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Hannibal Board of Public Works Forensic Analysis Conclusion

In the summer of 2019, Hannibal Board of Public Works' (HBPW) management became aware of a potential misuse of utility funds and alerted the Board of Directors. These allegations were taken seriously. Two independent personnel investigations were conducted and Brown Smith Wallace (BSW) was subsequently retained to conduct a forensic analysis of financial transactions.

The forensic analysis covered operational expenditures totaling roughly \$240,000,000 spanning five and a half years representing approximately 40,000 individual transactions and found that \$12,408 was potentially for improper personal spending on HBPW utility-issued credit cards. The vast majority of this was by employees who are no longer employed by the utility. Current employees' potential personal spending totaled only \$867, which was accidental in nature. Disciplinary actions were taken. There is no known evidence to suggesting inappropriate spending by current employees.

In August 2019, HBPW implemented changes to the credit card policy to clarify when credit card use is appropriate, which individuals have a critical business need for a credit card, and what documentation should be obtained when a credit card is used. The new credit card policy reduced the number of cards in circulation and added a multilevel review process to reduce the chance of inappropriate spending in the future. The purchasing and travel policies were also revised and strengthened in August and September of 2019.

HBPW staff provided transaction details for all purchases showing vendor, amount, date and the employee who conducted the purchase. An independent, internal review process was recently implemented to review all transactions to verify purchasing policy guidelines are followed and to ensure all invoices and receipts are archived in the accounting system. The forensic analysis identified areas where the utility must change. Improvements have been made based upon BSW recommendations to help ensure the types of issues identified by BSW do not occur in the future. The HBPW Board of Directors is confident in the utility's future ability to serve our customers with integrity.

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For more information please visit www.hannibalbpw.org

FORENSIC ACCOUNTING REPORT

MARCH 10, 2020



Hannibal Board of Public Works



THE FIRM FOR GROWTH.®



March 19, 2020

Hannibal Board of Public Works
Attn: Mr. Stephan Franke
3 Industrial Loop Drive
P.O. Box 1589
Hannibal, MO 63401

Dear Mr. Franke:

On August 22, 2019, the **Hannibal Board of Public Works** (“**HBPW**” or the “**Entity**”) engaged **Brown Smith Wallace LLP** (“**Brown Smith Wallace**”) to assist **HBPW** with forensic accounting services. At your request, a team of forensic accountants and analysts from **Brown Smith Wallace** performed a forensic accounting analysis of certain books and records of the **Hannibal Board of Public Works**. This report presents our observations and recommendations based on the results of our procedures.


Nature of the Information

The information presented in this report is based on discussions with, and information provided by, the **Entity** and its management team (“**Management**”). Aside from the sample documentation pulled as part of our analysis, we have not independently verified the information gathered or contained in this report and, accordingly, our procedures do not constitute an audit, review, or compilation of the information provided. As a result, we provide no form of assurance on the completeness or accuracy of **HBPW** information. Our analysis was directed to those business activities, operational areas, and financial information that we deemed appropriate based upon our interpretation of the facts and circumstances at hand.

This engagement was performed in accordance with the American Institute of Certified Public Accountants’ (“**AICPA**”) Statement on Standards for Consulting Services No. 1 (“**SSCS1**”).

Use of the Report

Due to its nature, and the confidential nature of the information contained herein, this report is intended only for the **Hannibal Board of Public Works**; specifically, for use solely by the **Entity’s Board of Directors**, and its professional advisors. This report is based only on the documentation provided to the **Brown Smith Wallace** forensic accounting team. We have no responsibility to



update this report or our analysis for events and circumstances that occur after the date of this report.

Sincerely,

Brown Smith Wallace, LLP
Brown Smith Wallace, LLP
St. Louis, Missouri

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Executive Summary

Brown Smith Wallace LLP was engaged to perform a forensic accounting analysis of certain books and records of the Hannibal Board of Public Works. During our analysis, the Brown Smith Wallace forensic accounting team received over 4,700 files and analyzed over 40,000 credit card and accounts payable transactions that occurred from May 19, 2014, through September 27, 2019. These transactions equated to over \$240,000,000 of spend for the 64-month period. A summary of our objectives and observations are as follows:

1. Objective: Determine whether Entity funds were used by current and/or former employees for personal gain and if so, ascertain the total amount of spend that occurred.

- a. Brown Smith Wallace Observation 1: Based upon our analysis of the credit card documentation provided to us \$12,408, or 3.8% of the selected transactions, was spent by HBPW employees on personal purchases via credit cards owned by the Entity.

HBPW Management Response to Objective 1, Observation 1:
"HBPW management review concluded that of the items selected for testing by Brown Smith Wallace, \$6,027 of credit card spending was for personal purchases. Of this, approximately 86% was conducted by employees who have since left the HBPW. The personal spending conducted by current employees, totaling \$867, was determined to be accidental in nature."

- b. Brown Smith Wallace Observation 2: There was \$75,296, or 22.9% of the selected credit card transactions, for which HBPW was unable to provide payment support documentation.¹ Due to the fact that documentation was not provided, at this time we are unable to determine whether the \$75,296 contains any additional personal purchases.

HBPW Management Response to Objective 1, Observation 2:
"Though receipts were not available for all transactions, the HBPW does have transaction detail for all purchases showing vendor, amount, date and the employee who made the purchase. HBPW management has implemented a rigorous process of independent internal review of all credit card transactions to ensure that all credit card receipts are collected in a timely manner and digitally archived"

¹ For credit cards, the Brown Smith Wallace forensic accounting team requested copies of the original receipts documenting the purchase, and for accounts payable items, we requested invoices, and if available, any accompanying purchase orders.

in the HBPW's accounting system. HBPW management concluded that of the \$75,296 of credit card transactions for which receipts could not be located, only \$6,438 of the transactions touched on eight or more risk scorecards. Further review by HBPW management of these "high risk" transactions did not reveal any unusual spending patterns or vendors."

- c. **Brown Smith Wallace Observation 3:** After reviewing the invoices, purchase orders, and other support requested and provided by HBPW for the accounts payable transactions, there didn't appear to be any personal spend that occurred via the Entity's accounts payable process. However, there was \$12,286, or 0.1% of the selected transactions, of accounts payable spend for which HBPW was unable to provide payment support documentation. Therefore, because documentation was not provided, we are unable to determine whether the \$12,286 contains any personal expenditures.

HBPW Management Response to Objective 1, Observation 3: "HBPW management reviewed all of the accounts payable transactions for which invoices could not be located and concluded that all of the vendors and item descriptions were reasonable. HBPW management concluded that no significant personal spending occurred in the accounts payable items selected by Brown Smith Wallace for testing."

2. Objective: Determine whether Entity policies and procedures for reviewing and approving expenditures were followed, and if not, ascertain the total amount of out of policy spend that occurred.

- a. **Brown Smith Wallace Observation 1:** According to the Entity's written policies and procedures, \$215,100, or 65.5% of the selected credit card transactions and 19.1% of the \$1,124,145 of total credit card spend, were spent outside of policy.² This figure includes the \$75,296 mentioned above for which documentation was not provided because it is also a violation of written policy to not have payment support for a transaction.

HBPW Management Response to Objective 2, Observation 1: "In August 2019 HBPW management implemented changes to the credit card policy to make it clear when credit card use is appropriate, which individuals have a critical business need for a credit card, and what documentation and information should be

² Approved written policies and procedures serve as the guidelines and rules that outline how an organization conducts business. The Brown Smith Wallace forensic accounting team only tested credit card and accounts payable transactions against the Entity's written travel, credit card, and procurement policies.

obtained when a credit card is used. In conjunction with this, 33 credit cards were cancelled leaving 7 cards still in circulation at the time the policy was updated. Those cards are held by individuals deemed to have a critical business need for a credit card. In addition, 5 new credit cards were authorized which are to be issued by the Administrative Assistant on a “check-in/check-out” basis for employees who are travelling. All employees who have company-issued credit cards have been trained on their appropriate use. Further, HBPW management has implemented a process of independent internal review of all credit card transactions to ensure spending is within policy guidelines.”

- b. Brown Smith Wallace Observation 2: We observed that \$12,161,289, which represented 98.6% of the selected transactions and 5.0% of the \$242,607,035 of total accounts payable spend, appeared to not be processed in compliance with HBPW policy. This figure includes the \$12,286 mentioned above for which documentation was not provided because it is also a violation of written policy to not have payment support for a transaction. Upon further review, the majority of the out of policy accounts payable spend appeared to be reasonably necessary for HBPW operations. However, we classified it as out of policy due to an overly broad and generic purchasing policy. The out of policy spend – which primarily included purchased power, bond payments, City of Hannibal transfer fees, and water treatment supplies – was classified as out of policy primarily due to:
- i. Lack of documented General Manager approval;
 - ii. Lack of a purchase order; and/or
 - iii. Lack of supervisor approval.

HBPW Management Response to Objective 2, Observation 2: “HBPW management would like to emphasize Brown Smith Wallace’s conclusion that the majority of accounts payable spending outside of policy related to non-discretionary items like sales taxes, transfer fees, construction projects, bond payments, etc. HBPW management is in the process of reviewing the purchasing policy to more clearly delineate when purchase orders are required and to ensure that guidance exists for all types of spending. HBPW management agrees with Brown Smith Wallace’s conclusion that the purchasing policy was overly broad. The policy, when created, was intended to create structure for discretionary spending for items such as tools, equipment, materials, etc., and it was not intended to require purchase orders for each transaction made under non-discretionary contracts. Further, HBPW management has implemented a process of independent internal

review of all accounts payable transactions ensure spending is within policy guidelines.”

3. Objective: Determine whether the Entity’s current policies and procedures related to spending are adequate, and if not, provide recommendations for improving policies and procedures.³

- a. Brown Smith Wallace Observation 1: Based upon the results of our analysis, we believe the HBPW policies and procedures are inadequate, and need to be revised and strengthened. We recommend that both the City of Hannibal and HBPW undergo a full fraud risk assessment to determine which parts of each organization are most susceptible to fraud, and to develop a plan to minimize that risk. Additionally, we recommend HBPW move from an internal credit card system – where the Entity issues credit cards to employees – to an external credit card system – where the Entity reimburses employees for Entity related expenditures made on personal credit cards. If the Entity elects not to move to an external credit card system, then we recommend HBPW work to strengthen its existing policies as is detailed in the “Observations and Recommendations” section of this report. Irrespective of which course of action HBPW takes, we recommend at a minimum annual testing of the Entity’s policies and procedures by an independent third-party, to ensure proper functionality, segregation of duties, and to restore internal credibility and public trust.

