

# The City of Lee's Summit, Missouri

Consulting Engagement  
Purchasing and Accounts Payable Processes  
*Technical Report*

November 2016



**LEE'S SUMMIT**  
MISSOURI



December 9, 2016

Mayor Randy Rhoads  
City of Lee's Summit  
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Lee's Summit, Missouri 64063

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Re: Consulting Engagement - Purchasing and Accounts Payable Processes

Dear Mayor Rhoads:

We have completed our consulting engagement related to the purchasing and accounts payable processes at the City of Lee's Summit, Missouri ("City").

Our services were performed in accordance with the Statements on Standards for Consulting Services as prescribed by the American Institute of Certified Public Accountants. This project did not constitute a financial statement audit, and accordingly, we are not expressing an opinion on the accounting records or financial statements of the City. In addition, the scope of work was not designed for the purpose of expressing an opinion on the internal control structure and it would not necessarily identify all weaknesses in the system. Further, our services are not structured to be relied upon to detect all errors, irregularities, employee or management dishonesty, fraud, embezzlement or other illegal acts (hereinafter collectively referred to as "Irregularities").

This report is intended solely for the information and use of the City. The City may provide management and council members with copies of our report, and may also provide the City's external auditors with a copy of this report in connection with fulfilling their responsibilities. In addition, we understand that the City may be required to make our report, once finalized, available under Missouri Sunshine Laws.

We would like to express our gratitude to all employees involved with this project. Each person involved was accessible and responsive to our requests for information.

Sincerely,

RUBINBROWN LLP

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## 1 Introduction

The City engaged RubinBrown to provide consulting services related to the City's purchasing and accounts payable processes. The engagement was predicated on the City's awareness that one or more purchases were made by an employee in the City's Parks Department that may have required to be placed for bid. The purchases were for product from vendor "Diane Forte Enterprises," a business we understand to be owned by Councilwoman Diane Forte.

## 2 Project Scope

The scope our engagement was limited to July 1, 2013 through September 29, 2016, and included the following procedures:

- Review of the applicable policies and procedures to gain an understanding of the current purchasing and accounts payable processes;
- Interviews with selected City employees to gain an understanding of the procurement practices, key related internal controls, and to gather information relating to the questions submitted by the City Council;
- Data analysis related to the City's disbursements, purchase card ("P-Card") transactions and Vendor Master File in an effort to identify errors or irregularities, including potentially duplicate, unauthorized, or improper transactions;
- Sample testing to obtain reasonable assurance that established procedures and guidelines are being followed;
- Assessment of the City's purchasing and accounts payable process for proper segregation of duties ("SODs");
- Review of the approval and termination of P-Card holders and associated training; and
- An anonymous questionnaire ("Questionnaire") to gather information from all departments and employees relating to City procurement practices.

### 3 Executive Summary

Based on our analysis and inquiries, the City has strong internal controls related to its accounts payable and purchasing processes. Specifically, the following internal controls are in place and, in our opinion, represent best practices:

- Templates exist and are maintained by Purchasing for the request for quote and request for proposal process;
- A conflict of interest policy exists and Council Members and Executive management sign conflict of interest forms annually, acknowledging compliance and understanding;
- Proper internal records are maintained to support City disbursements; and
- Reasonable segregation of duties exists among P-Card reconcilers and approvers.

The City's internal controls related to its accounts payable and purchasing processes would be strengthened by considering the following:

- **Update Purchasing Manual.** The City's Purchasing Policy Manual was last updated seven years ago, and does not include requirements related to conflict of interest violations per state statute. The Purchasing Manual also does not include disciplinary action for violations of the policy. Additionally, P-Card limits are above the thresholds that require informal bidding processes, which leads to confusion from P-Card holders as to the policy requirements.
- **Ensure Inverted Purchase Order Process Complies with Policy.** On average, 64% of purchasing is completed using an inverted purchase order. This process does not require an approved purchase order for an invoice to get paid. The invoice is routed through a workflow for approvals after the purchase has been made.
- **Conduct Periodic Purchasing and P-Card Training.** P-Card holders are required to sign the cardholder agreement and pass an initial training quiz. Based on our sample testing, we observed a 15% non-compliance with these documentation requirements. Additionally, formal purchasing training is not provided periodically to all City employees responsible for purchasing goods and services.
- **Implement Anonymous Hotline.** The City requires employees to adhere to a Code of Ethics that specifies that employees report violations of the Code to Supervisors. The policy does not currently provide an avenue to make an anonymous report.

## 4 Data Analysis

As part of our work we performed data analysis in order to provide conclusions on the full population of data for July 1, 2013 through September 29, 2016. Below is a table summarizing our tests and results:

Test	Results
Disbursements <ul style="list-style-type: none"> <li>• Benford's Analysis</li> <li>• Duplicate Payments</li> <li>• Round Numbers</li> <li>• Vendors Paid vs. Vendors in the Master File</li> <li>• Check Gaps</li> <li>• Payments Made on Weekends</li> </ul>	No exceptions were noted for this analysis. Although our data analysis did produce items requiring additional research for each of the six tests, we investigated these items and did not find irregularities.
Journal Entries <ul style="list-style-type: none"> <li>• Benford's Analysis</li> <li>• Round Numbers</li> <li>• Payments Made on Weekends</li> </ul>	No exceptions were noted for this analysis. Although our data analysis did produce items requiring additional research for each of the three tests, we investigated these items and did not find irregularities.
Vendor and Employee Master File <ul style="list-style-type: none"> <li>• Vendor and Employee Address Match</li> <li>• Duplicate Employees</li> <li>• Duplicate Vendors</li> </ul>	<p>No exceptions were noted for the first and second tests. Although our data analysis did produce items requiring additional research for each test, we investigated these items and did not find irregularities.</p> <p>We found eight vendors with duplicate information in the vendor master file. We identified this as an exception. The Finance department is aware of these vendors and will inactivate the duplicate entries.</p>
P-Card Transactions <ul style="list-style-type: none"> <li>• Benford's Analysis</li> <li>• Split Payments</li> <li>• Round Numbers</li> <li>• P-card Users Over Monthly Limits</li> </ul>	<p>No exceptions were noted for the first three tests. Although our data analysis did produce items requiring additional research for each of the three tests, we investigated these items and did not find irregularities.</p> <p>We found 42 instances where a P-Card user went over their monthly limit. We identified this as an exception. Policy requires an employee to request approval prior to a limit being temporarily raised; however no record of this request or approval is kept.</p>

Test	Results
<p>Conflict of Interest</p> <ul style="list-style-type: none"> <li>• City Council member and Vendor Address Match</li> <li>• City Council Member Name and Vendor Name Match for Disbursements</li> <li>• City Council Member Name and Vendor Name Match for P-Card transactions</li> </ul>	<p>For the first test we found that all City Council members were within the vendor listing because of travel expense reimbursements. However, one City Council member address matched a business address (Diane Forte Enterprises LLC).</p> <p>For the second test we found one match in FY15 for \$768.00 that we consider an exception because it violated state statute. One other match was found and investigated but did not violate City purchasing policy or state statute because it fell below \$500. Therefore, it was not considered an exception.</p> <p>For the third test we found one match in FY16 for \$1,170.00 which we consider an exception because it violated state statute and purchasing policy. Two other matches were identified that were not considered exceptions. These transactions were below \$500 and therefore did not violate City purchasing policy or state statute.</p> <p>All matches discussed above were for Diane Forte Enterprises LLC.</p>

## 5 Responses to City Council's Questions

As part of our engagement, City Council provided a list of questions for which they sought responses. The questions generally related to the City's purchasing policy and procedures including the bid process, vendor performance, and sole source contracts.

Key items noted from the answers are summarized below:

- The City has a Purchasing department that provides bid templates for RFPs and RPQs.
- The City has procurement procedures in place that requires advertisement for bids over a \$10,000 threshold.
- A Vendor Performance Form is available and may be filled out by any department to provide feedback on vendor quality and timeliness of service or delivery of goods.
- The City tracks Sole Source contracts, including the amount and expiration of each contract.
- We noted as part of answering the Council's questions that the current policy does not specifically reference Missouri State Statute 105.454.1, which states that no single transaction over \$500 or an annual transaction total of \$5,000 should occur without proper bidding procedures with the elected official's bid being the lowest bid. However, City procedures do include a requirement to fill out a conflict of interest form for any transactions greater than \$500 and we found that the conflict of interest forms were properly filled out to disclose these transactions.
- We also noted that the City does not have procedures related to minority bidding and does not have a barred vendor listing.



## 6 Responses to City-Wide Survey

As part of our engagement, City Council requested that we prepare a survey in an effort to evaluate City employee's knowledge of purchasing requirements and appropriate use of City issued P-Cards. The survey also included questions about ethics.

Key items noted from the survey responses are summarized below:

- We received 293 responses, including 121 P-Card holders or approvers.
- The survey results for the City revealed a positive culture with expectations that improprieties are reported and the individuals that are responsible for them are held accountable.
- Survey responders indicated they were neutral or only somewhat agreed that there are clear guidelines on when a purchasing opportunity should be advertised.
- Survey responders did not have strong agreement that there is a listing of barred vendors (there is not a listing, so inherently they were correct). There was also a lack of understanding of how to report improper or illegal acts, with 45% of the respondents indicating they weren't aware of how to make an anonymous report.

## 7 Conclusion

Overall, the City of Lee's Summit has a generally effective control structure for its purchasing and accounts payable processes. As described above, the internal control structure could be strengthened by addressing recommendations in areas such as policy and training. Additionally we would like to express our gratitude to all employees involved with this project. Each person involved was accessible and responsive to our requests for information.

## Exhibit A Overview of Purchasing and Accounts Payable Processes

City employees may purchase goods and services by using a P-Card or by submitting a purchase order. Each purchasing option is subject to department limits or approvals per the Purchasing Policy Manual. See below for the purchasing documentation and bid requirements by dollar threshold.

Amount	General Guidance
Under \$1,000	<ul style="list-style-type: none"> <li>• No bid process, purchasing division encourages departments to seek lowest price available</li> <li>• Purchase order number will be issued by the purchasing division prior to purchase</li> </ul>
Between \$1,000 and \$3,000	<ul style="list-style-type: none"> <li>• Informal Quotes (Telephone Quote)</li> <li>• Purchase order number will be issued by the purchasing division prior to purchase</li> </ul>
Between \$3,000 and \$10,000	<ul style="list-style-type: none"> <li>• Informal Written Bids</li> <li>• Purchasing Division will review all bids and work with the individual department to select lowest and best bid</li> <li>• Requested by submitting a purchase requisition</li> </ul>
Above \$10,000	<ul style="list-style-type: none"> <li>• Formal Advertised Bidding</li> <li>• Requested by submitting a purchase requisition</li> <li>• Any bid above \$20,000 must be approved by City Council</li> </ul>

The current purchasing policy addresses these options as well as situations that fall outside the normal procurement process, such as emergency procedures and cooperative agreement purchases. There is a third method of obtaining a vendor payment that is not addressed as part of the Purchasing Manual but is addressed in the AP Procedures. City employees may buy goods or services and submit the invoice for payment to the AP department (this is known as a non-purchase order invoice process). The invoice is approved by AP and the department purchaser through a workflow process and subsequently paid.

