, City of St. Louis
and
Ed Bushmeyer, Supply Commissioner
Division of Supply
City of St. Louis, Missouri 63101

The State Auditor was petitioned under Section 29.230, RSMo 1986, to perform an audit of the city of St. Louis, Missouri. Accordingly, we have conducted a review of the Division of Supply, city of St. Louis. Our review included but was not necessarily limited to the city's fiscal year ended June 30, 1988. The purposes of our review were to:

1. Study and evaluate the Division of Supply's system of internal controls.
2. Perform a limited review of certain management practices to determine the efficiency and effectiveness of those practices.
3. Review probable compliance with certain constitutional provisions, statutes, administrative rules, attorney general's opinions, and city ordinances as we deemed necessary or appropriate.
4. Perform a limited review of the integrity and completeness of the Division of Supply's financial reporting system.
5. Perform procedures necessary to evaluate petitioner concerns.

Our review was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. The city of St. Louis had engaged Price Waterhouse and Company, Certified Public Accountants, to perform an audit of the city of St. Louis. In order to minimize any duplication of effort, we utilized the work of this firm. We also inspected relevant records and reports maintained by the Division of Supply and held discussions with Division of Supply personnel. The data presented in the appendices are for informational purposes and were obtained from the city's accounting system. However, they were not verified by us via additional audit procedures; therefore, we express no opinion on them.

The accompanying History and Organization is presented for informational purposes. This background information was obtained from office management and was not subjected to the audit procedures applied by us in our review.

Our comments on management practices and related areas are presented in the accompanying Management Advisory Report.

A handwritten signature in cursive script that reads "Margaret Kelly". The signature is written in dark ink and is positioned above the typed name and title.

Margaret Kelly, CPA
State Auditor

April 13, 1989

HISTORY AND ORGANIZATION

DIVISION OF SUPPLY
CITY OF ST. LOUIS, MISSOURI
HISTORY AND ORGANIZATION

The Division of Supply has been an identified part of city of St. Louis government since the adoption, by voters, of the Charter of 1914.

Article VIII, Section 1 of the Charter gives the mayor the authority to appoint a Supply Commissioner; Article XV, Section 27 allows the supply commissioner the authority to appoint a deputy commissioner and additional employees to carry out the functions of the division.

The structural operation, however, of the city places the Division of Supply as a subsidiary unit of the Department of Finance, headed by the Comptroller.

Powers of the supply commissioner, as described in Article XV, Section 30, include purchasing of all the city's necessary supplies, following specified procedures of advertising for bids, and awarding purchases to the lowest responsible bidders.

The Division of Supply supervises the letting of all contracts for services to the city, and audits for the purchases, on a continuing basis, of supplies needed by various departments.

The Division of Supply also accepts bids for the sale of surplus city property which has salvage value, and arranges for its disposal.

The Division of Supply, with a staff of twelve persons, is headed by Ed Bushmeyer. Rita M. Kirkland held that position from December 1986 until August 31, 1989.

Multigraph Section

The Multigraph Section, as a subsidiary unit of the Division of Supply, was established by Ordinance 35160 in July 1926.

For the next several decades, the Multigraph Section operated as a duplicating service, fulfilling its mission of reproducing standard forms for city offices.