*HBPW Management Response to Objective 3, Observation 1:
“HBPW management revised and strengthened the credit card, purchasing and travel policies in August and September of 2019. HBPW management is reviewing these policies in light of the Brown Smith Wallace report and will adjust them as deemed appropriate. Further, HBPW management will be reviewing all policies on an annual basis. HBPW Board and management will consider conducting a full fraud risk assessment, which may be done in conjunction with other City departments.”*

The objective, scope, methodology, observations, and recommendations of our forensic accounting analysis are further detailed throughout the remainder of this report.

³ Brown Smith Wallace LLP was not engaged to, and did not, perform a full analysis of the Entity’s policies and procedures. However, even though it was not part of our original scope, we did analyze some of the Entity’s policies and procedures, especially those related to spend. We offered to provided recommendations and best practices where deficiencies were noted, or improvements could be made.

Background

The Hannibal Board of Public Works is a non-profit, municipally owned utility of the City of Hannibal, Missouri (the “City”). Established in 1903, HBPW provides electric, water, and sewer service to residents living within the City, and as of June 30, 2019, according to the audited financial statements, served approximately 8,782 customers. The HBPW duties also include management of the City’s electric distribution system, water treatment plant, water distribution facilities, wastewater treatment plant, sewer collection system, underground storm-water drainage system, and maintenance of Bear Creek dam. The HBPW is governed by a City-appointed board of directors, currently composed of four individuals, that serve four-year terms. According to the organizational chart provided by HBPW, the Entity’s 70 employees are arranged in five different departments as follows:



According to the audited financial statements, as of the year ended June 30, 2019, HBPW had total assets of \$108,778,106, total liabilities of \$39,999,437, and a positive total net position of \$68,172,733. Also, as of the year ended June 30, 2019, HBPW had total operating revenues of \$35,712,919 and a net income of \$2,699,428, which was down \$2,155,681, or 44.4%, from the prior year’s net income of \$4,855,109. The Entity realized an increase in net cash position of \$10,803,219 and \$2,021,592 for the years ended June 30, 2019, and June 30, 2018, respectively. The Entity, while owned by the City, issues standalone audited financial statements. Wade Stables PC, with offices in Hannibal, Missouri; Quincy, Illinois; O’Fallon, Missouri; and Troy, Missouri; is the Entity’s current auditor, and has been the Entity’s auditor since at least 2009.

The HBPW operates three locations. A main office, located at 3 Industrial Loop Drive, that consists of offices and an equipment yard, and two treatment plants, a water treatment plant located at 1 Riverview Park Road and a Wastewater treatment plant located at 700 South Arch Street, all located in Hannibal, Missouri.

Scope of Engagement

Objectives, Scope and Methodology

The **objective** of this forensic accounting analysis was to analyze the books and records of HBPW and determine the following:

1. Whether Entity funds were used by current and/or former employees for personal gain and if so, the total amount of spend that occurred.
2. Whether Entity policies and procedures for reviewing and approving expenditures were followed, and if not, the total amount of out of policy spend that occurred.
3. Whether the Entity's current policies and procedures related to spending are adequate, and if not, provide recommendations for improving policies and procedures.⁴

The **scope** of this analysis included analyzing various HBPW books and records⁵ for approximately a 5-year period, as requested by HBPW, and included transaction data from May 19, 2014, through September 27, 2019.

This analysis was conducted by various individuals from our firm, Brown Smith Wallace LLP, with assistance from the HBPW Director of Finance and his team. After many discussions with the Entity's board, in addition to our review of the internal affairs investigation performed by the Hannibal Police Department, it was determined that we should focus our analysis in two key areas: credit card expenditures and accounts payable. Upon receiving requested documentation, the 20 person Brown Smith Wallace forensic accounting team – composed of Certified Public Accountants (CPAs), Certified Fraud Examiners (CFEs), Certified Internal Auditors (CIAs), Chartered Global Management Accountants (CGMAs), as well as others – spent approximately 20 weeks analyzing over 4,700 files consisting of over 800,000 rows of data. This data represented over 120 gigabytes (GB) of information and over 40,000 financial transactions. Throughout our analysis, the Brown Smith Wallace forensic accounting team regularly communicated with the HBPW Management team and its Board of Directors, which included, but was not limited to: face-to-face meetings in Hannibal, Missouri; telephone conversations; Skype meetings; and weekly update meetings.

⁴Ibid.

⁵While the Brown Smith Wallace forensic accounting team did analyze various books and records provided by the Entity, most of the team's analysis was performed on the Entity's historical credit card and accounts payable spend.

As shown below, our **methodology** for completion of the forensic analysis included executing four main steps, each with various sub-steps.



Each step and sub-step are described in more detail in the following sections.

STEP 1: Project Scope and Data Gathering

Attended Kick-Off Meeting in Hannibal, Missouri

On August 21, 2019, Bryan Graiff, CPA/ABV/CGMA, CVA, CFE, CM&AA, and Jason Buhlinger, CPA, CFE, CVA, travelled to Hannibal to learn the background of the suspected issues and to meet members of HBPW. The meeting was held at HBPW's main office (3 Industrial Loop Road, Hannibal, MO 63401), and included Stephan Franke, HBPW board member; Abraham Gray, HBPW Finance Director; Beverly Stewart, HBPW Human Resource Administrator; Lt. Jennifer Grote of the Hannibal Police Department; Carrie Peters, CPA, of Wade Stables PC; along with a few other employees of HBPW.

During the meeting, the Brown Smith Wallace team members were able to gain an initial understanding of the HBPW employees and their roles, the accounting software utilized by HBPW, the credit card provider, the total number of credit cards outstanding, a history of the suspected issues, and an overview of the internal affairs investigation performed by Lt. Grote. The information learned during this initial meeting was the genesis for our first document request list.

Prepared Initial Document Request List

On August 26, 2019, the Brown Smith Wallace forensic accounting team issued its preliminary document request list. The list included, but was not limited, to the following items:

1. Copies of all written corporate policies/control documents (including current and non-current policies) that have been in place at the Entity from June 30, 2014, through the present.
 - a. Additionally, copies of all City laws/ordinances, policies and procedures related to fiscal activities (procurement, accounts payable, procurement cards/credit cards, expense reimbursements) that have been in place from June 30, 2014, through the present.
2. Organization chart containing all entities, departments, and key personnel.
3. Chart of accounts with a description of each account.
4. Internally generated financial statements including Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows for the years ended June 30, 2015, 2016, 2017, 2018 and 2019 (in both Microsoft Excel and PDF format).
5. Any management comments received from Wade Stables, PC, related to the years ended June 30, 2015, 2016, 2017, 2018.
6. Annual detailed trial balances, by account, for the Entity from June 30, 2014, through the present (in both Microsoft Excel and PDF format).
7. Annual general ledgers for the Entity from June 30, 2014, through the present (in both Microsoft Excel and PDF format).

8. All bank reconciliations performed by the Entity for the period June 30, 2014, through the present.
9. **PDF** copies of all bank account statements for all accounts in the name of the Entity (for both active and inactive accounts) going back to June 30, 2014.
 - a. In addition to the bank account statements, we also requested electronic copies of cleared checks written from the Entity's accounts from June 30, 2014, to the present. Oftentimes copies of cleared checks can be found within an online banking platform if not kept on file by the Entity.
 - b. A Microsoft Excel file containing transaction detail for all the Entity's bank statements (for both active and inactive accounts) going back to June 30, 2014.
10. **PDF** copies of all credit card statements for the Entity's corporate credit card program for all employee accounts (for both active and inactive employees) going back to June 30, 2014.
 - a. A Microsoft Excel file containing transaction detail, separated by each employee, for all the Entity's credit card statements going back to June 30, 2014.
11. Copies of all statements (and supporting documentation) going back to June 30, 2014, for the Entity's various charge accounts set up with local vendors (including current and non-current vendor relationships).
12. Copies of all sundry reports (along with all supporting documentation) submitted from June 30, 2014, through the present.
13. A summary listing of the Entity's annual purchases by vendor from June 30, 2014, through the present (in both Microsoft Excel and **PDF** format).
14. A listing of all vendor changes from June 30, 2014, through the present.
15. A listing of all vendors (both current and inactive) containing each vendor's mailing address and shipping address(es) from June 30, 2014, through the present (in both Microsoft Excel and **PDF** format).
16. Monthly employee registers going back to June 30, 2014, containing the name, hire date, and address of each of the Entity's employees (in both Microsoft Excel and **PDF** format).
17. Backup copies of employee emails (Inbox, Deleted Items/Trash, and Sent Items) from June 30, 2014, through the present.
18. A listing of all known residential home addresses used by certain employees during their respective employment with the Entity.

Received, Organized and Analyzed Initial Set of Documents

From September 3, 2019, through September 23, 2019, the Brown Smith Wallace forensic accounting team received, organized and analyzed the initial set of over 2,400 documents provided by HBPW. Documents were transmitted to Brown Smith Wallace using a shared portal where each party could easily, and securely, upload and download electronic information. After analyzing the initial documentation, a follow up discussion was set up with HBPW to obtain clarification in certain areas and to ask for additional information.

Followed Up and Discussed Questions from Initial Set of Documents with HBPW

On September 24, 2019, the Brown Smith Wallace forensic accounting team walked through a list of follow up questions with Abraham Gray, Finance Director at HBPW; Stephan Franke, HBPW board member; and Matt Jones, Senior IT Specialist at HBPW. During our discussion, the Brown Smith Wallace team was able to obtain further clarification on the Entity's travel policy, purchase order (PO) policy, credit card transactions, vendor charge accounts, sundry reports, vendor purchases, vendor change log, and employee registers. During this discussion, the Brown Smith Wallace forensic accounting team assessed that additional files were needed and the HBPW team agreed.