The City of Lee's Summit Procurement department is responsible for processing all purchasing with the exception of purchases with petty cash (handled by individual departments), issuing P-cards, and administering training and testing to all employees who receive a P-card. The Procurement department does process purchase orders that fall outside of the purchase order system, which includes inverted purchase orders.

The City's Finance department is responsible for paying vendor invoices (Accounts Payable department) as well as administering the P-Card program (Controller). Invoices received into Accounts Payable are processed for payment in two ways. If the invoice belongs to a purchase order the service or good will be entered into the system and then automatically matched to the purchase order and the department's receipt. This three-way match allows the invoice to flow to the queue for payment without additional approvals. If the invoice has no purchase order, the invoice will be sent electronically to the department for routing and approval through Accounts Payable's non-purchase order workflow. For both processes, invoices are manually entered into the system daily. All invoices are scanned in SIRE, the document management system. A weekly check batch is run on Wednesdays by the Finance secretary to pay approved and released invoices. Payments are based on invoice due dates.

For fiscal year 2016 P-Card transactions totaled \$1,203,047 and disbursements totaled \$97,275,286. As of our inquiry the City has 216 active P-Card users.

## Exhibit B Responses to City Council Questions

Below we have provided answers to the questions posed by the City Council as part of our work in this matter. The responses are a combination of information provided by our interviews with the Purchasing department personnel, review of applicable policies, and the analysis we performed.

### **I. Are the City written procurement practices in line with the State of Missouri, Federal or other laws and industry best practices?**

As described in our Executive Summary above, the City's purchasing policy should be revised to adhere to Missouri state law and best practices. The procurement policy does not specifically reference a state statute that limits the dollar amount of transactions with City elected officials. The manual does describe the Missouri State Statutes that were used as guidelines for Professional Services Contract – engineering, architectural, and land surveying services.

### **2. Does the City have and use a "template" for drafting RFP's, RFQ's and similar documents used in the procurement process?**

Yes, the City uses templates for drafting RFP's, RFQs, and similar documents.

### **3. How does the City advertise for bids and have City procurement procedures been Adhered to?**

The City requires that any purchase over the threshold of \$10,000 must be formally solicited, unless the purchase is deemed to be an emergency or sole source item. The Procurement and Services Division utilizes an e-bidding service (PublicPurchase) to meet requirements for bidding.

### **4. What actions, if any, has the City taken to increase the number of bidders?**

Procurement provides all vendors who inquire on bid opportunities instructions on how to become a vendor, as well as instructions on how to submit bids via PublicPurchase. When individual departments create a purchase requisition they have the opportunity to suggest vendors to procurement so that bid advertising can target those vendors along with all other available vendors.

### **5. Does the City have a policy and program in place for minority participation in the bidding process?**

No policy is in place for minority participation within the bidding process. City resolution 87-18 encourages the purchase of American-made products.

**6. How effectively does the City use the internet, print, mail, TV, radio, or other media and communication means to advertise procurement opportunities?**

The solicitation requested determines what advertisement method is used. The department requesting the solicitation may request or require a type of advertisement be used. Procurement and Contract Services utilizes PublicPurchase e-bidding service, bids are also sent via email to those firms identified on the requesting department's provided vendor list. Formal solicitations conducted by the Procurement and Contract Services Division are posted on the City's website [www.cityofls.net](http://www.cityofls.net), under "Business with the City/Contract, Vendors, and Bids/Solicitation Information."

It is difficult to measure the effectivity of these methods of advertisement for each opportunity. Most municipalities utilize a combination of their home webpages, an e-bidding service and email to advertise potential opportunities.

**7. What actions, if any has the City taken to increase the number of bidders?**

Repeat question, please see question 4.

**8. Do the City procurement practices contain provisions for penalties for nonperformance?**

When issues arise pertaining to vendor non-performance, Procurement has a Vendor Performance Form that is sent to the applicable project manager or whoever is having the issue with the vendor. The Vendor Performance Form is to be completed and submitted with any supporting data to the applicable Procurement Officer.

Additionally, there is termination of contract language in the general terms & conditions that pertain to performance.

There are material, performance, and payment bonds that may be required dependent upon the solicitation type and amount. For example, larger construction projects require bonding.

**9. Does the City have debarring procedures within the procurement practices?**

Currently there is not a City policy for debarring procedures. There is language within the bid and RFP solicitation templates developed by the Law Department stating that by responding a bidder certifies that neither it nor its principal are presently debarred or suspended by any Federal Department or Agency.

The City also has language on its solicitation template that explains penalties for employing illegal aliens to perform work as part of a contract for the City. The penalties listed include suspension of a business license, termination of the contract, debarment from City and State work, and withholding 25% of the total due to the consultant.

**10. Does the City keep a roster of debarred vendors?**

There are no debarred vendors at this point in time.

**11. Provide a list of all transactions over \$500, which involve elected officials and whether proper lawful bidding practices were adhered to. Should include transactions using all procurement means.**

We obtained a listing of elected officials for FY 14 to FY 17 from the Lee's Summit Finance department. We then performed data analysis on a disbursements listing from the same time period to determine if City Council members were vendors. We found that for one transaction in FY16 for \$1,170 proper bidding procedures were not followed. See the table below and reference the Conflict of Interest data analysis results in the Executive Summary for our full results.

Transactions over \$500		
Year	Transaction Total	Number of Transactions
FY 2014	\$0	0
FY 2015	\$768	1 (disbursement)
FY 2016	\$1,170	1 (p-card)
FY 2017 (Partial)	\$0	0

**12. Provide a list of all transactions over \$1,000, and whether required City procurement practices were followed. Should include transactions using all other procurement means.**

Disbursements greater than \$1,000 amounted to 12,161 transactions worth \$280 million. Due to the scope of our review we were unable to validate each transaction. However, we did perform data analysis on the total disbursements register. Results are listed in the Executive Summary above. We reviewed a total of 40 purchase orders on a sample basis and noted exceptions relating to the Purchasing requirements. See the results in Exhibit D below. We also performed sample testing on 40 disbursements. No exceptions were found.

Disbursements		
Year	Total Dollars	Number of Transactions
FY 2014	\$87,617,392	3,673
FY 2015	\$72,986,645	3,693
FY 2016	\$94,936,919	3,833
FY 2017 (Partial)	\$25,148,258	959
<b>Total</b>	<b>\$280,689,214</b>	<b>12,161</b>

P-Card transactions over \$1,000 totaled 513 transactions worth \$1,498,486. We performed data analysis on the full population of P-Card transactions and reviewed supporting documentation on a sample basis. Results of our P-Card data analysis are summarized in the Executive Summary, and results of our sample testing are included in Exhibit D.

P-Card Transactions		
Year	Total Dollars	Number of Transactions
FY 2014	\$1,048,903	219
FY 2015	\$216,001	142
FY 2016	\$212,605	137
FY 2017 (Partial)	\$20,977	15
<b>Total</b>	<b>\$1,498,486</b>	<b>513</b>

**13. Does the City have early discount procedures and what was the value and number of realized early discounts?**

The Procurement and Contract Services Division has the following information identified in Invitation for Bid templates "City standard payment terms are Net 30 after receipt of invoice. State any discount offered." Copies of any ensuing contracts are provided to using departments and Accounts Payable (AP). For fiscal years 2014, 2015, 2016, and 2017 (through 9/29/16) the total discounts were \$6,816.35, \$12,404.72, \$3,402.06, and \$2,357.93 respectively.

**14. Provide details relating to signature authority procedures and whether or not they have been followed.**

As it pertains to Procurement, purchase orders are issued via the City's ERP system ("INFOR"). Department requestor creates a requisition, utilization of a contract or applicable procurement method should be identified at this stage. Department approver then approves the requisition; the solicitation process should be reviewed prior to approval. Assigned procurement officer reviews and creates a purchase order from the requisition. All contractual documents, including purchase orders must be signed by the City Manager. Per the City's Law department parks contracts/agreements do not require the City Managers' signature only the signature of the Administrator of Parks & Recreation. However contracts/agreements in which Parks is a participant will still require the signature of the City Manager as well as the Administrator of Parks & Recreation.

For Sole Source Justification the following applies:

Approvals required for all City departments (excluding Parks & Recreation)

- \$1,000 - \$9,999 Department Director, Procurement and Contract Services Manager Approval
- \$10,000 - \$19,999 Department Director, Procurement and Contract Services Manager Approval City Manager Approval
- \$20,000 & Above Department Director, Procurement and Contract Services Manager Approval, City Manager & City Council Approval

Approval required for Parks and Recreation Only

- \$1,000 - \$9,999 Parks Administrator & Procurement and Contract Services Manager Approval
- \$10,000 - \$19,999 Parks Administrator, Procurement and Contract Services Manager Approval
- \$ 0,000 & Above Parks Administrator, Procurement and Contract Services Manager Approval & Park Board Approval

As part of this engagement we reviewed bids, disbursement transactions, and sole source contracts on a sample basis for proper approval. We found exceptions in each of these areas. See Exhibit D for the full results of our testing.

**15. Provide details relating to susceptible item pilfer control procedures and whether or not they have been followed.**

The City addresses disciplinary actions for item pilfer within the Human Resources Policy, Chapter 4. Any activity relating to item pilfer is subject to disciplinary action including termination.

**16. Provide details relating to justification control procedures and whether or not they have been followed.**

As it pertains to the Procurement and Contract Services Division, solicitations are performed with the understanding that approved budget is available for the good or service being solicited. For Sole Source Justification refer to Question 14. Purchase orders are generated presuming that the requestor and approver are utilizing budgeted funds in accordance with the Procurement Policy Manual.

**17. Provide a list of sole source contracts and whether the City procurement procedures were adhered to.**

We were provided with the City's listing of sole source contracts. Per the listing, the City has both one time and multiple year sole source contracts. Sole source contracts, including their expiration dates, are approved per the guidelines in Question 14 and tracked by the Procurement and Contract Services department.

We reviewed one-time and continuous sole source contract justification for contracts on a sample basis. We found that one of 54 sole source justification forms was not properly approved by the City Manager. See Exhibit D for our detailed results and recommendations.