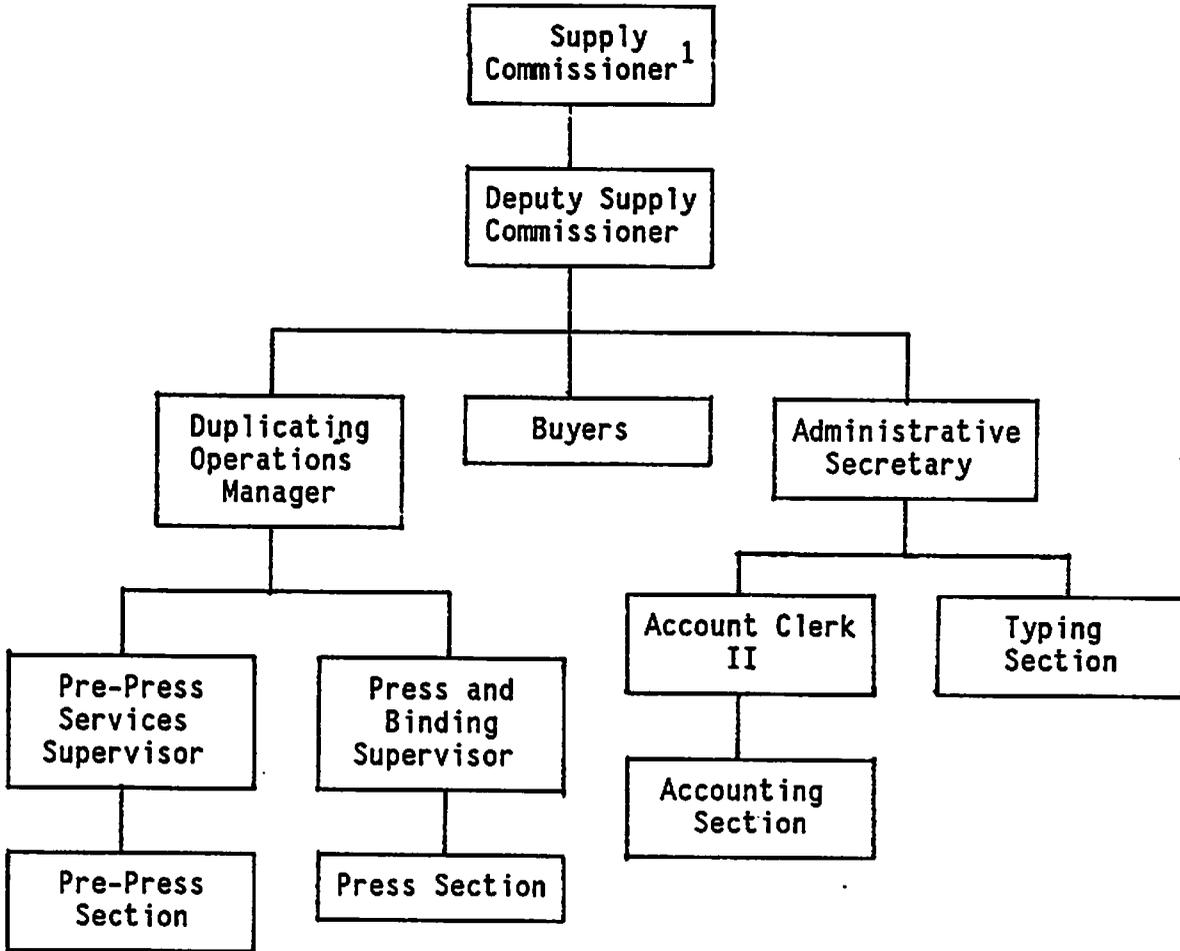
In 1982, based on a study initiated by the Mayor, the section was expanded to accommodate a wider variety of work, including typesetting. The goal was to increase equipment, as well as staff to handle the additional responsibilities.

All printing required by city agencies is accomplished through the Multigraph Section.

Further expansion of the Multigraph Section's responsibilities occurred in March 1986, when the Board of Aldermen authorized the in-house printing of the weekly City Journal, Board of Aldermen Journal, and city ordinances. That work had previously been authorized to be done by commercial printers.

The Multigraph Section has a staff of fifteen persons.

DIVISION OF SUPPLY
CITY OF ST. LOUIS, MISSOURI
ORGANIZATION CHART
JUNE 30, 1988



¹ Supply Commissioner is appointed by the Mayor to hold office for the term for which the Mayor was elected and until his successor qualifies (Article VII, Section I, City Charter).

MANAGEMENT ADVISORY REPORT

DIVISION OF SUPPLY
CITY OF ST. LOUIS, MISSOURI
SUMMARY OF FINDINGS

1. Cash Controls (pages 10-11)
 - A. Prenumbered receipt slips are not issued for monies received.
 - B. The Division of Supply is not performing an adequate reconciliation of amounts received to amounts transmitted to the City Treasurer and recorded per the Comptroller's general ledger. Discrepancies are not documented or investigated.
 - C. The functions of handling monies, recording receipts, posting billings, and preparing deposits are not adequately segregated.
 - D. Receipts are not deposited on a timely basis.
2. Account Receivable Controls (pages 11-13)
 - A. The Multigraph Section does not maintain a control account of accounts receivable and, thus, has not been maintaining cumulative totals of amounts due from customers. This has resulted in uncollected accounts and possible lost revenues.
 - B. The extension of credit to noncity entities may violate Article VI, Section 25 of the Missouri Constitution.
3. Purchasing Procedures (pages 13-14)
 - A. This division awarded contracts without first obtaining tax and license verification forms from the Collector of Revenue and the License Collector.
4. Emergency Purchasing Procedures (pages 15-17)
 - A. The Division of Supply does not have a policy requiring the requesting department to document the reason a purchase must be made on an emergency basis.
 - B. Items purchased on an emergency basis have been purchased from other vendors when the item is available on city contract.
 - C. The division has not complied with its written bid policies.
5. Performance Bonds (pages 17-18)
 - A. The Division of Supply does not have all contract performance bonds on file in either the Division of Supply or with the Register's office as required by City Charter.
 - B. The performance bond listing is not complete, accurate, or up-to-date.

