



**SOUTHWEST TREATMENT PLANT –
PURCHASING CARD REVIEW AND RELATED ACTIVITIES**

NOVEMBER 2014



December 2, 2015

Mr. Dan Wichmer, City Attorney
City of Springfield
840 North Boonville Avenue
Springfield, Missouri 65802

Dear Mr. Wichmer:

In conjunction with our overall engagement to provide internal audit and consulting services to the City of Springfield ("City"), we have completed our work related to the Southwest Treatment Plant's ("Plant") Purchasing Card ("P-Card") program. Our services were performed in accordance with the Statement of Work dated October 21, 2014.


The accompanying report includes an executive summary and project overview, a summary of transactions from January 1, 2011 through October 17, 2014, and a findings and recommendations document. Our work did not constitute an external audit, and accordingly, we are not expressing an opinion on the accounting records or financial statements of the City. In addition, since our work was more limited than would be necessary to provide an opinion on the system of internal accounting control taken as a whole, such an opinion is not expressed. Furthermore, the engagement did not include a detailed audit of transactions that would be required to discover all fraud, defalcations or other irregularities.

This report is intended solely for the information and use by the City and is not intended to be, and should not be, used by anyone other than these specified parties. At the City Attorney's direction, a copy of this report may be provided to the City's external auditors in connection with fulfilling their responsibilities. In addition, we understand that this report may be subject to Missouri Sunshine Laws, and accordingly, may be required to be disclosed to parties that did not agree to the scope of work performed.

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



Christina Solomon, CPA/CFF, CFE
Partner
Direct Dial Number: 314.290.3497
E-mail: christina.solomon@rubinbrown.com

NEC:
Enclosures

cc: Finance and Administration Committee
Mrs. Mary Mannix-Decker

Mr. Steve Meyer
Mr. Errin Kemper

CITY OF SPRINGFIELD
SOUTHWEST TREATMENT PLANT – PURCHASING CARD REVIEW
NOVEMBER 2014

Table of Contents

	Page
Executive Summary	1
Findings and Recommendations	3

CITY OF SPRINGFIELD
SOUTHWEST TREATMENT PLANT – PURCHASING CARD REVIEW
NOVEMBER 2014
EXECUTIVE SUMMARY

Project Objectives and Scope

We have completed our services related to the City of Springfield's Southwest Treatment Plant's Purchasing Card ("P-card") program. The objective of our work was not to report on, or substantiate, the potential misuse of City assets identified by the City and under investigation by the City of Springfield police department. Rather, the objectives of this engagement were to:

- Perform inquiries and analysis to aid the City in assessing the potential misuse of city-owned assets and funds at the Southwest Treatment Plant from January 1, 2011 through October 17, 2014;
- Identify existing policies and practices related to purchasing approval and authorization;
- Evaluate the compliance with existing policies;
- Develop recommendations that maximize risk mitigation based on optimal utilization of current resources.

The scope of our work included all P-card transactions and related activity from January 1, 2011 through October 17, 2014. Our tests included, but were not limited to:

- Interviews with various City and Environmental Services department personnel to gain an understanding of the key financial internal controls documented in existing policies and practices;
- Performing data analysis on the purchasing activity, including purchasing cards, of employees at the Southwest Treatment Plant, in an effort to identify errors or irregularities, including potentially duplicate, unauthorized, or improper transactions;
- Evaluation of the Southwest Treatment Plant's purchasing process/methods for proper segregation of duties ("SODs") and delegation of authority thresholds;
- On a sample basis, review supporting documentation and verify physical existence based on schedules of fixed assets, equipment or capital expenditures.

Findings and Recommendations

A Findings and Recommendations document containing the findings, associated recommendations and management's responses is included as part of this report (beginning on page 3). During the course of our work, the City provided us with transaction data and analysis related to certain purchases at the SWTP. RubinBrown performed data analysis queries on the transaction data and provided the results to the City.

The significant findings are summarized below:

- Lack of controls to identify questionable purchasing undertaken through collaboration of purchasers and reviewers.
- Limited visibility into the Plant's purchasing activities by Executive Management Team.