**18. Provide details relating to regular departmental procurement reporting requirements, if any, as well as the quality and usefulness of the reports.**

Currently there is no established departmental procurement reporting requirements. Procurement and Contract Services has provided the following correspondence and training documents pertaining to recommended Department Month End Reporting:

- P0220 - Purchase Order Status Report
- P0222 - Open PO Balance Report
- P0230 - Unreleased Receivers Report
- P0133 - Receiving Adjustment Log
- P0135 - Received Not Invoiced Report
- P0136 - Matched Not Received Report
- RQ140 - Requisition Status Report
- AP270 - Vendor Payment History

DRAFT

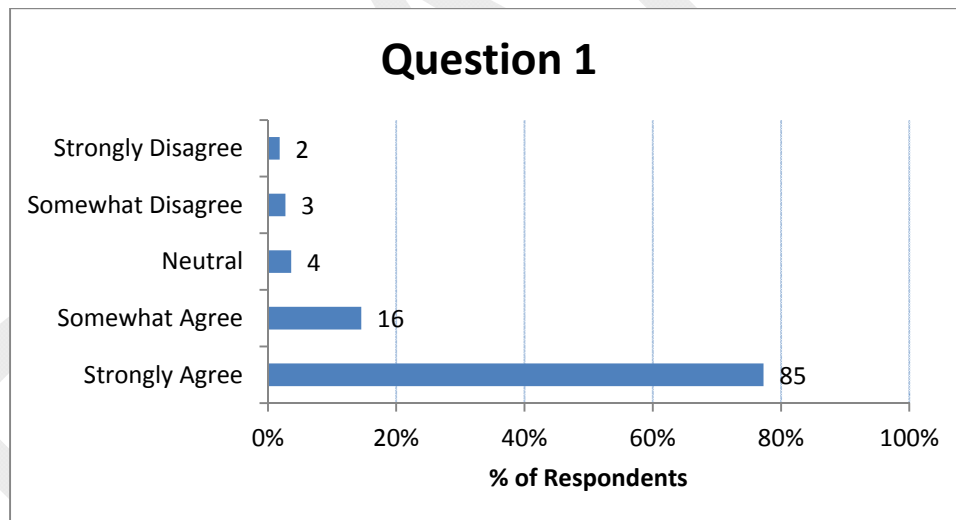
## Exhibit C City-Wide Survey Results

A total of 293 City employees took the survey. The survey was available from October 24<sup>th</sup>, 2016 to November 3<sup>rd</sup>, 2016. The goal of the survey was to evaluate employee's knowledge of the purchasing business processes, and to obtain feedback on the processes themselves. At the beginning of the survey each respondent was asked to fill out the following demographic information:

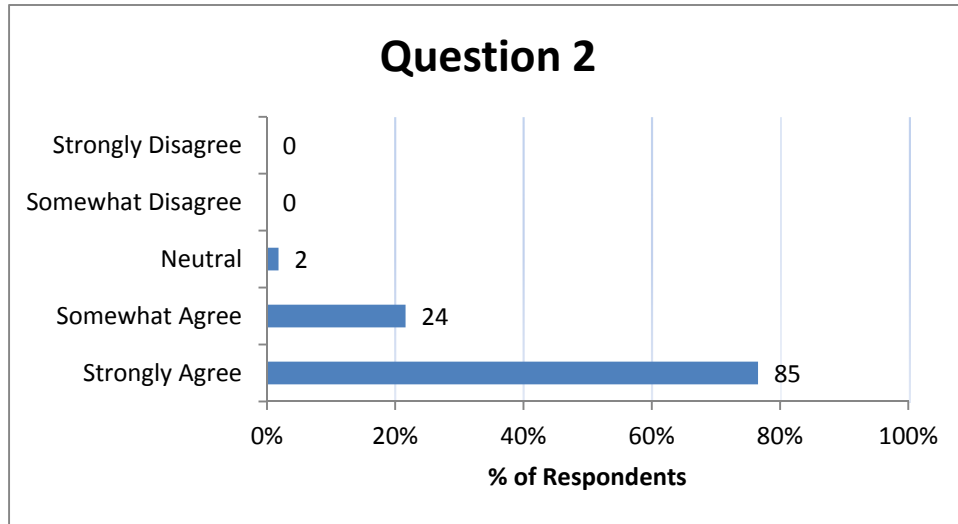
- Department
- P-Card holder on Non P-Card holder
- Years of Service

Below we've included results from the survey including the number of respondents for each question and percentage of response per answer. Please note that for each question a respondent could answer "N/A" or not applicable. We did not count "N/A" answers in the number of responses for each question.

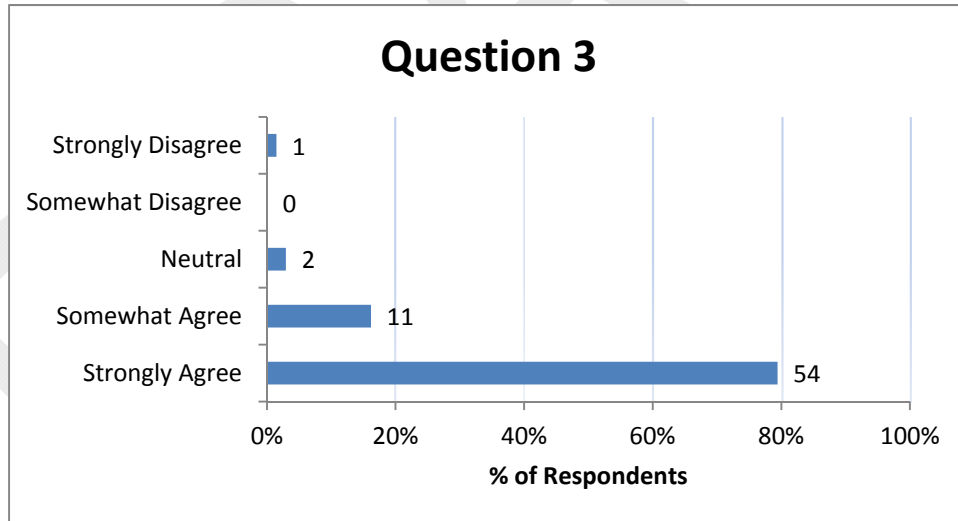
1. I know the purchasing dollar limit on my City issued purchasing card. Please note that the number of respondents is listed for each response.



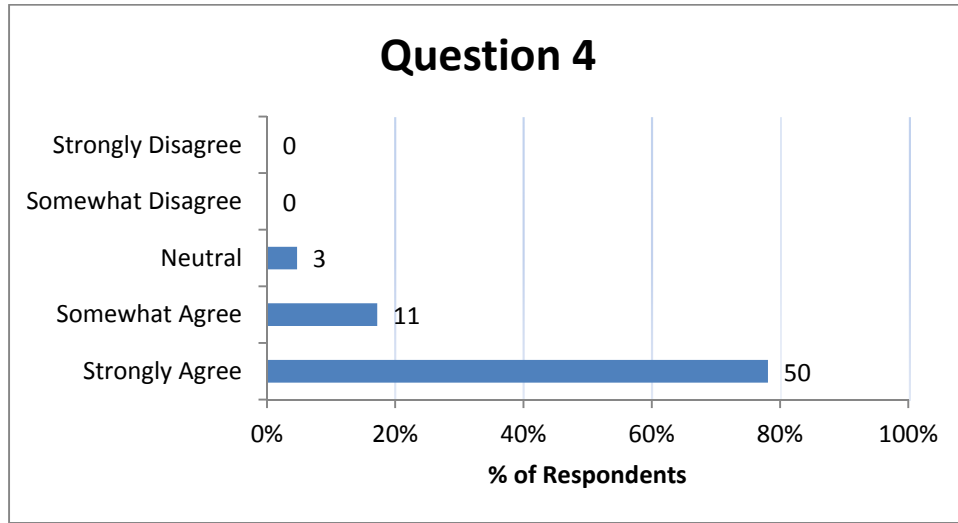
2. As a purchasing card holder, I know what purchases can be made and not made with my purchase card.



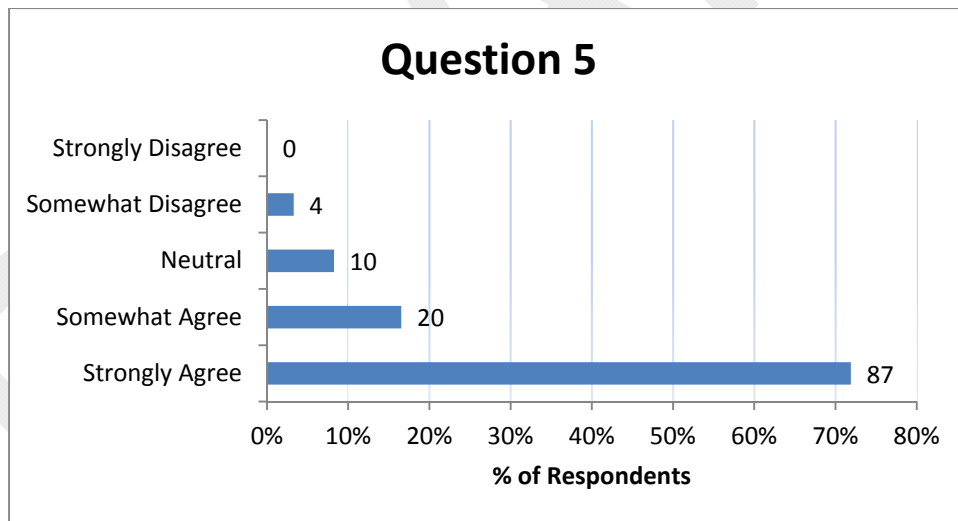
3. As a purchase card approver, I know what required supporting documentation must be reviewed before I approve a purchase card transaction.



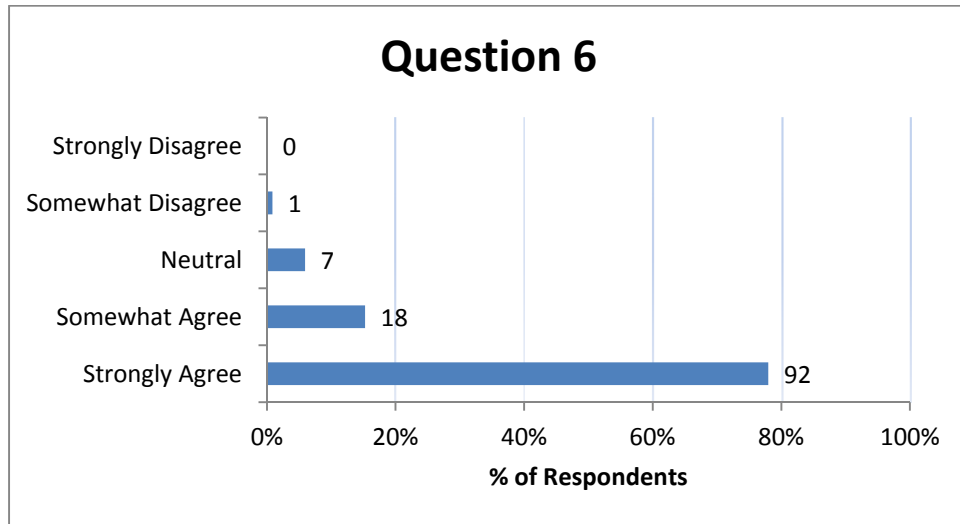
4. As a purchase card approver, I feel knowledgeable of my responsibilities to review and approve purchase cards transactions submitted to me.