6. Leasing Procedures (pages 18-19)

There is no analysis performed by anyone to determine if it is more economical to lease or purchase a piece of equipment before the lease has been entered into. Lease-purchase decisions appear to reflect the short-term goals of individual offices rather than the long-term impact on the city as a whole.

DIVISION OF SUPPLY
CITY OF ST. LOUIS, MISSOURI
MANAGEMENT ADVISORY REPORT

As part of our review of the Division of Supply, city of St. Louis, for the year ended June 30, 1988, we studied and evaluated the internal accounting control system to the extent needed to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we classified the significant accounting controls as cash, payroll, revenues, and expenditures. Our study included each of these control categories. Since the purpose of our study and evaluation was to determine the nature, timing, and extent of our audit procedures, it was more limited than would be needed to express an opinion on the internal accounting control system taken as a whole.

It is management's responsibility to establish and maintain the internal control system. In so doing, management assesses and weighs the expected benefits and related costs of control procedures. The system should provide reasonable, but not absolute, assurance that assets are safeguarded against loss, and that transactions are carried out as authorized by management and are recorded in a manner that will permit the subsequent preparation of reliable and proper financial reports.

Because of the inherent limitations in any internal control system, errors or irregularities may still occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and, thus, might not disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the internal accounting control system of the Division of Supply taken as a whole. However, our study and evaluation disclosed certain conditions that we believe are material weaknesses and these findings are presented in this report.

We reviewed probable compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate. This review was not intended to provide assurance of full compliance with all regulatory provisions and, thus, did not include all regulatory provisions which may apply. However, our review disclosed certain conditions that may represent noncompliance and these findings are presented in this report.

During our review, we identified certain management practices which we believe could be improved. Our review was not designed or intended to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in this report should not be considered as all inclusive of areas where improvements may be needed.

The State Auditor was petitioned under Section 29.230, RSMo 1986, to audit the city of St. Louis. We included those procedures necessary in our judgment to evaluate the petitioner concerns and those concerns requiring corrective action are addressed in this report.

The period of review for the purposes stated above included, but was not limited to, the period covered by the financial statements for the period ended June 30, 1988.

1. Cash Controls

During the fiscal year ended June 30, 1988, the Division of Supply processed \$87,836 in revenues from printing services and sale of surplus property items. Our review indicated several areas where the division's controls and procedures relating to cash are deficient. These weaknesses include the absence of prenumbered receipt slips, lack of adequate reconciliations, inadequate segregation of duties, and untimely deposits.

- A. Prenumbered receipt slips are not issued for receipts from either multigraph printing services or the sale of surplus property items. Without issuing prenumbered receipt slips, accounting for their numerical sequence, and reconciling them to cash receipts, the division has little assurance cash receipts are properly handled and recorded.

In order to ensure proper handling and control of cash collections, reconciliations of prenumbered receipt slips issued to monies collected and deposited should be performed periodically by someone without access to receipt slips and cash, or responsibility for record keeping.

- B. The Division of Supply is not performing an adequate reconciliation of multigraph revenue received and transmitted to the City Treasurer to amounts recorded per the Comptroller's general ledger. For example, we found various transactions totaling approximately \$4,000 for the year ended June 30, 1988, recorded in either the cash receipts ledger or the general ledger but not in both. We also noted instances where amounts were deposited into the wrong accounts.

To ensure remittances are properly transmitted to the City Treasurer's office and properly recorded by the Comptroller's office, a reconciliation must be performed. Unless the reconciliation is performed such that all discrepancies are investigated and documented the division has no assurance remittances have been properly processed and deposited.

- C. The Division of Supply accounting procedures create an inadequate segregation of duties by assigning the same person the responsibility of performing two or more of the following duties:

- 1) Receiving and depositing payments,
- 2) Recording payments in the receivable records,
- 3) Posting billings to receivable records, and
- 4) Resolving discrepancies in account balances.

Adequate segregation provides for timely detection of errors, helps to assure that all receipts are properly recorded and all services are properly billed, and increases safeguards against possible loss or misuse of funds. In order to obtain adequate control over cash

and receivables, duties must be properly segregated by assigning the responsibility for receiving and handling payments to someone with no record-keeping responsibilities or authority to resolve discrepancies in account balances.

Although the accounting and clerical staffs of the division are small, they are sufficient to allow for adequate segregation by merely reassigning current job responsibilities.

- D. Multigraph receipts are not deposited on a timely basis. Our review indicated a time lag of two to ten days between the actual date of receipt and the date of deposit.

Article XV, Section 24 of the City Charter requires that all monies be deposited daily. In addition to noncompliance, untimely deposits increase the risk of loss, theft, or misuse of funds.