Received Additional Documentation Based Upon Discussion with HBPW

The Brown Smith Wallace team received documentation based upon the discussion above, and immediately moved into the data integrity validation part of the engagement.

Pulled Credit Card Data via Online Access Provided to Brown Smith Wallace by HBPW

The Brown Smith Wallace team also received access from Entity Management to log in and pull historical credit card detail through the US Bank website. On October 2, 2019, the Brown Smith Wallace team logged onto the US Bank website and pulled 7,872 credit card transaction details that occurred from July 30, 2014 to August 29, 2019.

*STEP 2: Data Validation**Performed Data Integrity Validation (DIV) Tests on all Files Received*

As previously indicated, the Brown Smith Wallace forensic accounting team realized early on in its analysis that the scope of this engagement involved a large amount of data that needed to be synthesized, segregated, sampled and reviewed. As such, the Brown Smith Wallace forensic accounting team used data analytics to assist with its work. The data analytics process generally involves the use of software, in our case ACL,⁶ to identify trends and relationships in large volumes of data. We used ACL and data analytics to synthesize the data which included, but was not limited to, the Entity's vendor change log, credit card detail, invoice history, purchase orders, sundry report, travel log, and vendor master file. This approach allowed us to perform the most thorough analysis possible in the most cost-effective manner.

When performing data analytics, the first step in the process, generally after the source files have been requested and received and are understood by the data analytics team, is to perform data integrity validation, or DIV. DIV is a critical first step as it helps ensure the underlying data in each file provided is as accurate as possible. It's important to keep in mind that the Brown Smith Wallace team was not hired to opine on the underlying data provided to it by HBPW, as would be typical in a financial audit scenario. Conversely, the Brown Smith Wallace team used data integrity validation to get comfortable with the fact that the data appeared to be as complete and accurate as possible. After importing the source data provided by HBPW into

⁶ ACL stands for "audit command language."

ACL, the Brown Smith Wallace forensic accounting team performed the following data integrity procedures to assist with its analysis:

1. **Verify:** Used to identify any unexpected data errors/import issues.
2. **Stats:** Used to determine if highest/lowest value and/or if oldest/newest date is reasonable.
3. **Count:** Used to confirm that the source data has the same record count as the file.
4. **Total:** Used to confirm that the source data has the same totals as the file and that the totals appear reasonable.
5. **Blank:** Used to identify blank fields for follow up with Management to determine if blank fields are expected.
6. **Class:** Used to consider what entries would be expected in the fields summarized, and if summary results are not as expected, whether data is missing.
7. **Dup:** Used to identify duplicate combinations.
8. **Gaps:** Used to identify gaps in field values.

The above listed data integrity procedures were performed on the files below, as needed:

1. **File: Vendor Change Log**
 - **File Description:**
 - Listed changes and creation dates made by **HBPW** employees to the vendor master file. The file showed the vendor **ID**, user **ID**, date and time of the change, the screen that was changed, the transaction type, the field that was changed, the old value and the new value.
2. **File: Credit Card Detail**
 - **File Description:**
 - Listed credit card transactions made by **HBPW** employees from July 30, 2014, to August 29, 2019. Some of the notable information provided by the file, for each transaction, included: employee name, account number, transaction date, posting date, cycle close date, transaction amount, source currency, sales tax, reference number, merchant category code (**MCC**)⁷ and description, merchant name, merchant city, and merchant state.
3. **File: Invoice History**
 - **File Description:**
 - Listed the invoices generated by each of the Entity's vendors from May 19, 2014, to September 27, 2019. Each row of information – which represented one invoice – included: vendor **ID**, vendor name, invoice number, date, transaction type, invoice total, purchase order number, general ledger post date, status, payments applied, credits applied, amount remaining, last payment date, and check/transaction number.

⁷ According to Citibank, "MCCs are used to identify the type of business in which a merchant is engaged."

4. File: Purchase Orders

- File Description:
 - Listed the purchase orders generated by HBPW from July 2, 2014, to September 24, 2019, and for each purchase order included: purchase order number, purchase order description, status, purchase order creator, date, estimated cost, vendor ID, vendor name, location, and buyer.

5. File: Sundry Report

- File Description:
 - Per Entity Management, when an employee uses an Entity issued credit card to purchase a personal item, or to purchase a retired asset owned by the Entity, the employee is supposed to reimburse HBPW and a sundry request is issued by the Entity. This report was a list of the sundry reports issued by the Entity. Each sundry report included: account number, name, transaction type, date, description, amount, invoice number, period, status, due date, and user.

6. File: Travel Training Log

- File Description:
 - Listed each time a HBPW employee traveled for Entity paid training. The log included the name of the employee traveling, the employee's department, the beginning and ending date of the travel, location, sponsor, topic, whether a hotel room was reserved, and the training hours received by the employee for attending. There were over 900 training events listed in the travel training log on or after July 1, 2014.

7. File: Vendor Master File

- File Description:
 - Listed the system details for each vendor including vendor ID, vendor type, name, status (active/inactive), and address (street, city, and state).

Followed Up with Additional DIV Questions for HBPW

After the Brown Smith Wallace forensic accounting team performed its data integrity validation procedures, another lengthy series of new and follow up questions, many accompanied by screenshots, were prepared and sent to the HBPW team on October 3, 2019, for explanation.

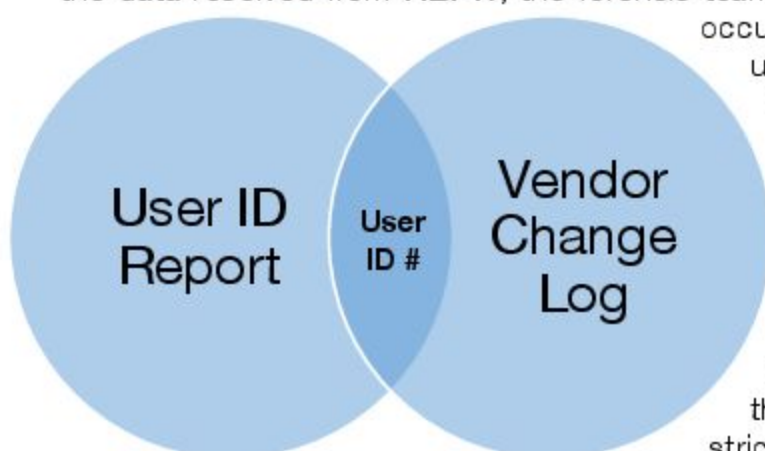
Received and Reviewed DIV Responses from HBPW

On October 4, 2019, the Brown Smith Wallace team received answers to its questions along with two additional files that were uploaded to the OneDrive portal.

Performed “Joins” of Files

After the Brown Smith Wallace forensic accounting team was able to validate the integrity of the data received from HBPW, the forensic team began joining files and data. Joining data

occurs when two different tables are connected using a common field, and data joins are instrumental when comparing data from various sources. For example, the Brown Smith Wallace team was able to determine the name of each employee that made changes to vendor account details by comparing the user ID listed in the vendor change log to the user ID listed in the user ID report provided by HBPW. This allowed the Brown Smith Wallace team to take a strictly numerical field, showing only each



employee's ID in the vendor change log, and turn it into a meaningful field by pulling in the employee's name based upon the user ID that was present in each table. File joins such as this were created more than 20 times in this step alone, across many different files within ACL, to ensure the team would be able to perform the desired objective tests which are discussed in the next section.

Reviewed Internal Policies and Procedures for Testing Consideration

In addition to comparing various data tables from one source to another source, the Brown Smith Wallace forensic accounting team also compared the transaction data against HBPW's internal policies and procedures that govern spending. As stated previously, the Brown Smith Wallace team was not engaged to perform a full analysis of the Entity's policies and procedures. However, as the Brown Smith Wallace team went through the transaction detail, we made note of out of policy spend surrounding credit card spend, travel spend, and the purchasing process. Below are a few notable excerpts from the policies reviewed by Brown Smith Wallace, many of which provided the basis for our testing against the policies.

1. Policy: Purchasing Process

- a. Department Covered: All Departments
- b. Originated/ Revised History: Originated: February 17, 2015
- c. General Guidelines and Process:
 - i. "Whenever feasible, all HBPW purchases are to be placed through our internal Purchasing Agent or, in his/her absence, through that individual's backup. Supervisors and employees are encouraged to provide the purchasing agent with as much information as possible regarding the items to be purchased, such as quality, quantity, technical specifications, etc."
 - ii. "It is understood that in certain situations employees and supervisors will need to initiate purchases without utilizing the Purchasing Agent. For example, maintenance employees will need to purchase small items and

tools to complete a job, the administrative assistant will need to purchase travel arrangements and supervisors may need to purchase goods and services in times of emergency. However, it is anticipated these will be the exceptions to the general process and will only occur on a limited basis. Receipts and other documentation for these purchases (including supervisors' approval and general ledger account) should be provided to the accounts payable clerk on at least a weekly basis. A 'confirming' purchase order will be prepared for these purchases that were made as an exception to the general policy."

- iii. "All purchases over \$1,000 require a purchase order to be prepared by the Purchasing Agent and approved by the Director of Operations, and purchases over \$5,000 require a purchase order and approval by the General Manager. If possible, these approvals are to be obtained in advance of the goods/services being purchased. Purchases that involve an annual contract or a quotation process require the involvement of the Purchasing Agent. Purchases less than \$1,000 will be initiated by the Purchasing Agent whenever possible but do not require a purchase order. Splitting orders to avoid the purchase order threshold will be considered a violation of this policy."

d. **Special Process – Accounts Payable**

- i. "The accounts payable clerk will match all supporting documentation (purchase orders, pick tickets, etc.) to support payment of vendor invoices."
- ii. "The Accounts Payable Clerk will ensure that each invoice has the appropriate supervisor's approval."
- iii. "If any purchases appear to be unusual (for example, missing appropriate purchase orders, unusually frequent purchases at the same vendor, items that appear to be a high price, etc.), the accounts payable clerk is encouraged to communicate with the supervisor, the Finance Director, the Purchasing Agent, and/or the Director of Operations."
- iv. "The Accounts Payable Clerk will generally cut one "check run" each week around the middle of the week, which will generally capture all invoices processed by that time. The check run is taken to City Hall for signatures and will generally be placed in the mail by the end of the week."
- v. "To streamline operations and avoid unnecessarily paying state sales tax HBPW has established charge accounts with several local vendors. At the beginning of each calendar year the Accounts Payable Coordinator circulates an employee listing and tax exemption certificate to the vendors."