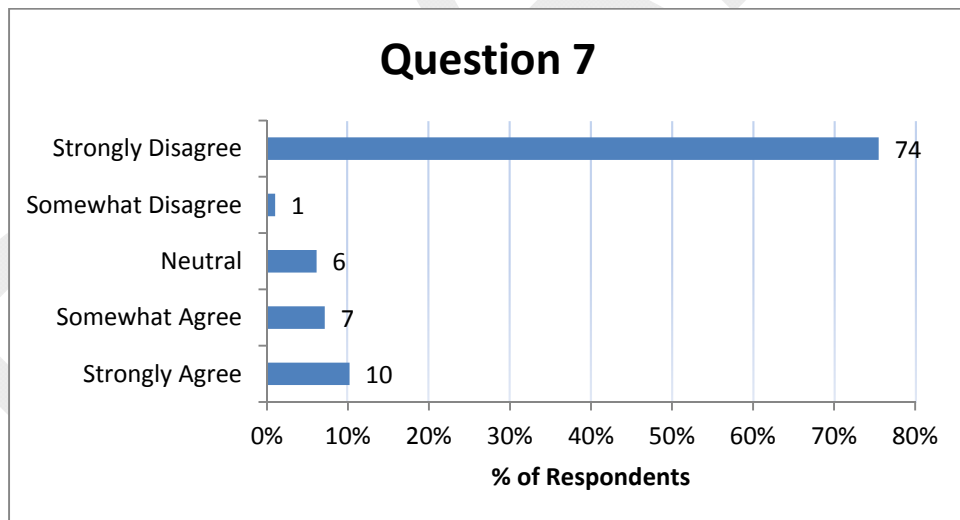
5. I know where to find the current City policy on the use of purchasing cards.



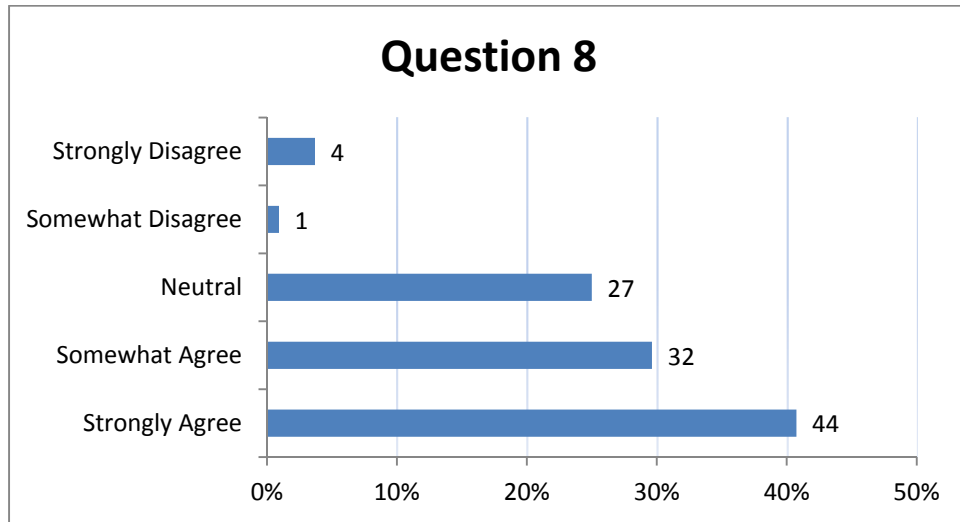
6. I received training on the City policy regarding the use of purchasing cards.



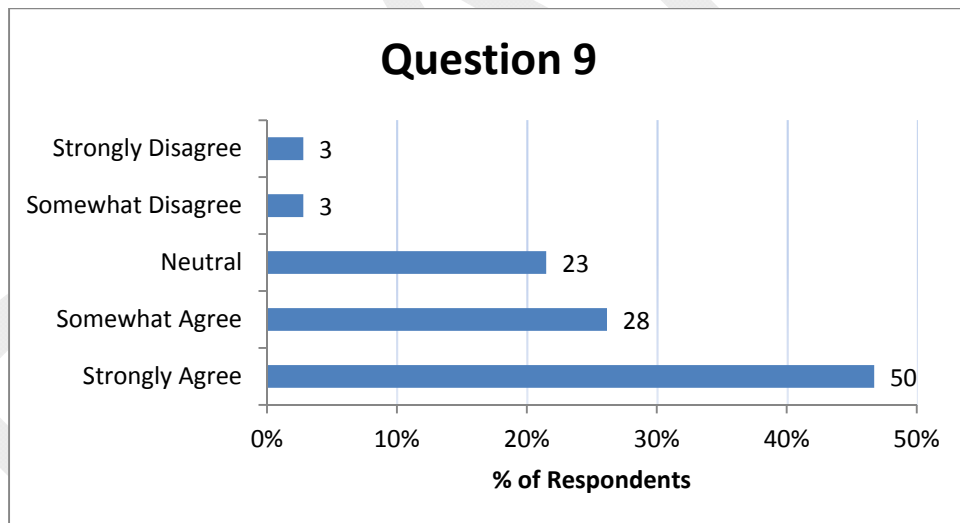
7. I have used my personal credit card to pay for reimbursable expenses instead of the City issued purchasing card.



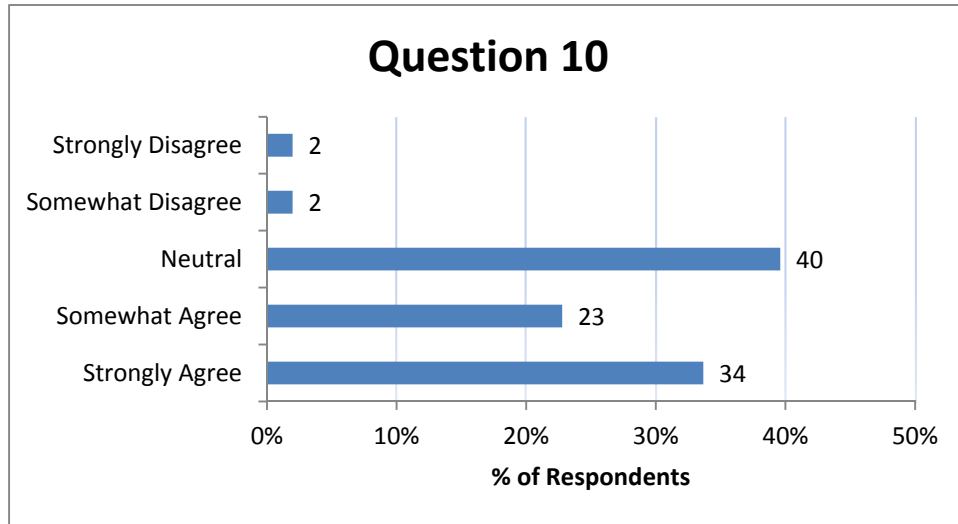
8. There are consequences for vendor nonconformance to an agreement with the City.



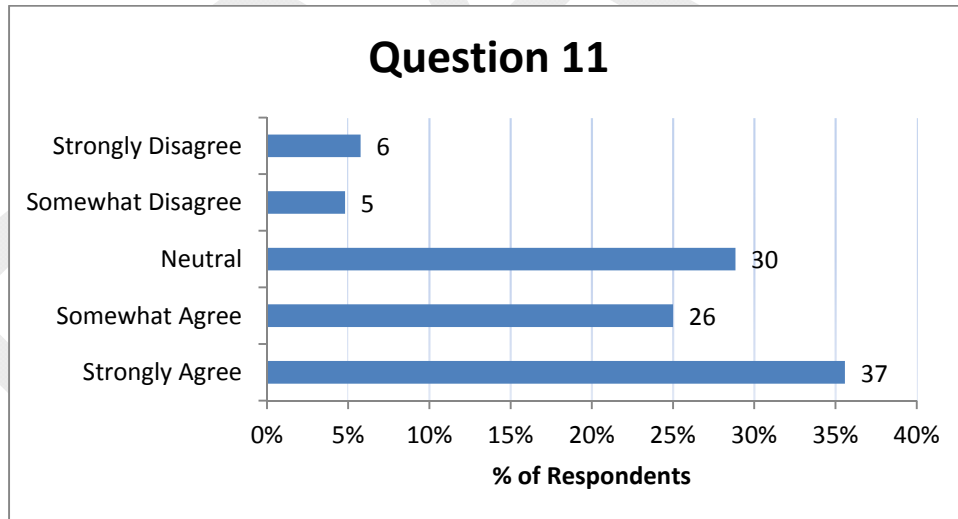
9. There is a City template that can be used for requests for proposals (RFPs) or request for quotes (RFQs).



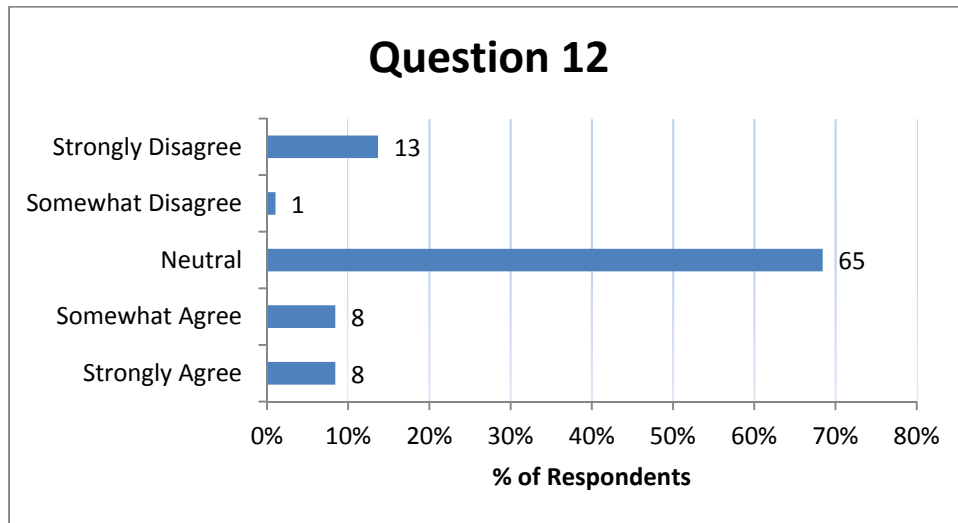
10. There is clear direction on the advertisement required for City procurement opportunities.