WE RECOMMEND the Division of Supply:

- A. Issue prenumbered receipt slips for all monies collected.
- B. Reconcile amounts deposited with amounts listed in the Comptroller's general ledger on a periodic basis, and follow up on any differences that occur.
- C. Segregate the functions of cash handling and record keeping, and assign someone independent of these functions to perform periodic reconciliations.
- D. Comply with Article XV, Section 24 of the city code by depositing monies daily.

AUDITEE'S RESPONSE

- A. In the past, the Division of Supply had issued numbered receipts for the sale of surplus property items and multigraph services; however, the receipts were not prenumbered. Prenumbered receipts are now being utilized. A reconciliation of prenumbered receipts issued to monies collected is performed periodically.
- B. A reconciliation of amounts deposited with amounts listed in the Comptroller's ledger is now being performed periodically.
- C. The functions of cash handling and record keeping have been segregated from the reconciliation function.
- D. Deposits are now made on a daily basis in accordance with the City Charter.

2. Account Receivable Controls

The Multigraph Section of the Division of Supply provides printing services for the various city departments and a few external agencies. Payment for the majority of these services is handled by a fund transfer

in the Comptroller's office. However, approximately \$38,000 in services are billed and paid by cash or check. Our review of the division's collection procedures and delinquent accounts indicated improvements are needed in the establishment of control accounts and credit policies:

- A. The Multigraph Section maintains records of individual (subsidiary) account receivable balances. They do not, however, post periodic (monthly) totals of billings and payments to a control account.

Our review indicated that unpaid amounts were being missed on some accounts because of the lack of a uniform system to track cumulative totals. For example, it took as much as two years for the Multigraph Section to fully collect several bills, totaling approximately \$13,083, from Regional Medical Center. In addition, there were unpaid balances as of April 30, 1987, and June 30, 1987, that were still unpaid as of February 28, 1989. In most of the unpaid accounts, the amount owed was not maintained on a cumulative basis from year to year. Thus, amounts not paid in a previous year were not carried over to current year records.

A control account would provide a cumulative summary on a monthly basis of amounts owed by all customers. In addition, periodic reconciliations of the control account to the subsidiary records could be performed in order to ensure that postings to subsidiary records are accurate and that total billings and payments are being properly recorded and deposited.

- B. The division allows noncity entities to charge their printing services and pay subsequent to receiving the printing service. During our review of delinquent receivables we noted several of these accounts were delinquent. By extending credit to noncity entities the division may be in violation of Article VI, Section 25 of the Missouri Constitution.

WE RECOMMEND the Division of Supply:

- A. Maintain subsidiary and control accounts for all receivables and perform periodic reconciliations of the two records.
- B. Review and evaluate the legality of extending credit to outside agencies.

AUDITEE'S RESPONSE

- A. The Division of Supply has incorporated into multigraph's accounting system for fiscal year 1990 a monthly report which identifies the cost of printing performed and the amount remaining in the department's printing allocation. The system also provides a monthly cumulative summary of amounts owed by quasi-city departments. This amount will be carried forward into the subsequent fiscal year. Periodic reconciliation will be performed of the control account to the subsidiary records.

- B. We will request the city's Law Department to review current procedures involving quasi-city agencies.

Our terms are such that payment in full is expected within thirty days after receipt of the billing statement. The Typist Clerk III maintains a separate ledger of accounts paid from funds other than general revenue which includes quasi-city agencies. The ledger is reviewed monthly and delinquent accounts are pursued promptly.

3. Purchasing Procedures

Per the Revised Code of St. Louis, Chapter 5.58, the Division of Supply is responsible for purchasing supplies for all departments, boards, or offices, exclusive of material for public work or improvements. The purchases are to be made by advertising for proposals according to standards and specifications, if any, adopted or prepared by the Board of Standardization. The Division of Supply has established purchasing procedures, as detailed in the Internal Procedure Manual and Vendor Manual. We reviewed these procedures and had the following concerns over use of the bidder's mailing list, approval of bid proposals, and tax and license verifications:

- A. On nonadvertised purchases (purchases not exceeding \$500), quotation sheets were sent, and bids were awarded, to companies not listed on the bidder's mailing list. The bidder's list is a business directory file for supplies and services to the city of St. Louis maintained by the Division of Supply. Firms interested in submitting bids request to be placed on this list. According to the Division of Supply's Vendor Manual, "Offers on non-advertised (small) purchases will be solicited by mail or telephone from a minimum of three vendors on the Bidder's Mailing List."
- 1) In two of eight bid transactions tested, the company awarded the bid could not be traced to the bidder's mailing list. Both companies were recommended by the purchasing department instead of the Division of Supply personnel; thus, quotation sheets were not issued to vendors on the bidder's mailing list as required.
 - 2) Eight of ten purchases were not solicited by mail or telephone from a minimum of three vendors on the bidder's mailing list. These errors indicate that the Division of Supply is not in compliance with its own procedure, requiring the solicitation of bids from at least three vendors. Again, many of the companies receiving bids were those recommended by the department requesting the item.