CITY OF SPRINGFIELD
SOUTHWEST TREATMENT PLANT – PURCHASING CARD REVIEW
NOVEMBER 2014
EXECUTIVE SUMMARY

- Decentralized procurement of goods shared across the operational units and across the City's departments resulting in a lost ability to consolidate purchasing and obtain more competitive pricing on goods being bought.
- Equipment lists are not being updated consistently, resulting in an inability to accurately track equipment that should be on site or equipment that may have gone missing.
- Large percentage of staff holding P-cards, some with minimal usage.

CITY OF SPRINGFIELD
SOUTHWEST TREATMENT PLANT – PURCHASING CARD REVIEW
NOVEMBER 2014
FINDING AND RECOMMENDATIONS

	Finding	Recommendation	Management Response
1	<p><u>Large number of Purchasing Cards</u></p> <p>Approximately 1 in 5 staff at the Southwest Treatment Plant (“Plant”) have been issued purchasing cards. The Plant has a dedicated parts and inventory clerk whose responsibility is the procurement of goods and equipment for the Plant.</p> <p>At present there are 9 active staff members with cards (historically, this count was 12 at a single point in time).</p>	<p>Centralize the procurement of goods and equipment through the current Parts and Inventory Clerk, removing those cards with minimal usage.</p> <p>It is understood that the Plant is in the process of hiring a second Parts and Inventory Clerk in order to separate the roles of procurement and inventory management.</p> <p>Assess the need for all of the issued purchase cards and cancel those cards which are unnecessary based on the annual review of the purchase card list and purchase limit review, which is being completed by the Finance department.</p>	<p>The Southwest Treatment Plant (SWTP) has taken measures in recent years to reduce the number of purchasing cards issued at the plant. Of the nine cards listed in this report, one of the cards with minimal use has already been removed. The SWTP is a 24 hr/365 day-a-year facility with a variety of different job functions and purchasing needs. Purchasing cards are an efficient means for making purchases, especially while traveling or purchasing materials on-line or over the phone. Extensive documentation and procurement procedures are required by our Finance department for every purchase made on a card. We have examined each purchasing card issued to determine where there are opportunities to eliminate cards while maintaining an efficient operation. We have also implemented the recommendation of formal procedures to register and inventory small equipment and supplies, as recommend in #4 below.</p>

**CITY OF SPRINGFIELD
SOUTHWEST TREATMENT PLANT – PURCHASING CARD REVIEW
NOVEMBER 2014
FINDING AND RECOMMENDATIONS**

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2	<p><u>Lack of visibility into Plant Purchasing</u></p> <p>There is currently no formal reporting to Environmental Services executive management on the purchasing activities of Plant operations staff other than the superintendent.</p> <p>Under the current review structure, purchasing card spend at the Plant does not undergo any form of secondary review for potential questionable purchases.</p>	<p>Implement a process for the secondary review of purchases at the Plant by Environmental Services executive management. While it is unreasonable that this should include all transactions, establishing a transaction threshold for this will significantly reduce the level of effort required while covering an acceptable level of the total spend at the Plant.</p> <p>We have provided outcomes of data analysis queries to the City, which may assist the City in reassessing their approval thresholds.</p>	<p>The Department of Environmental Services has implemented a process for secondary review of all purchases over \$750 as recommended.</p>