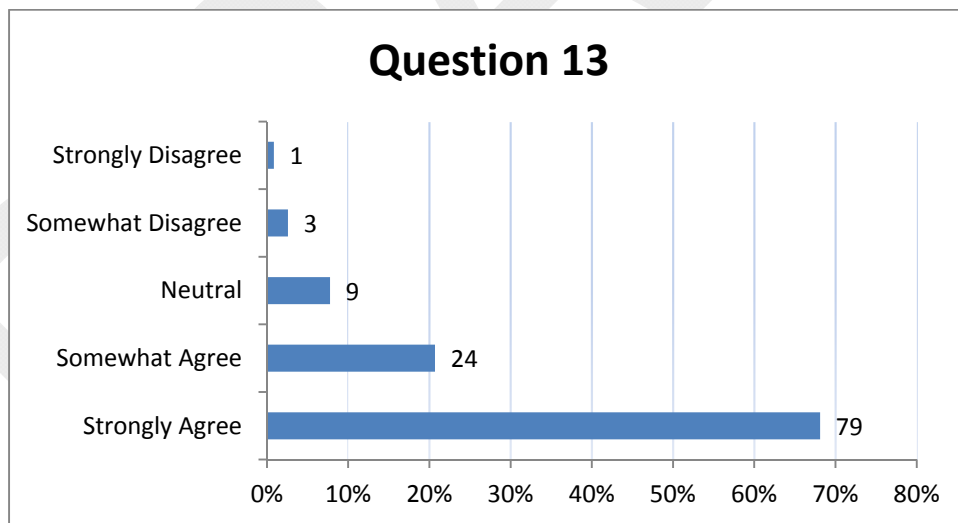
11. The City actively seeks to increase the number of bidders for procurement opportunities.



12. There is a listing of vendors that have been barred from conducting business with the City.



13. City employees, elected officials and board/committee members must disclose relationships that may result in conflict of interest.

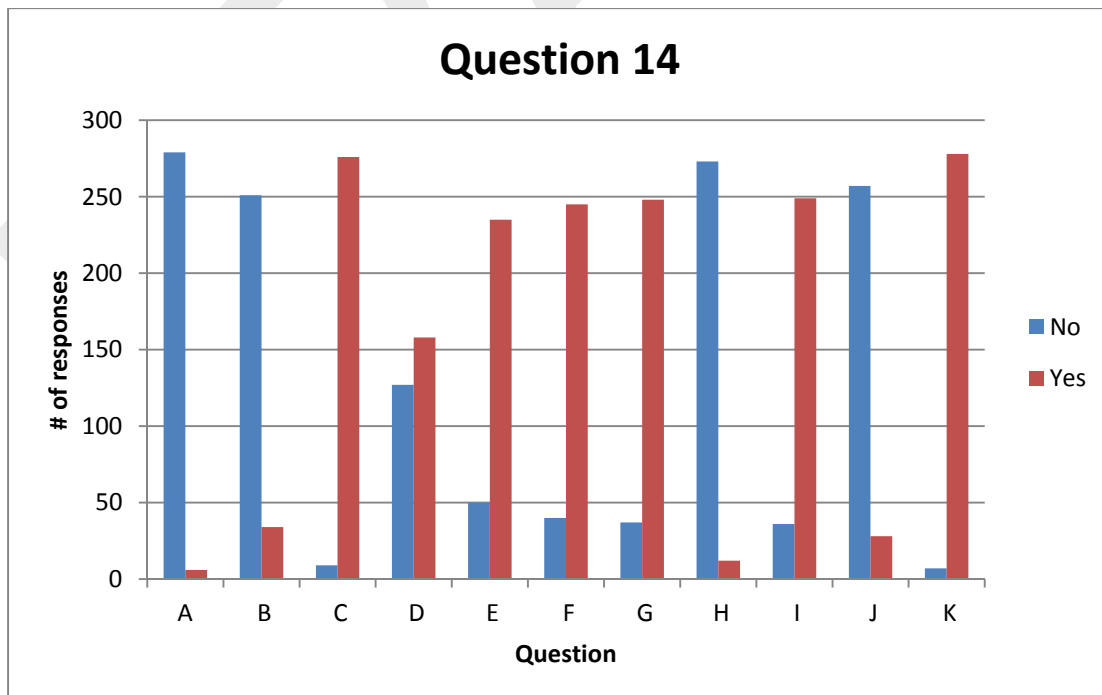




**Question 14**

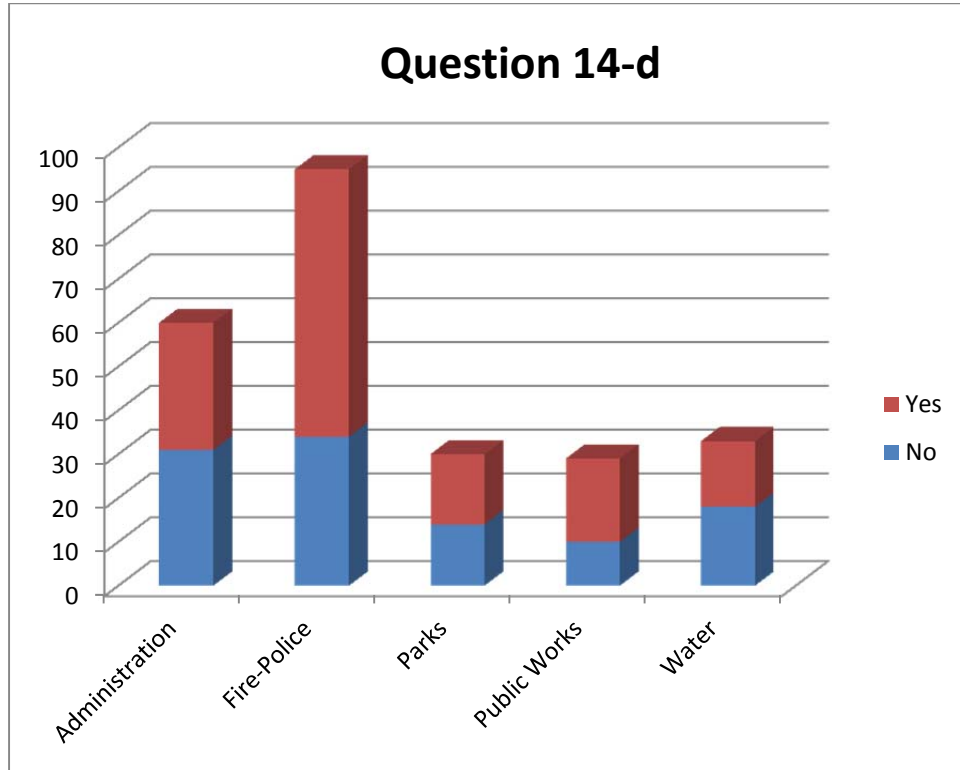
For the next set of questions respondents were asked to answer "Yes" or "No". A summary of the responses can be found in the chart below the listed questions.

- A. Has anyone asked you to commit any improper or unprofessional acts at the City?
- B. Have you observed anyone committing improper or unprofessional acts at the City?
- C. Does the City expect you to report improprieties, illegal acts, fraud, stealing, etc. to either internal or external parties?
- D. Do you know how to make an anonymous report of improprieties, illegal acts, fraud, stealing, etc.?
- E. Does the City take appropriate action to address known departures from approved policies or unacceptable practices or conduct?
- F. Do you have a clear understanding of the types of problems that should be reported upstream to your supervisor or to management?
- G. Are you encouraged to report suspected improprieties to your supervisor or to management?
- H. Have you experienced retaliation for reporting a suspected impropriety to your supervisor or to management?
- I. Do you receive training on standards of ethical behavior?
- J. Are you aware of anyone that has stolen assets or money from the City?
- K. If someone were to steal money or assets from the City, would you expect them to get caught?

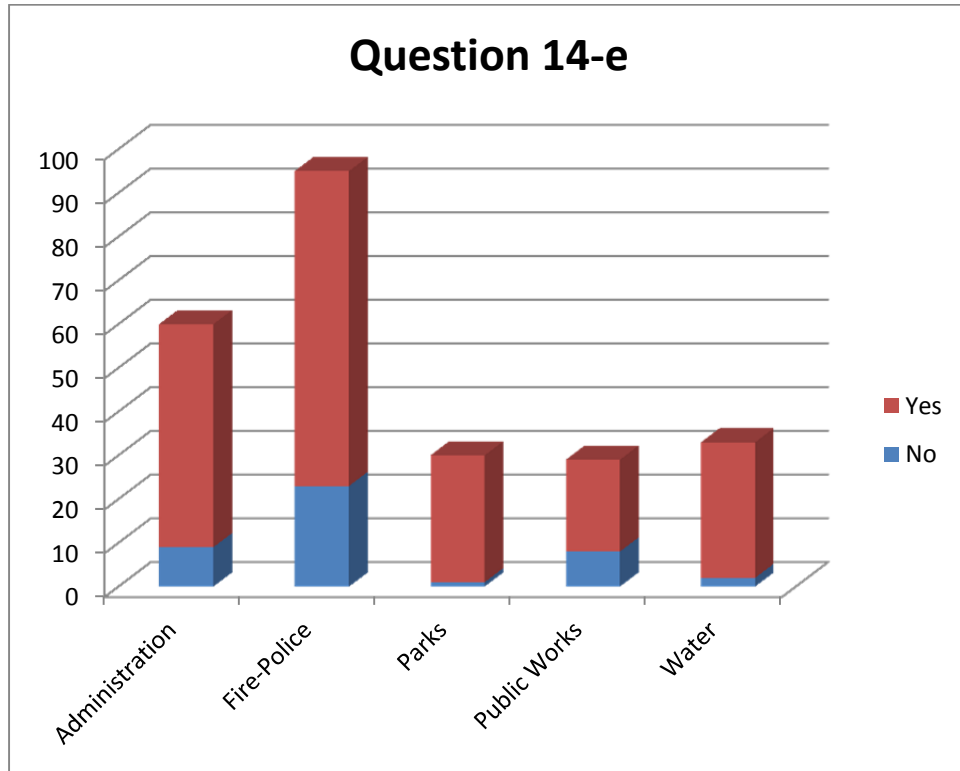


For select questions we've provided additional detail by department below.

14-d. Do you know how to make an anonymous report of improprieties, illegal acts, fraud, stealing, etc.?

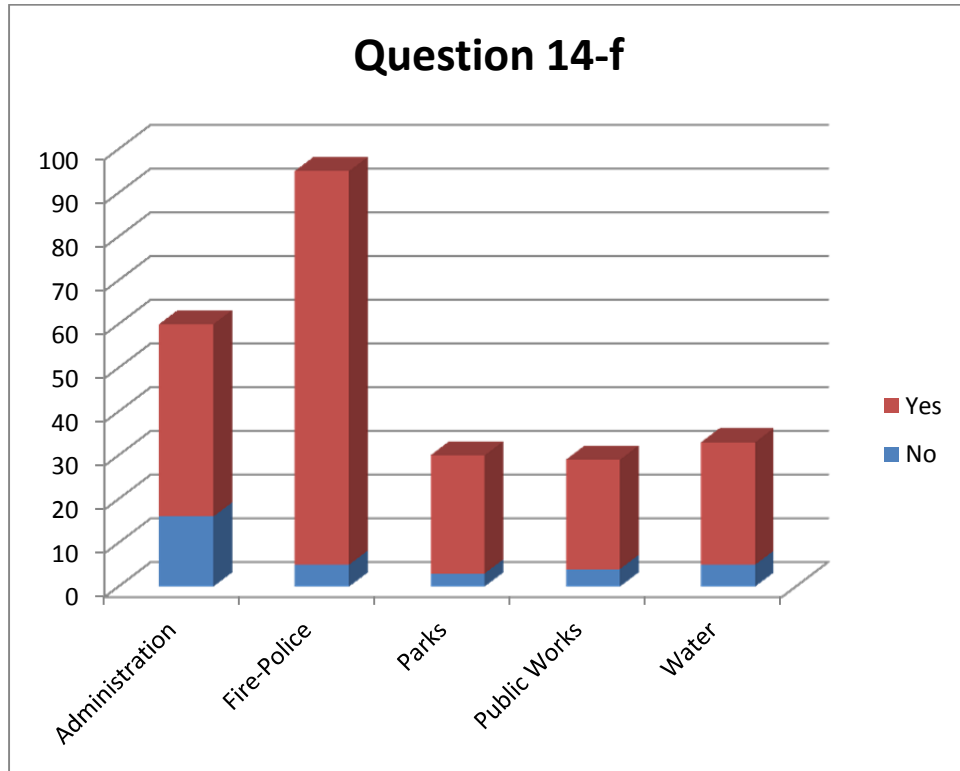


14-e. Does the City take appropriate action to address known departures from approved policies or unacceptable practices or conduct?