By circumventing the established procedures, the division has less assurance they are paying the lowest price for the item purchased.

- B. The Division of Supply's Internal Control Manual, states "Vendors awarded city contracts must have prior approval from the Collector of Revenue as far as their taxes being in order, and from the License Collector as far as the necessary license needed." During our audit we discovered:

- 1) Three of ten contracts tested did not have indication in the file of approved tax verification forms available from the Collector of Revenue.
- 2) Two of ten contracts tested did not have indication in the file of approved license verification forms available from the License Collector.

Without assurances of taxes and licenses being verified from the Collector of Revenue and the License Collector, the city may be doing business with companies that have not paid their city taxes and/or do not have proper licenses.

WE RECOMMEND the Division of Supply:

- A. Send quotation sheets to at least three vendors and award bids only to companies who are included on the bidder's mailing list.
- B. Require tax verification approval forms from both the Collector of Revenue and the License Collector be on file before any contract is awarded.

AUDITEE'S RESPONSE

- A. Research into the audit exceptions revealed that of the eight transactions, two bids were received on six requisitions and the remaining two requisitions were for speciality items with a sole source vendor. The dollar value of the eight transactions ranged from \$74 to \$331. It should also be noted that in every case cited, the low bidder was awarded the purchase order.

The Division of Supply maintains a list of vendors interested in submitting bids for supplies and services to the city of St. Louis. The opportunity to bid is not restricted to those businesses on the bidder's list. Rather, the opportunity to bid is open to the general business community. The Division of Supply advertises bids in the City Journal. Bids can be obtained in the Division of Supply's office, Room 324, City Hall, or by request. Bids will be mailed outside of the metropolitan St. Louis area. Using departments are encouraged to list at least one source of supply. Many reputable firms have been introduced to the city in this manner. Utilizing various sources to identify businesses interested in bidding for services ensures that the city receives quality service at a competitive price.

The Division of Supply is in the process of revising the Vendors Manual to reflect competitive bidding rather than seeking bids from a specified number of vendors.

- B. Since a contract cannot be awarded without the appropriate tax approval forms on file, time delays in obtaining the tax verification forms have caused using departments to pay premium prices for goods. The Division of Supply recently obtained an agreement from the License Collector's office and Collector of Revenue's office to obtain the tax verification forms in a timely manner.

4. Emergency Purchasing Procedures

According to the Division of Supply's Preparation of Requisitions Manual, emergency purchases can be made only when a condition exists which might cause injury to a person, property damage, or seriously impair public service. A review of emergency purchase procedures revealed the following weaknesses concerning defining emergency purchases, use of citywide contracts for emergency purchases and compliance with division procedures:

- A. The Division of Supply does not have a written policy requiring all emergency purchases to be accompanied by a letter stating why it is necessary to make the purchase on an emergency basis. Lack of documentation to support reasons for making an emergency purchase creates the possibility of circumvention of controls and procedures. Without documentation stating why an emergency purchase is needed, the division cannot determine if an emergency situation was present.
- B. The Division of Supply does not review to determine if the item considered to be an emergency is available on citywide contract. During our scan of the emergency purchase files, we noted several instances when an item was available on citywide contract but was purchased from a different vendor. According to Division of Supply personnel, the vendor on city contract could not supply the item at the time of need due to the fact that it was an emergency purchase. However, there was no documentation to indicate the vendor on citywide contract had even been contacted.

Without determining if the item could have been purchased from a vendor already contracted with, the city may have paid more than needed for the item. It is possible the purchase price exceeded the price from the existing vendor since this vendor was already determined during citywide contract bidding to have the lowest and best prices for these items.

- C. The division does have written policies regarding the solicitation of bids for emergency purchases. According to the Division of Supply's Internal Procedures Manual, all emergency purchases are to be purchased by the Division of Supply after approval by the Comptroller. The using department is to furnish the buyer with detailed information, such as requisition number, delivery point, a complete specification of the item(s) needed, and suppliers names. The Division of Supply is then to obtain competitive bids and give a verbal order to the lowest acceptable bidder.

Test work concerning solicitation of bids revealed the following:

- 1) The requesting department often uses the vendor of their choice for emergency purchases. The Division of Supply personnel indicated bids are not always taken for emergency purchases.

- 2) The division is not soliciting bids on emergency purchases. Six of six emergency purchase requisitions tested, were not bid as required by the Division of Supply procedures.
- 3) One of two emergency requisitions tested, requiring waiver of advertisement, was not accompanied by a letter addressed to the Board of Standardization requesting advertising be waived along with an explanation as to why the purchase was considered an emergency.