- 1. Charge Accounts Included: Auto Zone, Bates Sales, Cape Electric, CARQuest Auto Parts, Farm & Home, Fastenal, Hannibal Homestore, Lowe's, McNally Plumbing, Miracle Supply, O'Reilly Auto Parts, Sherwin Williams, Springfield Electric, Cassano's Pizza, Drake's Steak & Ale, Logue's, Ole' Planters, and Pizza Hut.

- vi. "HBPW does not have a charge account at Wal-Mart but instead has a physical charge card that must be presented at the time of purchase. One of these cards is maintained by the Purchasing Agent, the Business Office Manager and the Accounts Payable Coordinator and should be obtained from them. Attached to this card is a copy of HBPW's tax exempt status that should be presented at the time of purchase."
- vii. "All other local vendors that require payment at the time of purchase will honor the tax exemption certificate, which needs to be presented at the time of purchase."

2. Policy: Credit Card

- a. Department Covered: All Departments
- b. Originated/Revised History: Originated: 5/9/11; Revision 1: 6/9/11; Revision 2: 8/15/11; Revision 3: 2/17/15
- c. General Guidelines and Process:
 - i. "Company Credit Cards should only be used as a last resort if other payment options are not available, such as company charge accounts, writing an Accounts Payable check, etc."
 - ii. "Company Credit Cards are issued based on an employee's need for business travel and initiate purchases that require credit cards (e.g. online purchases of inventory and tools by the Purchasing Agent). Use of this card is a convenience granted to the employee and is restricted to business travel purposes and purchases that require credit cards (initiated by the Purchasing Agent). Those who are issued cards are not allowed to assign the card to any other employee or person. The privilege of using this card may be revoked at any time for misuse."
 - iii. "The company-issued credit cards are for company-approved purchases only and personal charges are considered improper use of this card and can be considered misappropriation of HBPW funds. Any purchase(s) an employee makes with the company-issued credit card deemed inappropriate or not associated with the company related business travel is in violation of this policy. This may result in disciplinary action, up to and including termination. Refer to the Travel policy for details of approved and unapproved items."
 - iv. "An expense report must be completed and approved by management within seven days of travel, failure to do so may be construed as misappropriation. A detailed receipt must accompany all purchases made on the company-issued credit card. Credit card statements will be reviewed by Accounts Payable to ensure conformity with the receipts. If appropriate receipts are not received, the individual may be liable for the expenses incurred. Receipts for charges other than travel should be provided to Accounts Payable within seven days of the purchase."
 - v. "Credit card use will be monitored by Accounts Payable in the course of reconciling and documenting the months' charges. Any charges that appear outside the normal course of HBPW business will be referred to the

Finance Director, the Department Supervisor, and the Director of Operations, as considered necessary.”

3. Policy: Travel

- a. Department Covered: All Departments
- b. Originated/Revised History: Originated: 1991; Revision 1: 1996; Revision 2: 2002; Revision 3: 7/31/09; Revision 4: 5/19/11; Revision 5: 5/10/17
- c. General Guidelines and Process:
 - i. “On trips between major cities involving 500 miles or more one way, airline travel is recommended. Employees with HBPW issued credit cards are encouraged to make their own travel arrangements. The Executive Board Secretary will be available for assistance. It is recommended that the employee use Orbitz.com or a similar site to obtain the lowest available airfare. A copy of quoted fares first page should be attached to the employee’s expense report showing the range of fares available and that prudent care was exercised. Employees are expected to use prudent care in obtaining the lowest feasible fare. Only economy fares will be allowed.
 - ii. “For those employees that haven’t been issued a HBPW credit card, travel arrangements must be made through the HBPW Executive Board Secretary. These employee[sic] will be issued a temporary company credit card for allowable expenses related to business travel.”
 - iii. “A HBPW vehicle should be used for driving trips. If a HBPW vehicle cannot be made available and an employee uses a personal vehicle, mileage will be paid at the IRS approved cents per mile. If a HBPW vehicle has been made available, but the employee chooses to use a personal vehicle, fuel tickets for the trip must be submitted for reimbursement and no additional cost for mileage will be paid.”
 - iv. “Meal allowance should be a reasonable customary charge based on location and availability. **Itemized receipts are mandatory for reimbursement in all instances per IRS Pub. 643.**”
 - v. “If the employee is accompanied by their spouse or children, the HBPW will pay the cost of the hotel room. **All other expenses incurred by the spouse and/or children will be the responsibility of the employee, which includes airfare, meals, etc.**”
 - vi. “The following items are Allowable Expenses:
 - 1. Transportation Expense – including airfare, taxi and/or shuttle service
 - 2. Baggage Fees – Limit 1 (One)
 - 3. Lodging
 - 4. Car Rental – if applicable – (Decline insurance coverage as this is covered by our policy)
 - 5. Meals
 - 6. Parking
 - 7. Toll Charges
 - 8. Reasonable Tips”

- vii. "The following items are Non-Allowable Expenses:
1. Laundry, cleaning or valet services
 2. Tobacco
 3. Alcoholic beverages
 4. Entertainment
 5. Fines or penalties
 6. Loss or Damage of personal property
 7. Barber, beauty parlor, shoe shine or toiletries
 8. Any other transactions that are not authorized or needed to carry out HBPW business"

STEP 3: Objective Testing and Understanding

Performed Objective Tests

After the files were joined together and the Brown Smith Wallace forensic accounting team obtained an understanding of the Entity's policies and procedures related to accounts payable and credit card spend, the team designed and executed objective tests. Objective tests are used to identify transactions that meet specific characteristics that may indicate a certain type of asset misappropriation.⁸ Upon identifying these characteristics, sample selection and follow-up can be more targeted and effective. To determine which tests to run, the Brown Smith Wallace forensic accounting team took its knowledge of the data it had analyzed up to this point, along with its knowledge of common asset misappropriation schemes, and created several tests to be run against the data.

The credit card objective tests performed by the Brown Smith Wallace forensic accounting team were as follows:

Objective Category	Objective Category Description	Reason for Objective Test ⁹
Amazon	Amazon transactions	Amazon purchases were considered a known control weakness and deemed riskier due to the ease of purchase, the limited controls in place, lack of transparency in transaction detail, and our discussions with HBPW Management.

⁸ According to the *Corporate Fraud Handbook* published by the Association of Certified Fraud Examiners (ACFE) misappropriation, "includes more than theft or embezzlement. It involves the misuse of any company asset for personal gain."

⁹ Tests designed in accordance with the ACFE corruptions and asset misappropriation anti-fraud data analytic tests. More information on the ACFE's best practices can be found here: <https://www.acfe.com/FRAUDRISKTOOLS-TESTS.ASPX>

Objective Category	Objective Category Description	Reason for Objective Test ⁹
Benford	Transactions identified by Benford's Law analysis	Benford's Law relates to the frequency distribution of leading digits in large numerical data sets. When data manipulation occurs, it could be detected when the population does not fit this distribution pattern.
Blank Purch ID	Transactions from vendors associated with employees with the highest percentage of blank purchase IDs	The purchase ID field provided additional useful details. If blank, this information was not available for analytic use.
Blank Tax ID	Transactions from vendors associated with employees who have the highest percentage of blank taxpayer IDs	The taxpayer ID field provided additional useful details. If blank, this information was not available for analytic use.
Cancel	Transactions within one week of termination date of any card that was replaced due to fraud	Terminations before reported fraud could require reimbursement from the credit card provider.
Dup Ref	Transactions with duplicate reference numbers	Duplicate reference numbers are considered a data anomaly in credit card transaction files.
Dup Split	Transactions that appear to be potential duplicate or split transactions	These transactions can represent vendors double charging cards or employees splitting transactions to create the appearance of spend under approval limits.
Emp Name	Transactions where Vendor Name is similar to one in the Employee Master file	Vendors potentially related to employees could represent a conflict of interest or inappropriate spend.
Emp Phone	Transactions with phone number found in Employee Master file	Vendors potentially related to employees could represent a conflict of interest or inappropriate spend.
House	Transactions with vendors that HBPW has charge accounts with	House accounts are available to centralize purchases, create better visibility to spend, and provide the ability to make purchases for HBPW without credit cards. Per approved written policies, house accounts should be used in place of credit cards, where possible, to save ratepayer money by taking advantage of HBPW's tax exempt status.
MCC	Transactions with Merchant Category Codes (MCC) restricted by US Bank/HBPW agreement or typically prohibited in non-profits and municipalities	Certain MCCs are unlikely to be appropriate spend (e.g. furniture stores and cruise lines).
Mismatch	Transaction on cards for which there is no info in account master from US Bank	The US Bank account master contained identifying and control information (e.g. MCC and spend limits). We had less information about cards missing from this file and deemed them riskier.
Non USD	Transactions that are not in US dollars	Foreign spend was considered unlikely in this spending environment and could indicate inappropriate spend.

Objective Category	Objective Category Description	Reason for Objective Test ⁹
Post Term	Transactions that occurred after the employee's termination date	Card sharing creates lack of accountability, and users should not spend HBPW funds if they are not employed.
Pre Hire	Transactions that occurred before an employee's hire date	Card sharing creates lack of accountability, and users should not commit HBPW funds if they are not employed.
Restaurants	Transactions made at restaurants	We considered the number of transactions at local restaurants (and on weekends) to be higher than expected. This could identify unapproved or potential inappropriate transactions.
Risky	Transactions that appear to be odd or unusual for a public sector entity to spend money on	Based on experience, and detailed analysis of the vendors and transaction amounts in the file, we identified potential inappropriate transactions.
Single User	Transactions with vendors that were used by only one employee	Spend by a single employee with a single vendor may indicate a relationship with the vendor (e.g. an employee setting up a PayPal account and charging the company credit card).
Top Count	Transactions made by a top 5 user by transaction count	Users with more transactions represent inherently higher risk of loss.
Top Spend	Transactions made by a top 5 user by spend	Users with more spend represent inherently higher risk of loss.
Travel Log	Conference type travel expenses that do not fall within two days of the training travel log to and from dates	The training travel log did not authorize all travel but represented the only control for when travel was approved.
Weekend	Transactions made on weekends	Weekend spend is typically only expected during emergencies. Identifying non-emergency weekend spend can identify unapproved or inappropriate transactions.