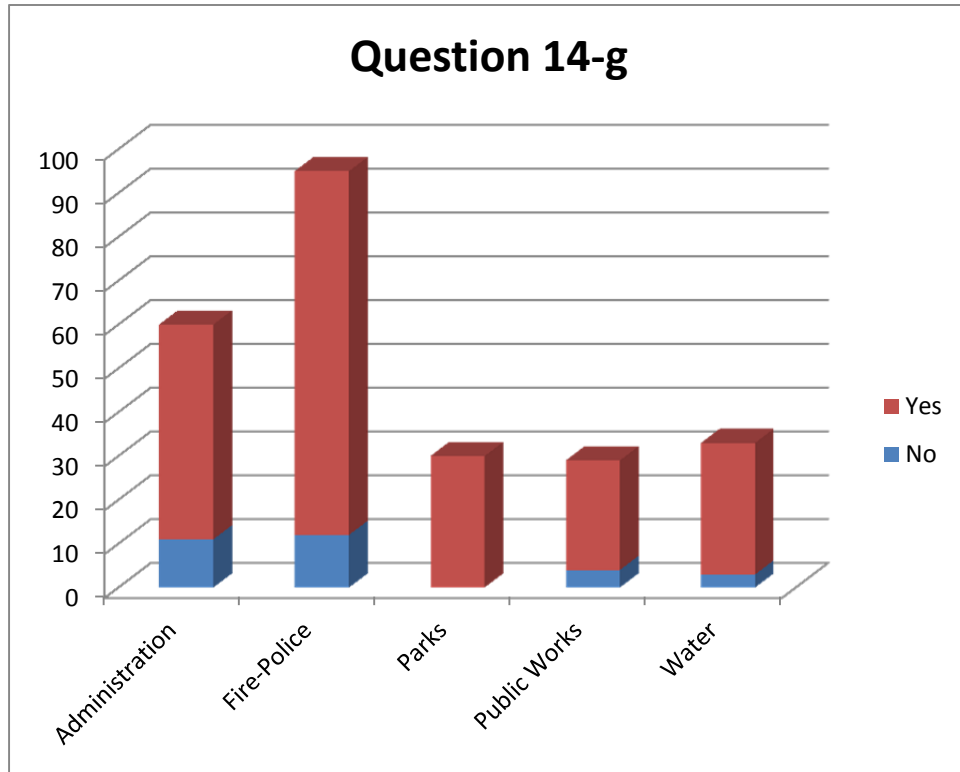
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14-f. Do you have a clear understanding of the types of problems that should be reported upstream to your supervisor or to management?



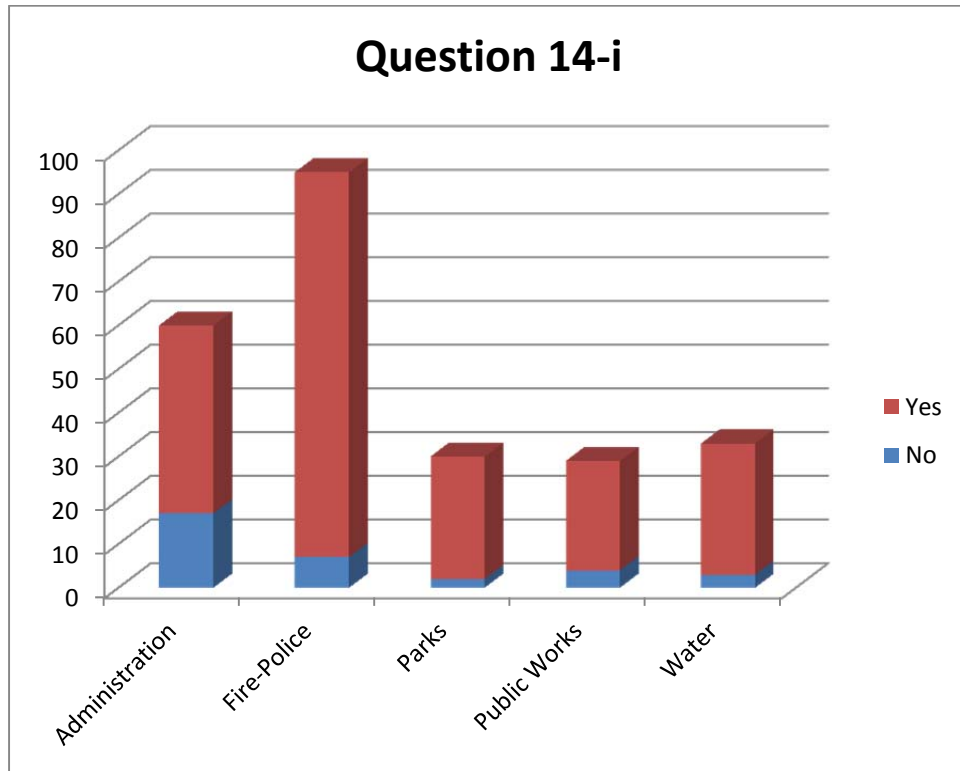
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14-g. Are you encouraged to report suspected improprieties to your supervisor or to management?



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14-i. Do you receive training on standards of ethical behavior?



## Exhibit D Observations and Recommendations

Below is a listing of observations and recommendations related to the City's purchasing and accounts payable processes. This Exhibit provides information on the current purchasing or accounts payable process, associated internal control gaps or weaknesses, the potential risk to the City, and our recommendation to address the issue. Internal control gaps or weaknesses are problems with the internal control structure which could allow unauthorized transactions, including misappropriation of assets.

	Process/Procedure	Observation and Risk	Recommendation
1	<p>The City has the following policies related to the purchasing and accounts payable process:</p> <ul style="list-style-type: none"> <li>• Purchasing Policy Manual (2009)</li> <li>• Purchasing Card Policy and Procedures Manual (2008)</li> <li>• Accounts Payable Procedures (undated)</li> </ul>	<p><b>Observation:</b> Purchasing policies haven't been updated in seven years and don't include requirements related to conflict of interest violations per state statute.</p> <p>Purchase card limits are above the thresholds that require informal bidding processes. This leads to confusion from P-Card holders as to the requirements for P-Card purchases.</p> <p>Additionally, the policy doesn't include consequences for the non-compliance with the policy.</p> <p><b>Risk:</b> Inappropriate transactions as a result of incomplete or outdated policy documents. Inability to enforce the requirements of the policy.</p>	<p>Revise the purchasing policy and align purchasing methods with bid and proposal limits. Include the following elements in the revised policy:</p> <ul style="list-style-type: none"> <li>• State requirements for conflict of interest;</li> <li>• Acceptable purchasing methods;</li> <li>• Purchase card guidance; and</li> <li>• Disciplinary action for lack of adherence to the policy.</li> </ul> <p>Obtain approval from each Department head prior to providing the policy to the City Council for approval.</p>

	Process/Procedure	Observation and Risk	Recommendation
2	<p>The City of Lee's Summit Purchasing Policy requires documentation for bids and approvals for purchases above \$1,000.</p> <ul style="list-style-type: none"> <li>For purchases between \$1,000 and \$2,999 the purchaser is required to obtain verbal quotes from three vendors.</li> <li>For purchases between \$3,000 and \$10,000 the purchaser is required to obtain written bids that must be reviewed by the Purchasing department.</li> </ul>	<p><b>Observation:</b> We reviewed 20 purchase orders under \$10,000 to ensure proper bidding and procurement processes were followed. We found one purchase over \$3,000 but below \$10,000 that occurred without a documented bidding process.</p> <p><b>Risk:</b> Increased expenditures due to lack of vendor competition. Non-compliance with purchasing policy.</p>	<p>Ensure that requests for bids and proposals are documented.</p>
3	<p>The City's Code of Ethics requires that employee's report violations to the Department Director, or the City Manager.</p>	<p><b>Observation:</b> Employees do not have an avenue to anonymously report ethics violations.</p> <p><b>Risk:</b> Unreported ethics violations.</p>	<p>Implement an Ethics hotline that is monitored by General Counsel.</p> <p>Advertise the hotline on the homepage of the intranet.</p>



	Process/Procedure	Observation and Risk	Recommendation
4	<p>The City of Lee's Summit requires employees who travel to fill out a Travel Advance Request and obtain approval prior to traveling on City business.</p> <p>Within two weeks of returning from travel, employees are required to submit a reconciliation that details whether or not they owe the City money, or if the City should reimburse additional expenses.</p>	<p><b>Observation:</b> We selected a sample of 20 travel advances and found the following:</p> <ul style="list-style-type: none"> <li>• Two employees did not receive approval prior to travel and did not submit the reconciliation form within two weeks of returning from travel.</li> <li>• Two additional employees did not submit the reconciliation within two weeks of returning from travel.</li> <li>• One employee did not have the reconciliation approved.</li> </ul> <p><b>Risk:</b> Unauthorized or inappropriate disbursements for travel.</p>	<p>Ensure that employees obtain approval prior to traveling on City business, provide documentation for expenses, and complete the required reconciliation within two weeks of returning from travel.</p>
5	<p>The City of Lee's Summit Purchasing Policy requires documentation for bids and approvals for purchases above \$1,000.</p> <p>For purchases greater than \$10,000 a request for bid/proposal must be advertised. Any purchases above \$20,000 must be approved by the City Council.</p>	<p><b>Observation:</b> We reviewed 20 purchase orders above \$10,000 to ensure proper bidding and procurement processes were followed.</p> <p>We found one purchase order over \$20,000 that did not have evidence of City Council approval.</p> <p><b>Risk:</b> Increased expenditures due to lack of vendor competition. Non-compliance with purchasing policy.</p>	<p>For purchases over the threshold that requires City Council approval, ensure that the Purchasing department maintains City Council minutes showing approval.</p>