Requisitions with an estimated value of \$500 or more are required to be advertised for bids per city code 5.58.110, except that the advertising requirements may be waived for purchases determined to be an emergency. Further, the Division of Supply procedures dictate that requisitions requiring waiver of advertising must be accompanied by a letter addressed to the Board of Standardization requesting advertising be waived, along with an explanation as to why the purchase is an emergency.

We recognize that in many truly emergency situations, it may not be feasible for these procedures to be followed. However, since these are the procedures outlined by the division for control purposes they should be followed. If the division feels the procedures are not practical, they should reevaluate them and make revisions where appropriate.

WE RECOMMEND the Division of Supply:

- A. Establish written policies regarding the documentation required to conclude that a situation is a true emergency.
- B. Evaluate whether items purchased under an emergency basis can be purchased from already established citywide contracts and document reasons when this cannot be done.
- C. Either comply with established policies and procedures regarding items purchased on an emergency basis or reevaluate the current procedures for practicality and make revisions where appropriate.

AUDITEE'S RESPONSE

- A. Written policies regarding documentation required for emergency purchases are included in the Division of Supply's manual furnished to all city departments.
- B. Should a department require an emergency purchase, the Comptroller grants approval for that purchase. Subsequently, the Division of Supply is notified and the buyer for that particular commodity must verify whether

it may be obtained on contract. The several instances cited for not being purchased on contract were due to lapses between contracts or the contract holder's inability to deliver the item in the specified time frame. In the future, the Division of Supply will document these cases more carefully.

- C. Emergency purchase procedures will be reevaluated and revised where necessary.

5. Performance Bonds

A performance bond is required on various contracts as indicated in the "Invitation to Bid." Performance bonds are designed to give the city recourse for the recovery of damages suffered in the event the bidder fails to perform any obligations of the contract. During our review of performance bonds, we noted the following:

- A. The Division of Supply does not have all contract performance bonds on file in either the Division of Supply or with the Register's office as required by the City Charter.

During test work on the performance bond listing maintained by the Division of Supply, three of ten companies tested did not have bonds on file with the Register's office. In addition, two of these three test items (mentioned above), did not have bonds on file in the Division of Supply. Furthermore, for thirteen of fifteen citywide contracts tested requiring a performance bond, evidence of performance bond was not on file with either the Register's office or the Division of Supply. Also, the thirteen contracts tested were not listed on the performance bond listing as requiring bonds although the contract indicated a bond was required.

The results of this test indicate that performance bonds are not being issued to contractors for completion and return when required, and no follow-up procedures are in place at the Division of Supply to ensure that performance bonds are completed and filed in the Register's office.

Per Article IX, Section 1 of the City Charter, "the register shall have custody of the city seal, original rolls of ordinances, contracts, conditional bonds, title deeds, etc., etc. . . ."

The absence of a performance bond leaves the city of St. Louis with no guarantee that a contract's provisions will be completed if the contractor does not perform the contract. A lack of a performance bond where applicable, also means the Division of Supply is not fully complying with city codes 5.58.080 and 5.58.160.

- B. Our test work indicated that the performance bond listing was not complete.

The performance bond listing should list all contracts requiring performance bonds. However, the listing was not continually updated to show what action had been taken by the Division of

Supply in receiving the performance bonds. No follow up had been performed to determine if the open performance bonds had been received and put on file with the Register's office. Furthermore, as noted above in part A, not all contracts requiring performance bonds are on the listing. Thirteen out of fifteen contracts tested were not included on the performance bond listing.

Without an accurate performance bond listing, the Division of Supply cannot ensure that all contracts provide adequate performance bond coverage. By obtaining and maintaining current performance bonds the city ensures that they have recourse in case a contractor fails to adhere to all contract terms.

WE RECOMMEND the Division of Supply:

- A. Develop procedures to ensure that performance bonds are completed and filed in the Register's office.
- B. Ensure the performance bond listing is complete, accurate, and up-to-date.

AUDITEE'S RESPONSE

Performance bonds are required on contracts and some large dollar value equipment purchases. The procedure regarding the execution of performance bonds has been revised to require a bond on every contract. Photocopies will be placed in the file. The original will be on file in the Register's office. The performance bond listing is now complete, accurate, and up-to-date.

In addition to performance bonds, each contract has a clause stating: "In the event the successful bidder fails to make delivery of any item or items that meet the conditions and requirements as outlined in this proposal within fifteen days of receipt of order, the city reserves the right to purchase said item or items on the "OPEN MARKET" and charge any costs above the BID PRICE to the bidder. This procedure to be continued until such time as the bidder can again guarantee prompt deliveries of the proper item or items."

6. Leasing Procedures

The charter amendment approved by voters in November 1986 requires that all new equipment to be purchased, leased, lease purchased, or rented must be processed on requisitions through the Division of Supply.