CITY OF SPRINGFIELD
SOUTHWEST TREATMENT PLANT – PURCHASING CARD REVIEW
NOVEMBER 2014
FINDING AND RECOMMENDATIONS

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3	<p><u>Potential loss of ability to obtain more competitive pricing for purchased goods</u></p> <p>Through our review of the purchasing spend, we noted several instances where we would expect a supplier contract to be established and purchases undertaken through a purchase order process. In some cases, a blanket purchase order may already exist, but may not be properly used.</p> <p>For example, the purchasing of lubricants. While the City's Public Works department would be purchasing lubricants in bulk, the Plant procurement personnel have undertaken this independently.</p> <p>This type of decentralized procurement process reduces the ability to consolidate purchasing power (e.g., volume discounts, price breaks, etc.) and obtain more competitive rates, and as a result, reduce the overall the City's operating expense. Additionally, some purchase activity is large enough over the course of a year that the purchase may have needed to be run through the City's competitive process.</p>	<p>Implement a City level analytical review of the major items being purchased by the Plant, the Environmental Services department, and other departments.</p> <p>Consider consolidating the purchasing of like products across each of the departments at a City wide level and use any existing blanket purchase orders.</p> <p>The consolidation of such could be executed through the use of a single City wide contract, blanket purchase order, or through the use of a preferred supplier listing. A preferred supplier listing would require periodical reviews to ensure it remains competitive and agreements remain transparent to the public.</p> <p>Examples of areas we would expect this to occur would include:</p> <ul style="list-style-type: none"> • Maintenance supplies such as tools; • Painting supplies; • Chemicals such as chlorine; • Lubricants and oils; • Construction supplies such as concrete, aggregate, lumber, fencing etc; and • Office equipment such as stationary, paper, etc. 	<p>The Department of Environment Services has met with staff to reinforce that they may be opportunities to consolidate frequent purchases with other departments to take advantage of City-wide contracts, blanket purchase orders, and preferred supplier listings whenever possible. Plant staff works very closely with the Division of Purchasing to ensure that they are taking advantage of all state and city contracts that may be available.</p>

CITY OF SPRINGFIELD
SOUTHWEST TREATMENT PLANT – PURCHASING CARD REVIEW
NOVEMBER 2014
FINDING AND RECOMMENDATIONS

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4	<p><u>Equipment register not being maintained effectively</u></p> <p>There is no procedure in place for the equipment list administrators to be notified when equipment is purchased or retired. As a result of the procurement of equipment being decentralized, the equipment list has become inaccurate. Issues identified include:</p> <ul style="list-style-type: none"> • Instances of incomplete records (e.g., missing information, such as brands, purchase dates, costs, etc.); • Equipment register not being updated when items are purchased or retired; • Potential duplicative items; • There are currently 140+ categories, some of which hold only one item which could be better categorized with similar items; • Items present which should not be recorded due to their nature. Examples of this are the exhaust fans within the bathrooms, locker rooms and kitchen. These types of items are low value, fixed to a building and are low risk of being stolen; • Assets, such as vehicles, are recorded within the equipment register. Such records typically would be maintained by Finance; • Items unable to be located however, they are still maintained in the register. 	<p>The Plant’s current equipment should be inventoried to provide a base line from which the future processes can be relied upon to provide an accurate image of equipment. This activity should take into consideration the City’s Financial Control Procedures in regards to cost, portability and potential for theft when classifying “equipment”.</p> <p>The most effective option for continuing to maintain an accurate register would be if the City chooses to centralize all purchasing activities (Recommendation 1). As the administrators of the equipment register are the Parts and Inventory Clerks, this provides minimal risk that equipment would be purchased without the knowledge of the administrators.</p> <p>The alternative, and less desirable option (Recommendation 2), would be to implement a process for which all card holders are required to notify the equipment administrators of all equipment purchases. This may be supplemented by a review of all purchases by the administrators to identify items which they may not have been notified about.</p> <p>Either process however, would require all staff to notify the equipment register administrators when items are identified as missing, retired or sold. In addition to this, a periodic process for reviewing equipment on site should be established to identify items which may not have been updated when their status changed. This could be undertaken through the use of the categories, with higher risk items reviewed more regularly and those of low risk/value, audited less frequently.</p>	<p>The SWTP works with the Finance department to maintain a comprehensive inventory of capital assets such as large equipment, and vehicles. The SWTP also keep an inventory of all parts and supplies that go through central purchasing. Based on the findings of this report, the SWTP has developed a formal procedure to ensure that small equipment, such as hand tools and equipment used for grounds maintenance, as well as supply purchases are tracked within the correct inventory. In addition, we have conducted a complete inventory of all small equipment and developed a procedure to maintain this inventory on an annual basis.</p>