	Process/Procedure	Observation and Risk	Recommendation
6	<p>The City's Purchasing Card Manual requires that each P-Card holder sign a cardholder agreement and pass a training prior to being issued a P-Card.</p>	<p><b>Observation:</b> We selected 40 employees who were issued P-Cards to ensure the P-Card agreement form was signed and the P-Card quiz was completed and passed. We noted six exceptions:</p> <ul style="list-style-type: none"> <li>• 3 users did not have the signed P-Card user agreement on file;</li> <li>• 2 users had no record of taking the required quiz;</li> <li>• 1 user, which was a department card, has no individual responsible for taking the p-card test or signing the p-card user agreement. We requested the P-Card request form and were unable to obtain a signed form.</li> </ul> <p><b>Risk:</b> Unauthorized transactions.</p>	<p>Coordinate a review of current P-Card holders by each department to determine if the P-Card is necessary. Inactivate any unnecessary cards.</p> <p>As part of the review of current cards, require that P-Card holders sign and submit a new card holder agreement.</p> <p>Require the two users that have no record of taking the quiz to retake the training.</p> <p>On a semi-annual basis require P-Card users to take an online training and quiz.</p>
7	<p>The City of Lee's Summit Purchasing Policy requires documentation for bids and approvals for purchases above \$1,000.</p> <p>The state of Missouri requires that all transactions with elected officials above \$500 (per transaction) or \$5,000 (annually) require a bidding process. (MO 105.454.1)</p>	<p><b>Observation:</b> We reviewed all transactions involving City Council members and found the following:</p> <ul style="list-style-type: none"> <li>• One purchase occurred in FY 2016 using a p-card for \$1,170 without proper bidding procedures.</li> <li>• One purchase occurred in FY 2015 for \$768.00 without proper bidding procedures as required by Missouri State statute 105.454.1</li> </ul> <p><b>Risks:</b> Increased expenditures due to lack of vendor competition. Non-compliance with purchasing policy. Noncompliance with Missouri State statutes.</p>	<p>Ensure that requests for bids and proposals are documented and in line with the Missouri State statutes.</p>

	Process/Procedure	Observation and Risk	Recommendation
8	<p>The City of Lee's Summit Purchasing Card manual requires that all receipts be kept and submitted with the card user's transaction log.</p> <p>Transactions are approved prior to payment.</p>	<p><b>Observation:</b> We selected a sample of 40 P-Card transactions and found the following:</p> <ul style="list-style-type: none"> <li>12 transactions had no supporting documentation.</li> </ul> <p>Additionally, it was noted that the financial system does not require supervisory approval in the system prior to payment of the total monthly charges. The Finance department does not require approvals prior to paying the total purchase card balance for the City.</p> <p><b>Risk:</b> Unauthorized or inappropriate purchases.</p>	<p>Ensure that employees are submitting all receipts for purchases within the transaction log. Have employees scan receipts and keep an electronic log to submit with the transaction log.</p> <p>Require Supervisory Approval for P-Card transactions included in the monthly payment.</p>
9	<p>The City of Lee's Summit Accounts Payable procedures require that AP enters new vendors.</p>	<p><b>Observation:</b> We reviewed user access for nine individuals in the Finance department and noted the following:</p> <ul style="list-style-type: none"> <li>The Accounts Payable supervisor has the ability to enter new vendors and is an approver for checks being paid.</li> <li>When a new vendor is setup there is no supervisory approval required.</li> </ul> <p><b>Risk:</b> Unauthorized vendors could be setup within the system and payments could be processed to those vendors.</p>	<p>Remove the ability for the AP supervisor to add vendors. Alternatively, require Controller approval of vendors added by the AP supervisor.</p> <p>Require a departmental supervisory approval for all new vendors setup in the system.</p>

	Process/Procedure	Observation and Risk	Recommendation
10	<p>The City of Lee's Summit purchasing manual requires City Manager Approval on Sole Source purchase that range in amount from \$10,000 to \$19,999.</p>	<p><b>Observation:</b> We reviewed sole source justification forms for yearly and one-time sole source contracts for FY16 and FY17 (a total of 54 forms). We found that one form DARE merchandise for \$19,411 was not properly approved by the City Manager.</p> <p><b>Risk:</b> Unauthorized transactions.</p>	<p>Ensure that sole source justification forms are properly approved by all required parties.</p>

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## Exhibit E Process Improvement Opportunities

We noted the following process improvement opportunities during our review. Process improvements relate to the efficiency of a business process. In general, process improvement opportunities do not present internal control risk to an organization. However, City may want to consider these recommendations to improve its overall efficiency, as related to its purchasing and accounts payable processes.

	Observation and Risk	Recommendation																								
1	<p>Comprehensive Purchasing training is not formally required for individuals that take part in the Purchasing process.</p> <p>P-Card training is required for new P-Card holders, however, refresher training is not required.</p>	<p>Require periodic refresher Procurement training for employees that have access to create and approve purchase requisitions or hold P-Cards.</p>																								
2	<p>The ERP used by the City is capable of automatically creating a three-way match (purchase order, receipt, and invoice) and moving the transaction into a payment queue. The City does not fully utilize the functionality of the system to automate the payment process. See table below which shows that the majority of purchases flow through the Non-PO process workflow.</p> <table border="1" data-bbox="240 1276 1084 1549"> <thead> <tr> <th colspan="4" data-bbox="240 1276 1084 1318">% of Transactions</th> </tr> <tr> <th data-bbox="240 1318 537 1388">Year</th> <th data-bbox="537 1318 695 1388">Matched</th> <th data-bbox="695 1318 852 1388">Non-Matched</th> <th data-bbox="852 1318 1084 1388">Manual Reconciliation</th> </tr> </thead> <tbody> <tr> <td data-bbox="240 1388 537 1430">FY 2014</td> <td data-bbox="537 1388 695 1430">35%</td> <td data-bbox="695 1388 852 1430">64%</td> <td data-bbox="852 1388 1084 1430">1%</td> </tr> <tr> <td data-bbox="240 1430 537 1472">FY 2015</td> <td data-bbox="537 1430 695 1472">35%</td> <td data-bbox="695 1430 852 1472">63%</td> <td data-bbox="852 1430 1084 1472">2%</td> </tr> <tr> <td data-bbox="240 1472 537 1514">FY 2016</td> <td data-bbox="537 1472 695 1514">34%</td> <td data-bbox="695 1472 852 1514">65%</td> <td data-bbox="852 1472 1084 1514">1%</td> </tr> <tr> <td data-bbox="240 1514 537 1549">FY 2017 (Partial)</td> <td data-bbox="537 1514 695 1549">34%</td> <td data-bbox="695 1514 852 1549">64%</td> <td data-bbox="852 1514 1084 1549">2%</td> </tr> </tbody> </table>	% of Transactions				Year	Matched	Non-Matched	Manual Reconciliation	FY 2014	35%	64%	1%	FY 2015	35%	63%	2%	FY 2016	34%	65%	1%	FY 2017 (Partial)	34%	64%	2%	<p>After revising the purchasing thresholds for the City (see recommendation for Observation #1) require all departments to use the purchase order system.</p> <p>In conjunction with process improvement opportunity #1, retrain Department Heads and employees involved with purchasing to use the PO process.</p>
% of Transactions																										
Year	Matched	Non-Matched	Manual Reconciliation																							
FY 2014	35%	64%	1%																							
FY 2015	35%	63%	2%																							
FY 2016	34%	65%	1%																							
FY 2017 (Partial)	34%	64%	2%																							

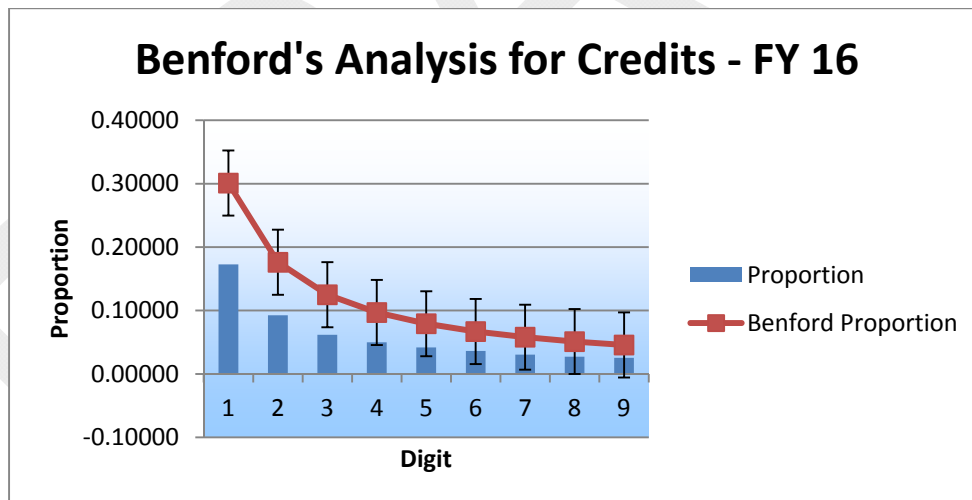
## Exhibit F Journal Entry and Disbursements Data Analysis Highlights

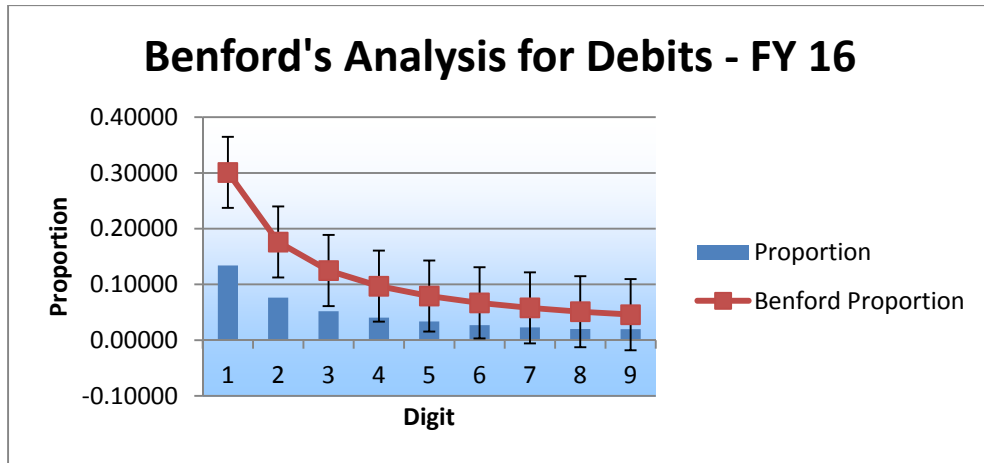
The Exhibits below provide examples of the Data Analysis performed as part of our review. These examples are not all inclusive of the work we performed, but provide a sample of the results of our data analysis for journal entries and disbursements.

- Test for Entry Data that is Out of Balance
  - We summarized the debits and credits and no exceptions were noted.