The accounts payable objective tests performed by the Brown Smith Wallace forensic accounting team were as follows:

Objective Category	Objective Category Description	Reason for Objective Test ¹⁰
Attach	Invoices without an attachment	According to HBPW internal policies, invoice support should be uploaded to the system. Based on a system download, we identified invoices without physical support documentation uploaded.

¹⁰ Ibid.

Objective Category	Objective Category Description	Reason for Objective Test ¹⁰
Charge	Potentially unknown charge accounts	House accounts are available to centralize purchases, create better visibility to spend, and provide the ability to make purchases for HBPW without credit cards. House accounts are also used to save ratepayer money by taking advantage of HBPW's tax exempt status.
Create	Vendors created by employees for which proper predication exists	Certain employees were identified as riskier, based on interviews with HBPW Management.
Date Mismatch	Invoices that show unexpected dates between invoice entry/invoice date/PO/Receipt/Paid	Date misalignment can be indicative of purchases or payments occurring before proper approvals have been obtained.
Dup	Invoices with vendors with potentially duplicate names, addresses, or phone numbers	Duplication within vendor information can indicate fake vendors and cause duplicate payments.
Emp Info	Vendors with addresses, names, and/or phone numbers found in the employee master	Vendors with connections to employees can be indicative of a conflict of interest or inappropriate spend.
Emp Info Change	Invoice with vendors that had vendor master information captured in the change log that matched employee information	If an employee altered the vendor master file and changed the information back, a current vendor master file will not identify this, but the vendor change log could contain the employee's information as a previous value (e.g. employee changes vendor name from their own name before sending the file to the auditors).
Future Pay	Invoices that show as paid with a date after Brown Smith Wallace received the data file	Payment dates that have not occurred can indicate poor data integrity or post-dated checks.
Increase	Invoices with vendors that have incremental increased spend over time	Oftentimes, asset misappropriation schemes start small and increase over time.
No PO	Invoices over \$1,000 not linked to purchase orders (POs)	According to internal policies and procedures all invoices over \$1,000 should have a PO.
One Time	Invoice with vendor names that only had one invoice/payment during our testing period	The accounting system used by the Entity allows for the use of one-time vendors, which circumvents the vendor master as a control, because details are oftentimes not captured in the vendor master file.
PO Consistency	Invoices where sometimes a PO is used and sometimes a PO is not used	Non-PO spend with vendors typically managed through POs could indicate inappropriate or out of policy spend.
QTR Increase	Invoices with vendors that have incremental increased spend each quarter	Oftentimes, asset misappropriation schemes start small and increase over time.

Objective Category	Objective Category Description	Reason for Objective Test ¹⁰
Vendor Address	Invoices with vendors that do not have an address in the vendor master file	Incomplete vendor information can indicate poor data integrity and impede analytic tests.
YOY Increase	Invoices with vendors that have incremental increased spend each year	Oftentimes, asset misappropriation schemes start small and increase over time.

Using ACL, the Brown Smith Wallace forensic accounting team ran the objective tests above against all 7,872 credit card transactions and all 32,481 accounts payable transactions to identify the highest risk areas. The results were then summarized into two scorecards, one for credit card expenditures and one for accounts payable, to help track the results of our objective tests.

Created Scorecards

As mentioned above, the Brown Smith Wallace forensic accounting team summarized its objective tests into two scorecards. Each credit card transaction was tested against all 22 credit card objectives and each accounts payable transaction was tested against all 15 accounts payable objectives. Oftentimes, one transaction would test positive against multiple objectives, and each time a positive objective test was identified, a score was added. For example, if a credit card transaction was made by one employee that was a top 5 user by transaction count, was a top 5 user by transaction spend, occurred with a vendor that was used by only one employee, was purchased on Amazon, and was purchased on the weekend, that transaction may have received a scorecard score of 5. Alternatively, a transaction made only on Amazon, but that didn't test positive against any other objective, would have received a score of 1. This scoring allowed the Brown Smith Wallace forensic accounting team to sort through the voluminous data, and to filter the transactions that tested positive against the most objectives indicating higher risk.

To narrow the objective testing down, and to begin synthesizing the data, the Brown Smith Wallace forensic accounting team summarized the scorecards in two different formats: 1) by objective, and 2) by total score. When analyzing the credit card transaction detail by objective, the team summarized each objective by including: an initial risk rating, the number of transactions, the percentage of transaction, the total spend, the percentage of total spend, the number of employees, the percentage of employees, and the average spend per transaction, that all tested positive for that objective. When analyzing the accounts payable transaction detail by objective, the team summarized each objective by including: an initial risk rating, the number of transactions, the percentage of transactions, the total spend and the percentage of total spend, that all tested positive for that objective.

Discussed Scorecard Results with HBPW

Once the credit card and accounts payable scorecards were assembled, the Brown Smith Wallace forensic accounting team then discussed the scorecards, summarized by objective, with HBPW Management. The team discussed the credit card scorecard with Management on

November 27, 2019 and discussed the accounts payable scorecard with Management on December 3, 2019. These discussions provided context into why certain transactions tested positive for certain objectives and confirmed that a comprehensive sample from all objectives would best serve the wholistic approach needed to document the spend culture at HBPW. For example, during our accounts payable discussion, Management indicated that the reason many of the invoices over \$1,000 were not linked to purchase orders was because they were part of an ongoing blanket purchase arrangement with a vendor that's renewed once a year. Because this arrangement is renewed annually, there are no purchase orders for individual orders. Each objective was discussed with Management, and after walking through both scorecards, the Brown Smith Wallace forensic accounting team selected and requested payment support samples.

Requested Payment Support to be Provided for Questionable Expenditures

The next step in our analysis after discussing the scorecards with Management, was to select and request samples for which we wanted to review the underlying payment support. For credit cards, the Brown Smith Wallace forensic accounting team requested copies of the original receipts documenting the purchase, and for accounts payable items, we requested invoices, and if available, any accompanying purchase orders.¹¹

To determine the sample set for which underlying support was requested, we utilized a three-step approach that combined statistical sampling and scorecard results. First, we determined the total number of samples required to achieve a 95 percent confidence level with a plus/minus 3 percent margin of error for both the credit card file and the accounts payable file. This resulted in 946 samples from the credit card file and 1,039 samples from the accounts payable file. Second, we visually analyzed every line of spend, and the associated objective scores in both files, and requested additional samples based on professional judgement and typical public sector entity expectations. This visual inspection resulted in 1,194 credit card support samples and 194 accounts payable samples. Third, we selected another 90 items at random, from each of the credit card and accounts payable files. Finally, we removed duplicates that appeared across the three steps to achieve a duplicate free set of transactions for which to review payment support.

As is shown in the table below, using this approach, we ultimately requested payment support for 2,098 credit card transactions and 1,317 accounts payable transactions.

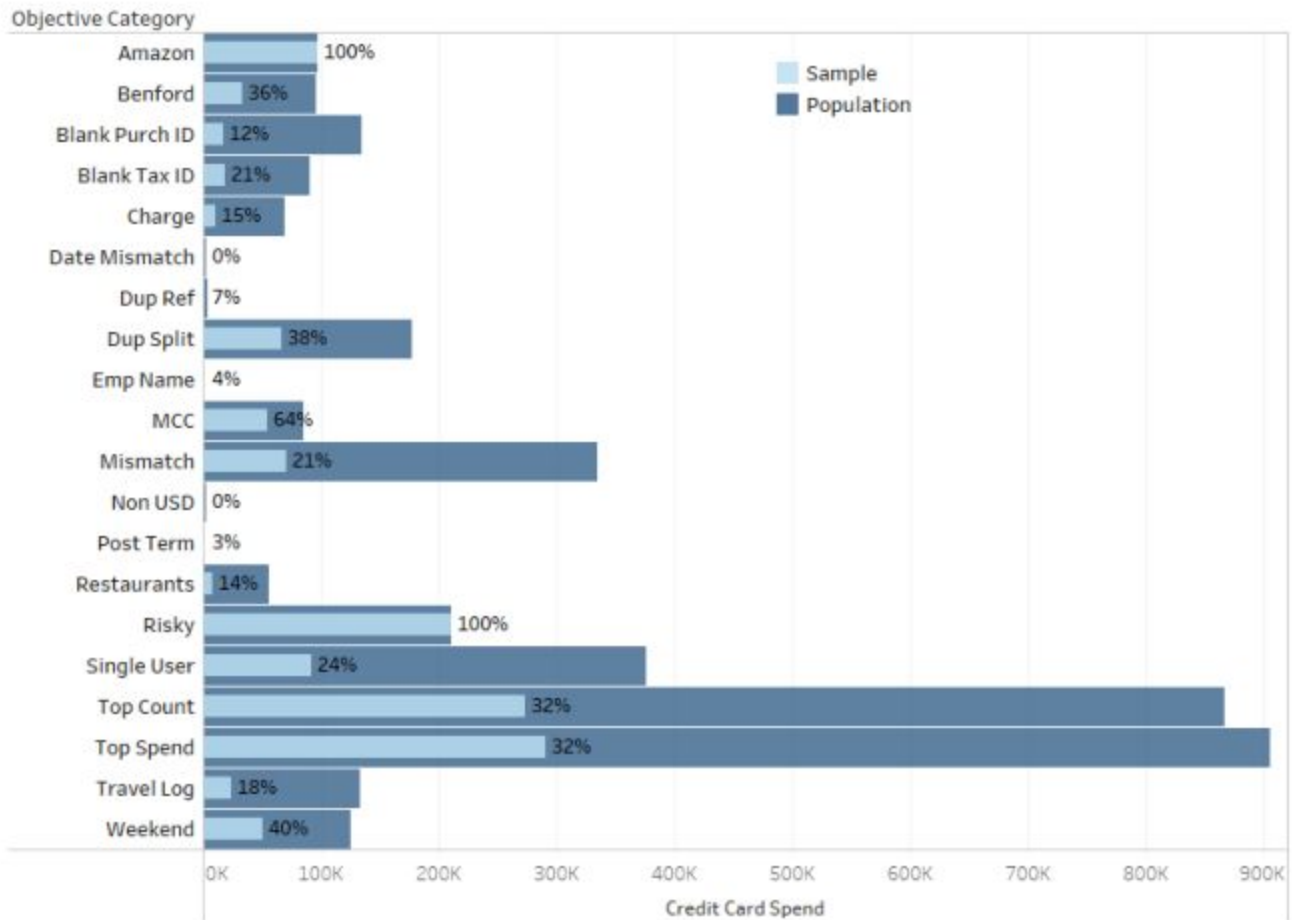
	Distribution Weighted	Plus: Odd or Unusual	Plus: Additional Random	Less: Duplicates	Total Sample Size
Credit Card	946	1,194	90	(132)	2,098
Accounts Payable	1,039	194	90	(6)	1,317

¹¹ In situations where invoices and purchase orders were not available, we did accept other forms of independent documentation as support for the accounts payable transactions, when available.