Typically, a lease-purchase option is used when sufficient funds are not available in a particular office's budget for an outright purchase. However, there are no firm guidelines for evaluating the feasibility or practicality of using the lease-purchase agreements versus outright purchase. The decision-making process often reflects the short-term goals of individual offices rather than the long-term impact on the city as a whole.

Furthermore, we noted many of the items leased or lease-purchased were similar items such as copy machines. If these items are purchased on a citywide contract, volume discounts or other cost saving factors could possibly be available, thus, reducing the cost of the item.

The Division of Supply should have a central role in long-range planning for equipment and software acquisition. The division should help ensure that citywide long-term instead of short-term goals are considered and should thoroughly analyze all purchasing options to ensure the city makes the most cost-beneficial decision.

WE RECOMMEND the division work with the Comptroller's office to develop procedures to thoroughly evaluate purchase options prior to entering into lease-purchase agreements.

AUDITEE'S RESPONSE

The Comptroller's office makes the determination as to when leases, lease purchases, or purchases are most appropriate.

APPENDICES

Appendix A-1

DIVISION OF SUPPLY
 CITY OF ST. LOUIS, MISSOURI
 SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES -
 SUPPLY SECTION
 YEAR ENDED JUNE 30, 1988

(U N A U D I T E D)

| | Appropriations | Expenditures | Lapsed Balances |
|------------------------------------|-------------------|----------------|--------------------|
| PERSONAL SERVICE | | | |
| Salaries | \$ 341,117 | 333,554 | 7,563 |
| Fringe benefits | 44,211 | 42,818 | 1,393 |
| Total Personal Service | 385,328 | 376,372 | 8,956 |
| EXPENSE AND EQUIPMENT | | | |
| Office supplies | 1,166 | 1,064 | 102 |
| Postage | 6,000 | 5,820 | 180 |
| Office services | 1,433 | 1,056 | 377 |
| Repairs | 3,840 | 2,604 | 1,236 |
| Total Expense and Equipment | 12,439 | 10,544 | 1,895 |
| Total General Fund | \$ 397,767 | 386,916 | 10,851 |

Appendix A-2

DIVISION OF SUPPLY
 CITY OF ST. LOUIS, MISSOURI
 SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES -
 MULTIGRAPH SECTION
 YEAR ENDED JUNE 30, 1988

(U N A U D I T E D)

| | Appropriations | Expenditures | Lapsed Balances |
|------------------------------------|----------------|--------------|--------------------|
| PERSONAL SERVICE | | | |
| Salaries | \$ 339,785 | 337,871 | 1,914 |
| Fringe benefits | 46,948 | 45,645 | 1,303 |
| Overtime | 6,906 | 3,135 | 3,771 |
| Total Personal Service | 393,639 | 386,651 | 6,988 |
| EXPENSE AND EQUIPMENT | | | |
| Office supplies | 2,300 | 2,052 | 248 |
| Small tools and implements | 500 | 485 | 15 |
| Miscellaneous printing supplies | 251,500 | 159,802 | 91,698 |
| Office services | 2,600 | 1,186 | 1,414 |
| Allowance for personal car use | 200 | 79 | 121 |
| Equipment repairs | 12,700 | 10,483 | 2,217 |
| Office equipment rentals | 65,000 | 64,263 | 737 |
| Miscellaneous contractual services | 343,000 | 216,485 | 126,515 |
| Miscellaneous expenses | 24,500 | 15,606 | 8,894 |
| Employee development | 4,000 | 1,300 | 2,700 |
| Consultant services | 4,000 | 3,833 | 167 |
| Total Expense and Equipment | 710,300 | 475,574 | 234,726 |
| Total General Fund | \$ 1,103,939 | 862,225 | 241,714 |

Appendix B-1

DIVISION OF SUPPLY
 CITY OF ST. LOUIS, MISSOURI
 COMPARATIVE SCHEDULE OF GENERAL FUND EXPENDITURES - SUPPLY SECTION
 FIVE YEARS ENDED JUNE 30, 1988

(UNAUDITED)

| | Year Ended | Year Ended April 30, | | | |
|------------------------------------|-------------------|----------------------|----------------|----------------|----------------|
| | June 30, 1988 | 1987 | 1986 | 1985 | 1984 |
| PERSONAL SERVICES | | | | | |
| Salaries: | | | | | |
| Regular employees | \$ 331,847 | 257,690 | 282,836 | 301,510 | 313,034 |
| Temporary Services | 1,708 | -0- | -0- | -0- | -0- |
| Employer's social security | 24,228 | 18,335 | 20,010 | 20,820 | 20,974 |
| Health and life insurance | 18,589 | 15,846 | 14,215 | 15,465 | 13,592 |
| Employee's retirement system | -0- | 15,083 | 16,780 | 26,735 | 24,521 |
| Total Personal Services | 376,372 | 306,954 | 333,841 | 364,530 | 372,121 |
| EXPENSE AND EQUIPMENT | | | | | |
| Office supplies | 1,064 | 938 | 1,480 | 1,440 | 3,355 |
| Postage | 5,820 | 6,686 | 7,500 | 9,470 | 14,562 |
| Office services | 1,056 | 927 | 1,190 | 1,315 | -0- |
| Repairs | 2,604 | 1,429 | 1,130 | 675 | 830 |
| Printed supplies | -0- | 1,786 | -0- | -0- | -0- |
| Total Expense and Equipment | 10,544 | 11,766 | 11,300 | 12,900 | 18,747 |
| Total Expenditures | \$ 386,916 | 318,720 | 345,141 | 377,430 | 390,868 |

