

The City of Lee's Summit, Missouri

Consulting Engagement
Purchasing and Accounts Payable Processes
Summary Report

November 2016



LEE'S SUMMIT
MISSOURI



December 9, 2016

Mayor Randy Rhoads
City of Lee's Summit
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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"> • Benford's Analysis • Duplicate Payments • Round Numbers • Vendors Paid vs. Vendors in the Master File • Check Gaps • Payments Made on Weekends 	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"> • Benford's Analysis • Round Numbers • Payments Made on Weekends 	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"> • Vendor and Employee Address Match • Duplicate Employees • Duplicate Vendors 	<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"> • Benford's Analysis • Split Payments • Round Numbers • P-card Users Over Monthly Limits 	<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">• City Council member and Vendor Address Match• City Council Member Name and Vendor Name Match for Disbursements• City Council Member Name and Vendor Name Match for P-Card transactions	<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 RPOs.
- 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.