This three-step approach allowed us to achieve a distribution weighted, statistically sound sample selection that also incorporated professional insight.

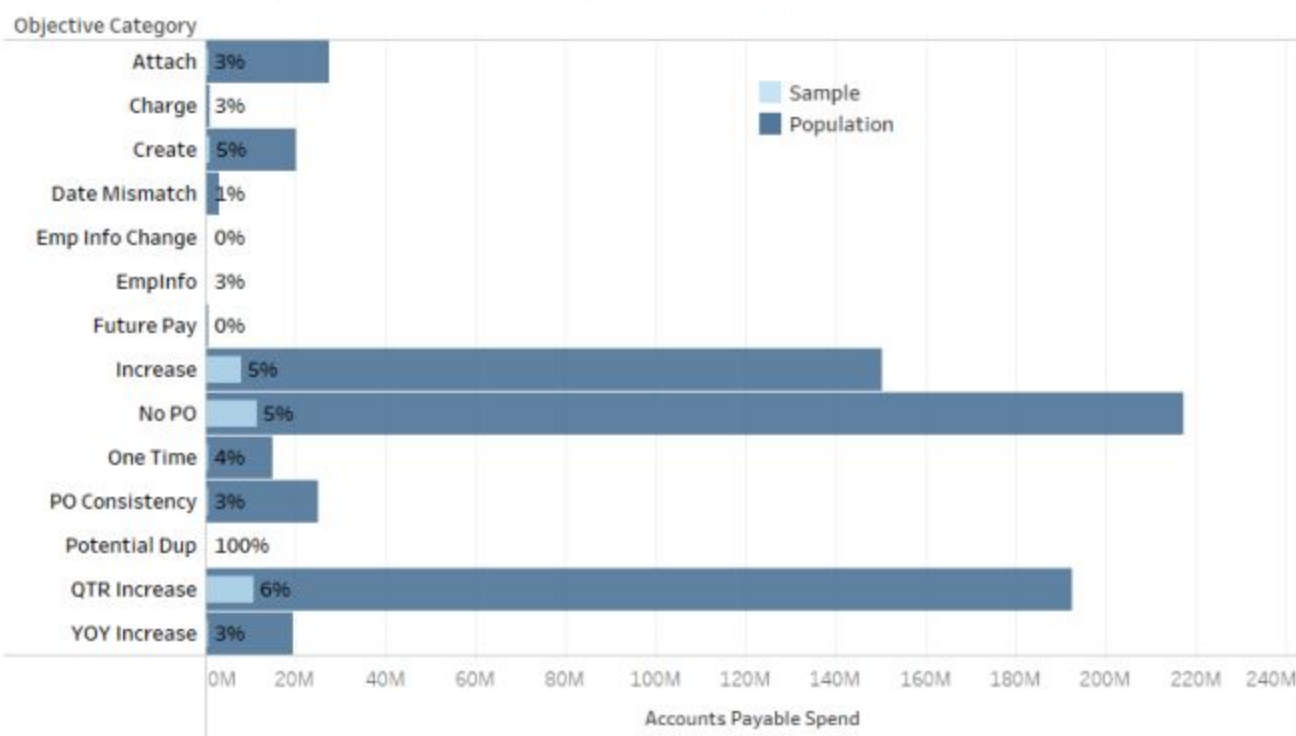
We requested underlying payment support for 26.7% of all credit card transactions which represented 29.2% of total credit card spend over the time period analyzed. The graph below titled **CC Sample and Population Spend By Objective Category** shows the sampled transaction amounts by analytic objective, compared to the total population of analytic objective transaction amounts.

CC Sample and Population Spend By Objective Category



We also requested underlying payment support for 4.1% of accounts payable transactions which represented 5.1% of total accounts payable spend over the time period analyzed. The graph below titled **AP Sample and Population Spend By Objective Category** on the next page shows the sampled transaction amounts by analytic objective, compared to the total population of analytic objective transaction amounts.

AP Sample and Population Spend By Objective Category



*The Objective Category of Vendor Address is not shown due to no population results.

On November 27, 2019, the Brown Smith Wallace forensic accounting team submitted its credit card sample selection, and on December 4, 2019, the team submitted its accounts payable selection to HBPW Management. To prepare the most thorough and cost-efficient analysis, the HBPW Management team gathered payment support for our requested items, and uploaded batches at the end of each day to our OneDrive account.

Payment support was provided by HBPW Management for 1,527, or 72.8%, of the credit card transactions for which payment support was requested,¹² and according to Management, support for the remaining 571, or 27.2%, of the credit card transactions could not be located.

Similarly, out of the 1,317 accounts payable transactions for which payment support was requested (e.g. – invoices and, if necessary, purchase orders), HBPW Management was able to provide support for 1,269, or 96.4%, of the total accounts payable transactions requested.

Received and Reviewed Payment Support Detail and Followed Up with HBPW

In order to analyze the support in the most expeditious manner, the day after each batch was uploaded, a Brown Smith Wallace forensic accounting team member linked the electronically provided support into our workpapers and physically reviewed each payment support

¹² According to the Entity's credit card policy, "a detailed receipt must accompany all purchases made on the company-issued credit card." Therefore, the Brown Smith Wallace forensic accounting team was initially expecting to receive receipts for 100% of the Entity's past credit card purchases.

document. During this review, the team looked to ensure, among other things, that 1) the support was provided as requested, and 2) the support provided was enough to determine whether each expense was appropriate and within policy. After completion of an initial review by a team member, a second team member then reviewed each transaction as an “additional set of eyes” to ensure the correct characteristics were flagged for each transaction. A team leader then performed a final review of each support item to 1) ensure the appropriate information was flagged for each transaction, and 2) ensure consistency among the reviewed dataset.

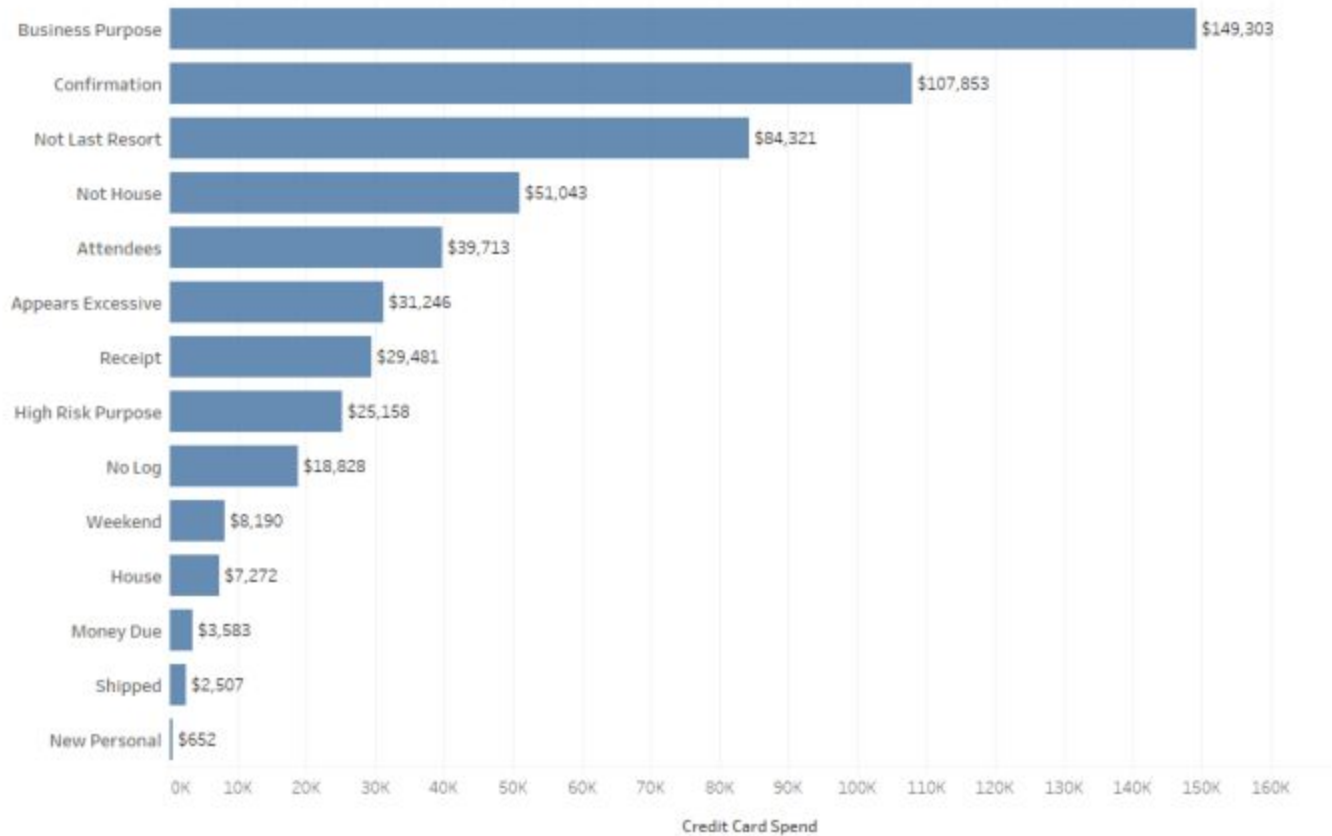
After final review, a second set of follow up transactions was provided to HBPW Management for which the team requested further clarification. The transactions for which the team requested additional information exhibited one, or multiple, of the following characteristics in the table below.