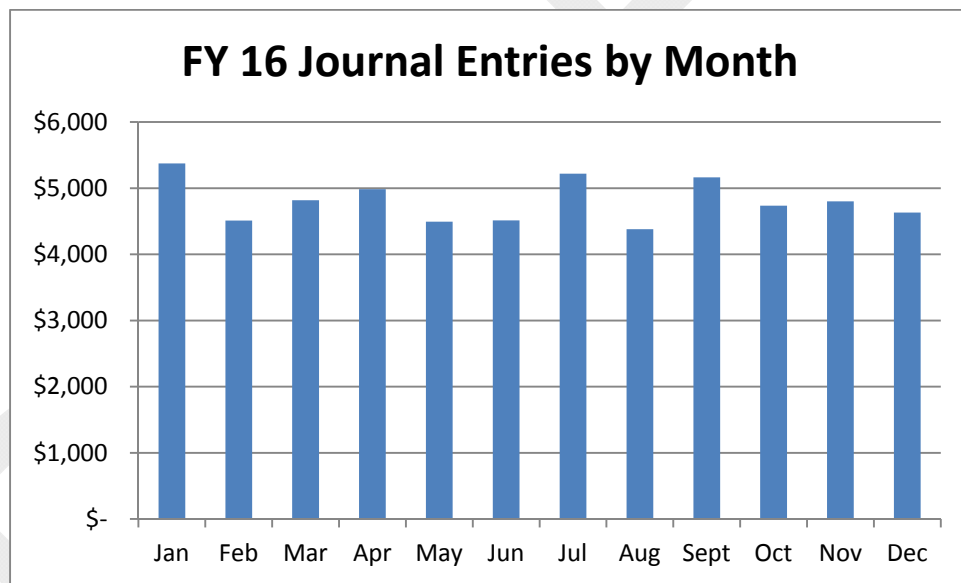
Journal Entries by Year				
Year	Debits	Count	Credits	Count
FY 2014	\$351,258,183	22,530	\$351,258,183	28,991
FY 2015	\$471,854,665	26,234	\$471,854,665	32,817
FY 2016	\$397,483,052	25,467	\$397,483,052	32,161
FY 2017 (Partial)	\$71,483,363	3,871	\$71,483,363	6,321

- Benford's Analysis for Debits and Credits for FY 2016. The charts below indicate that the journal entries are in line with the naturally occurring patterns for leading digits.

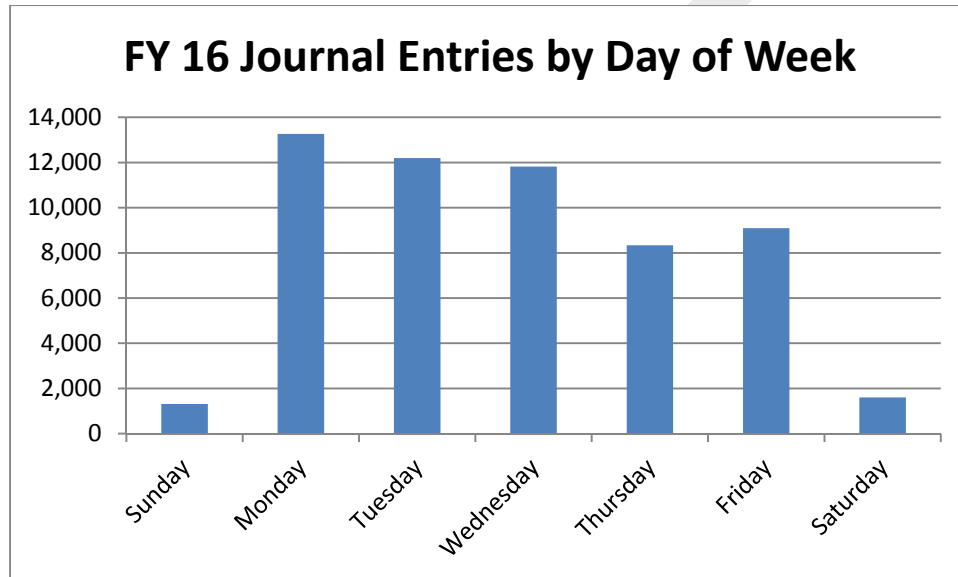




- Summarize FY 2016 by month and day to show journal entry trends.
  - The summary of journal entries by month did not show any outlying data.



- The summary of journal entries by day shows 1,315 entries on Sunday and 1,600 entries on Saturday.
  - When we reviewed the data with City personnel it was explained that journal entries for water occur through an automatic upload based on when individuals pay their bill. These entries accounted for 97% of the weekend entries, with the other 3% of entries occurring as individuals worked weekends to meet the demand of the work flow.

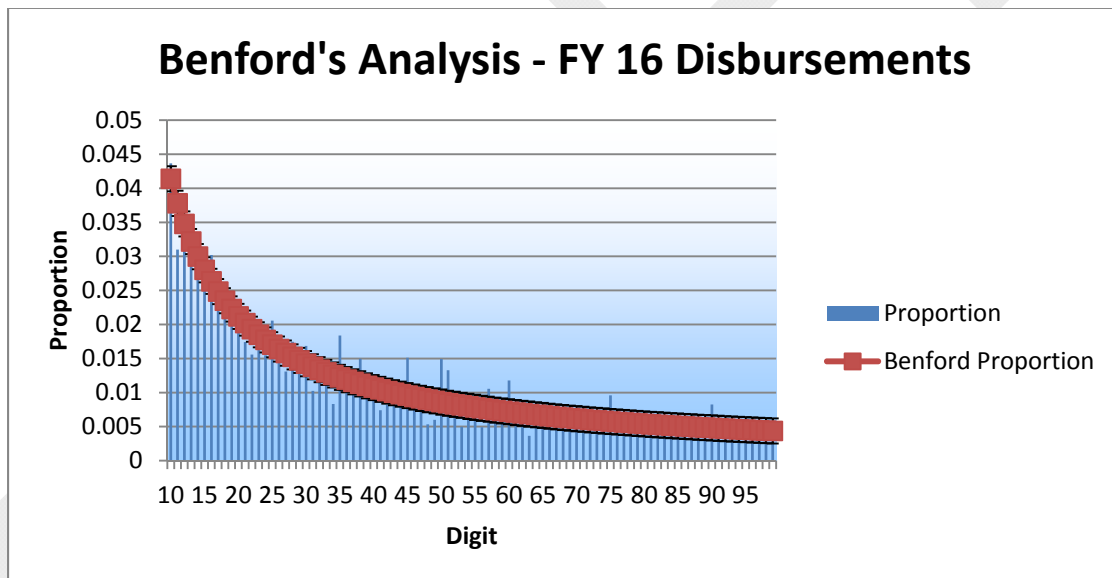




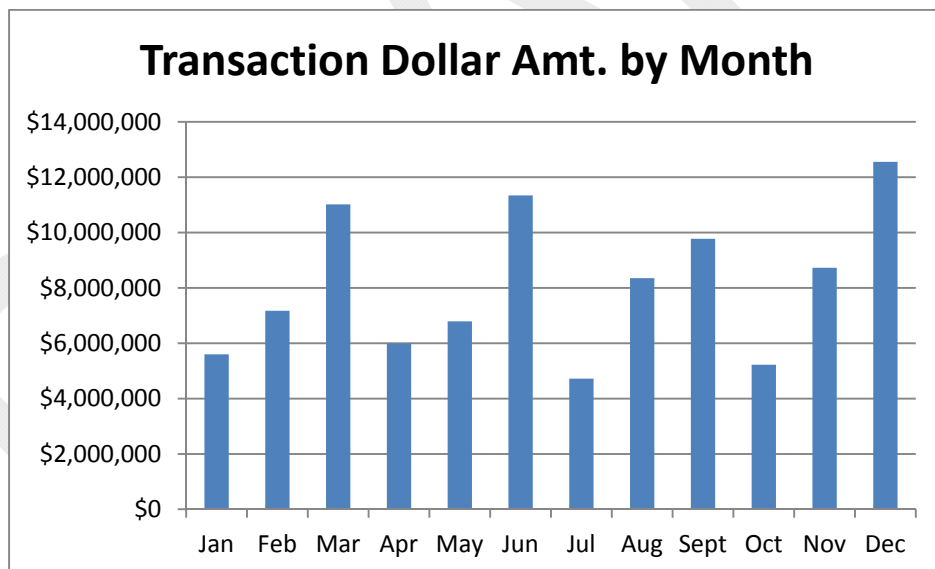
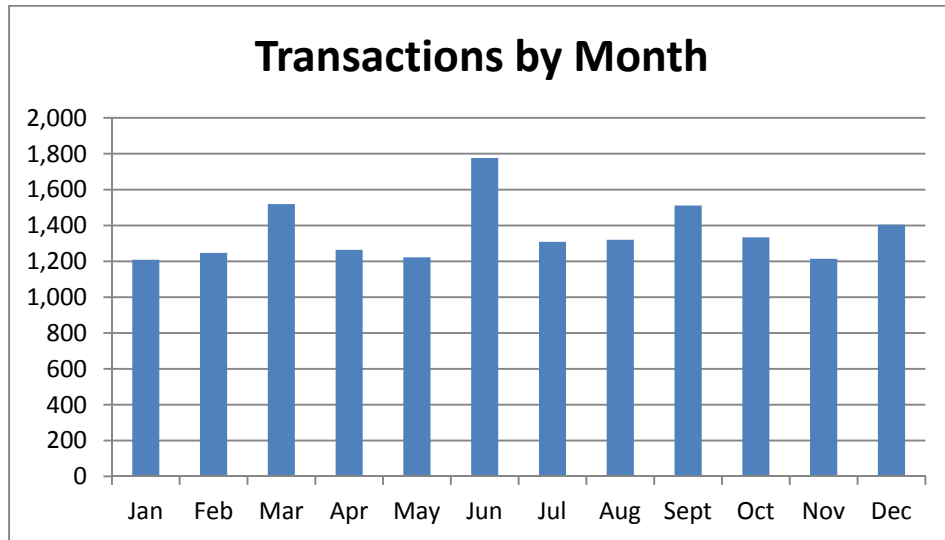
- Summary of disbursements by year. Note that this does not match the table in Exhibit B because that table shows only transactions above \$1,000.

Disbursements by Year		
Year	Total Dollars	Number of Transactions
FY 2014	\$89,883,911	15,801
FY 2015	\$75,357,957	16,021
FY 2016	\$97,275,286	16,329
FY 2017 (Partial)	\$25,706,982	4,052
<b>Total</b>	<b>\$288,224,137</b>	<b>52,203</b>

- Benford's Analysis for disbursements FY 2016. The charts below indicate that the journal entries are generally in line with the naturally occurring patterns for leading digits. We obtained explanations for any "proportion" that fell above the Benford line below.



- Summary of Fiscal Year 2016 data is shown below summarizing by month and day to show disbursement trends.
  - Disbursements by month showed that June had the highest total disbursements 1,776. This was due to year end journal entries occurring in June.



- Disbursements by day showed 95% of disbursements occurred on Wednesdays which is consistent with the City's weekly check run.
  - 6 disbursements occurred on Sunday 2/7/16, when the transactions were reviewed with City personnel it was determined that an employee worked Sunday to ensure the payments were entered and paid on the due date of 2/7/16, disbursements were approved by the appropriate employee prior to the entry on 2/7/16.