Appendix B-2

DIVISION OF SUPPLY
 CITY OF ST. LOUIS, MISSOURI
 COMPARATIVE SCHEDULE OF GENERAL FUND EXPENDITURES - MULTIGRAPH SECTION
 FIVE YEARS ENDED JUNE 30, 1988

(UNAUDITED)

| | Year Ended | Year Ended April 30, | | | |
|------------------------------------|-------------------|----------------------|----------------|----------------|----------------|
| | June 30, 1988 | 1987 | 1986 | 1985 | 1984 |
| PERSONAL SERVICES | | | | | |
| Salaries: | | | | | |
| Regular employees | \$ 325,942 | 251,793 | 235,167 | 233,385 | 150,407 |
| Per performance | 7,964 | 5,378 | 3,725 | -0- | -0- |
| Temporary Services | 3,965 | -0- | -0- | -0- | -0- |
| Employer's social security | 24,602 | 18,388 | 16,916 | 15,635 | 10,077 |
| Health insurance | 21,019 | 17,292 | 13,470 | 15,125 | 7,930 |
| Employee's retirement system | -0- | 14,415 | 13,637 | 25,865 | 13,930 |
| Workmen's compensation | 24 | -0- | -0- | -0- | -0- |
| Overtime | 3,135 | -0- | -0- | -0- | -0- |
| Total Personal Services | 386,651 | 307,266 | 282,915 | 290,010 | 182,344 |
| EXPENSE AND EQUIPMENT | | | | | |
| Office supplies | 2,052 | 1,853 | 474 | -0- | -0- |
| Small tool and implements | 485 | 316 | 353 | -0- | -0- |
| Miscellaneous printing supplies | 159,802 | 130,161 | 127,135 | 123,000 | 114,995 |
| Office services | 1,186 | 985 | 1,256 | 500 | 337 |
| Allowance for personal car use | 79 | 66 | 53 | -0- | -0- |
| Repair to equipment | 10,483 | 10,333 | 9,635 | 13,000 | 6,514 |
| Rental of office equipment | 64,263 | 63,808 | 12,537 | -0- | -0- |
| Miscellaneous contractual service | 216,485 | 295,843 | 252,926 | 367,010 | 165,437 |
| Repairs to building and structure | -0- | 3,592 | 43 | -0- | -0- |
| Cost allocation | -0- | 150,000 | -0- | 130,300 | -0- |
| Printing and binding | -0- | 11,200 | -0- | -0- | -0- |
| Miscellaneous expenses | 15,608 | 4,277 | 1,856 | -0- | -0- |
| Employee development | 1,300 | 986 | 605 | -0- | -0- |
| Consultant services | 3,833 | -0- | -0- | -0- | -0- |
| Total Expense and Equipment | 475,574 | 673,420 | 406,873 | 633,870 | 287,283 |
| Total Expenditures | \$ 862,225 | 980,686 | 689,788 | 923,880 | 469,627 |

Appendix C

DIVISION OF SUPPLY
 CITY OF ST. LOUIS, MISSOURI
 GENERAL SUMMARY
 FIVE YEARS ENDED JUNE 30, 1988

(U N A U D I T E D)

| | Period Ended June 30, 1988 | Year Ended April 30. | | | |
|---|-------------------------------------|----------------------|------------|------------|------------|
| | | 1987 | 1986 | 1985 | 1984 |
| Requisitions received | 14,244 | 11,041 | 12,219 | 16,718 | 18,389 |
| Invoices received | 28,849 | 23,199 | 22,568 | 31,849 | 35,886 |
| Vouchers issued | 14,624 | 12,004 | 11,902 | 16,834 | 19,491 |
| Amount of purchases vouchered | \$ 42,194,890 | 27,742,658 | 22,754,075 | 25,080,589 | 22,649,601 |
| Amount of printing - multigraph | 791,411 | 841,230 | 795,000 | 953,134 | 231,412 |
| Surplus property sold and other revenues generated | \$ 87,837 | 41,377 | 60,365 | 28,315 | 21,787 |

* * * * *