The characteristics defined for credit cards were as follows:

Characteristic	Characteristic Description
Not Last Resort	Purchase is not travel related and does not appear to be a “last resort” payment where no other means of payment is available.
Receipt	The documentation provided does not appear to relate to this credit card transaction or proper supporting documentation was not provided.
Money Due	Documentation provided indicated that this was potentially employee personal spend on an HBPW credit card that needed to be reimbursed.
New Personal	While obtaining documentation, HBPW employees identified personal spending on the company credit card.
High Risk Purpose	Item(s) purchased seem unlikely to be a reasonable business purchase or be business related.
Business Purpose	Item lacks a clear business purpose OR lacks correct/sufficient documentation to corroborate business purchase.
Attendees	Missing employee name/attendees.
Confirmation	Confirm item is present at HBPW location and/or event occurred.
Shipped	Evidence provided indicated goods were not shipped to HBPW address.
Appears Excessive	Appears to be an excessive amount spent and/or excessive for the employee's role.
House	Credit card was used to make a purchase at house account vendor.
Not House	Purchases that should potentially have been made from house account vendors.
No Log	Not on travel log.
Weekend	Purchased on Saturday or Sunday.

The Brown Smith Wallace forensic accounting team requested further clarification on January 2, 2020, for 1,220 credit card transactions, totaling \$194,825. The graph on the following page titled CC Further Clarification by Characteristic shows the additional clarification by the key characteristics described above. Note a single transaction can be selected for multiple characteristics.

CC Further Clarification by Characteristic



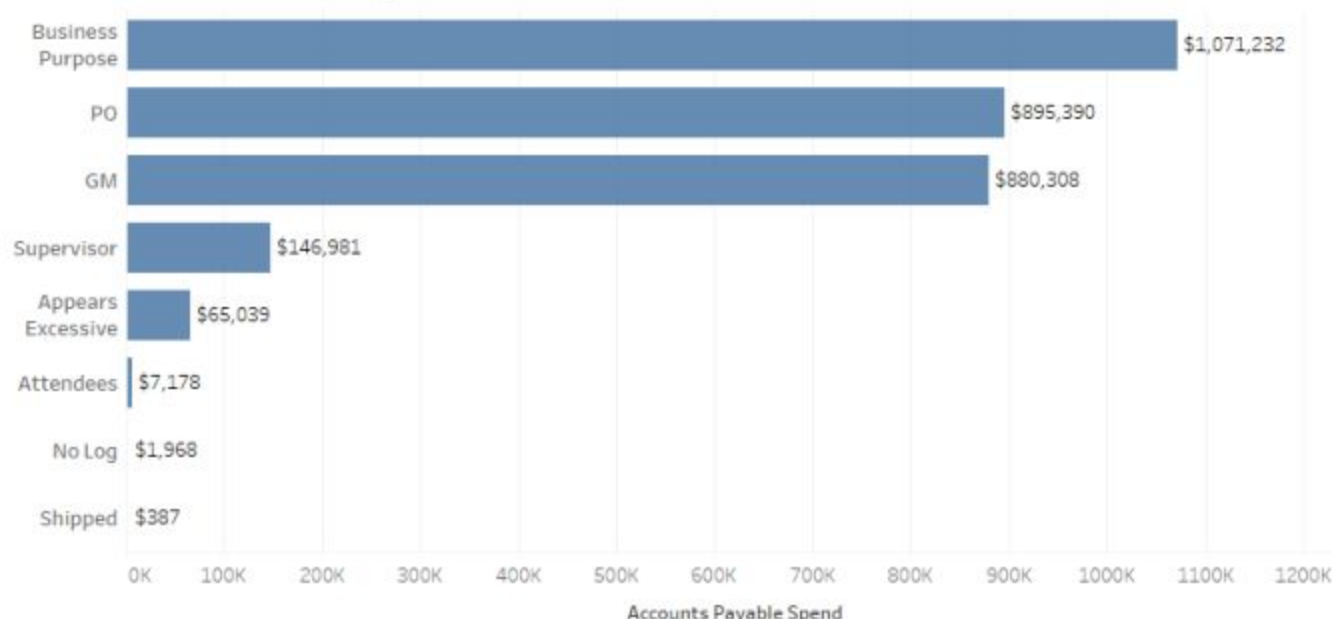
Business Purpose, Confirmation, Not Last Resort, Not House, Attendees, Appears Excessive, Receipt, High Risk Purpose, No Log, Weekend, House, Money Due, Shipped and New Personal. The marks are labeled by Business Purpose, Confirmation, Not Last Resort, Not House, Attendees, Appears Excessive, Receipt, High Risk Purpose, No Log, Weekend, House, Money Due, Shipped and New Personal.

The characteristics defined for accounts payable are as follows:

Characteristic	Characteristic Description
PO	Documentation provided does not include a correct PO where the purchasing policy indicates a PO is required.
Supervisor	Auditor was unable to confidently tie signature or initials on documentation to a known supervisor.
GM	Auditor was unable to confidently tie signature or initials on documentation to a known GM.
Business Purpose	Item lacks a clear business purpose OR lacks correct/sufficient documentation to corroborate purchase.
Attendees	Auditor was unable to identify the names of the employees that attended a given meal/event or was unable to identify the recipient(s) of the items purchased.
Shipped	Documentation provided indicated goods were not shipped to HBPW address.
Appears Excessive	Purchase appears to be excessive for this category/item.
No Log	Spend was related to travel not found on the travel log.

The Brown Smith Wallace forensic accounting team requested further clarification on January 3, 2020, for 207 accounts payable transactions totaling \$1,097,638. The graph below titled AP Further Clarification by Characteristic shows the additional clarification by the key characteristics described above. Note a single transaction can be selected for multiple characteristics.

AP Further Clarification by Characteristic



Business Purpose, PO, GM, Supervisor, Appears Excessive, Attendees, No Log and Shipped. The marks are labeled by Business Purpose, PO, GM, Supervisor, Appears Excessive, Attendees, No Log and Shipped.

Received and Reviewed Additional Clarification Provided by HBPW

Additional clarification was received by the Brown Smith Wallace forensic accounting team for the accounts payable transactions on January 10, 2020, and for the credit card transactions on January 24, 2020.

HBPW Management researched transactions provided by the Brown Smith Wallace forensic accounting team and categorized its feedback into five color-coded buckets, which were as follows:

Bucket	Bucket Description
	Legitimate business purpose transaction performed according to the purchasing and credit card policies in effect at the time of the transaction.
	Legitimate business purpose transaction performed according to the policy at the time, but the policy has subsequently been strengthened and improved. Thus, purchase would be out of policy today.
	Legitimate business purpose transaction performed outside the purchasing and credit card policies in effect at the time of the transaction, but the policy has subsequently been strengthened and improved. Thus, purchase would still be out of policy today.
	Transaction of dubious or questionable business purpose performed outside of the purchasing and credit card policies in effect at the time of the transaction.
	Transaction of extremely dubious or questionable business purpose probably involving the purchase of goods or services used for a personal purpose.

HBPW research resulted in 98 credit card transactions being categorized as extremely dubious/questionable (red), 234 being categorized as dubious/questionable (orange), and 254 being categorized as outside of policy (yellow).

HBPW research resulted in 15 accounts payable transactions being categorized as dubious/questionable and 85 accounts payable being categorized as outside of policy. According to Management, these policies have been strengthened since this data analysis was initiated.

Analyzed Findings

The Brown Smith Wallace forensic accounting team read and analyzed all the follow up detail provided by HBPW Management and used the additional information to determine whether changes to its original classifications were necessary.

STEP 4: Post Testing Analysis

Prepared Written Report with Observations and Recommendations

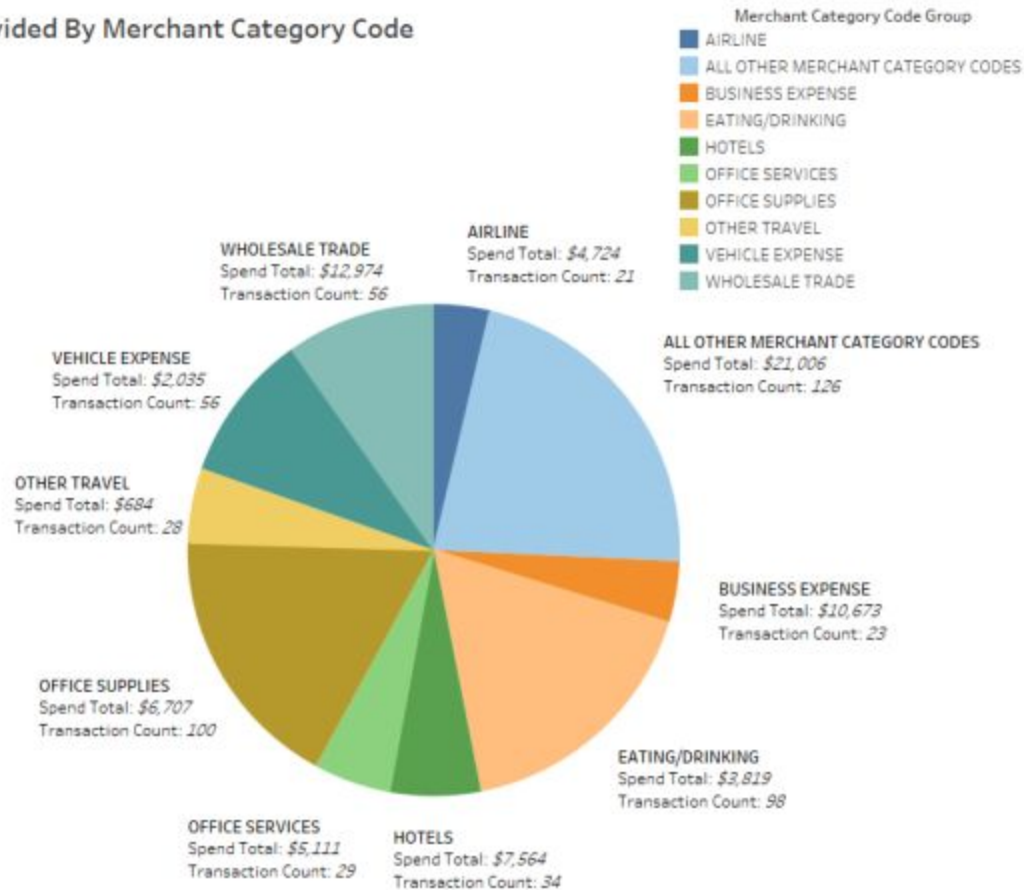
In conclusion of its analysis, the Brown Smith Wallace forensic accounting team summarized its objective, scope, methodologies, observations, and recommendations in this written report.

Observations and Recommendations

Upon completion of the methodology listed in the section above, the Brown Smith Wallace forensic accounting team noted the following observations.

Before we were able to determine whether funds were potentially used for personal purposes, whether policies and procedures were followed, and whether the current policies and procedures are adequate, we first needed to look at how much information was available to the team to analyze. As mentioned earlier in the report, HBPW was able to provide support for 1,527, or 72.8%, of the credit card transactions.¹³ According to Management, the remaining 27.2% were unable to be located. The missing items represented \$75,296, or 6.7%, of the Entity's total credit card spend over the time period analyzed and included spend in the following MCC categories:

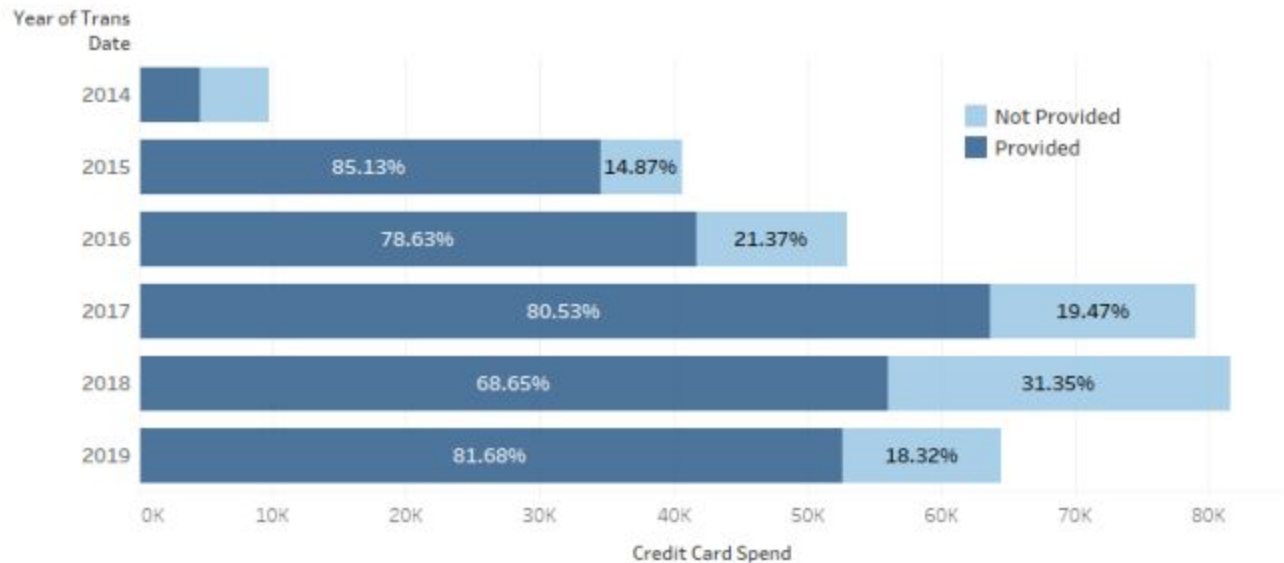
Support Not Provided By Merchant Category Code



¹³ According to the Entity's credit card policy, "a detailed receipt must accompany all purchases made on the company-issued credit card." Therefore, the Brown Smith Wallace forensic accounting team was initially expecting to receive receipts for 100% of the Entity's past credit card purchases.

As is shown in the chart below, we also observed that credit card documentation availability appeared to decrease during the latter portion of the testing period starting with calendar year 2017. According to Entity Management, HBPW transitioned away from scanning credit card receipts into an electronic system around November 2017, and after this point the Entity's ability to pull historical receipts decreased quite significantly.

CC Documentation Provided and Not Provided By Year



** Scope includes Credit Card data ranging from 30 July, 2014 through 29 August, 2019.

We also observed that regarding the accounts payable spend there was \$12,286, or 0.1% of the selected transactions, for which HBPW was unable to provide payment support documentation.

We consider the items for which we didn't receive payment support as questionable spend. Further, we recommend that HBPW Management discuss the undocumented spend items with each current employee to gain appropriate confidence in the business purpose of the spend and the employee's understanding of updated policies. On a go-forward basis, HBPW Management should strictly enforce the policies in place to ensure 100% compliance with the Entity's receipt policy, and each month receipts and other payment support should be securely stored electronically.

Objective 1: Determine whether Entity funds were used by current and/or former employees for personal gain and if so, the total amount of spend that occurred

Based upon our analysis, we believe there were \$12,408 of Entity funds that were used to purchase personal items using HBPW credit cards. This credit card spend included 7 transactions consisting of \$370 that two employees noticed while reviewing and organizing

their Amazon receipts at the request of the Brown Smith Wallace forensic accounting team. Per the Director of Finance, both employees immediately received invoices to repay HBPW for the personal expenditures upon the Entity's notification.

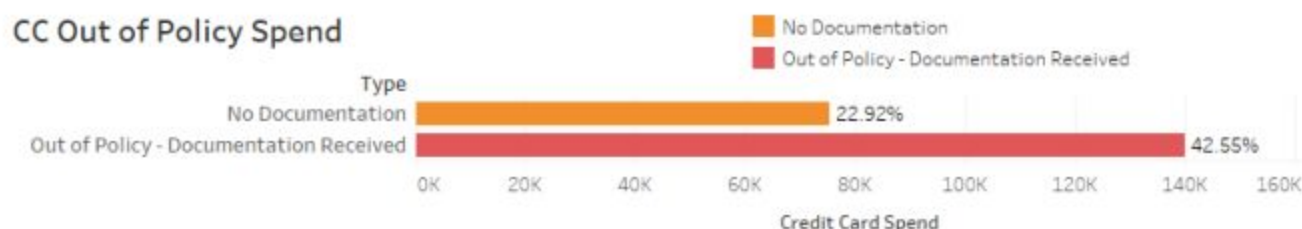
Additionally, as mentioned earlier in the report, there was another \$75,296 of credit card spend for which no payment support was provided by HBPW. Since the Brown Smith Wallace forensic accounting team was unable to review payment support for these items, it was not possible for the team to determine whether any of these funds were used for appropriate Entity expenditures, or if the funds were used for personal purchases, and as such, we consider these expenditures questionable.

Based on our analysis we found no clear personal use of Entity funds to purchase personal items charged to the Entity via vendor through the accounts payable process. Again, however, as mentioned above, there was \$12,286, or 0.1% of the transactions selected, of accounts payable spend for which HBPW was unable to provide payment support documentation. Since documentation was not provided, at this time we are unable to determine whether the \$12,286 contains any personal expenditures, and as such, we consider these expenditures questionable.

Objective 2: Determine whether Entity policies and procedures for reviewing and approving expenditures were followed, and if not, the total amount of out of policy spend that occurred

Based upon our analysis, we believe there were \$215,100 of Entity funds that were spent out of policy using HBPW credit cards.

The graph below titled CC Out of Policy Spend shows the amount of credit card spend attributed to transactions for which we received documentation that appear to be out of policy, as well as transactions for which no documentation was received.



Note: The marks are labeled by Percentage of Sample. Transactions classified as In Policy are not presented.

Based upon our analysis, we believe that \$12,161,289, which represented 98.6% of the selected transactions and 5.0% of the total accounts payable spend, was spent outside of policy. Upon further review, the majority of the out of policy accounts payable spend appeared

to be reasonably necessary for HBPW operations; however, we had to classify it as out of policy due to an overly broad and generic purchasing policy. The out of policy spend – which primarily included purchased power, bond payments, City of Hannibal transfer fees, and water treatment supplies – was classified as out of policy primarily for the following reasons:

1. Lack of documented General Manager approval;
2. Lack of a purchase order; and/or
3. Lack of supervisor approval.

The graph below titled AP Out of Policy Spend shows the amount of accounts payable spend attributed to transactions for which we received documentation that appear to be out of policy, as well as transactions for which no documentation was received that are also out of policy.

AP Out of Policy Spend



Note: The marks are labeled by Percentage of the Sample. Transactions classified as in Policy are not presented.

Objective 3: Determine whether the Entity's current policies and procedures related to spending are adequate, and if not, provide recommendations for improving policies and procedures

As mentioned in the report above, the Brown Smith Wallace forensic accounting team also read and analyzed the Entity's travel, procurement, and credit card policies.

Overall, the Brown Smith Wallace forensic accounting team observed an environment where, according to Management, the Entity's business practices have over time evolved away from the approved travel, procurement, and credit card policies and procedures issued by HBPW. The Entity's credit card policy, as is currently written, states that Entity issued credit cards are to be used for 1) travel related expenditures, or 2) to initiate purchases by the purchasing agent that require credit cards. However, contrary to the written policy, it is clear the actual business practice at HBPW has evolved over time to include a system where employees use credit cards much more like purchasing cards, also known as P-Cards, rather than as travel cards. P-Cards are oftentimes used by companies in situations where the traditional process for approval of an expenditure either isn't possible, or it's more expeditious to use a credit card in its place. P-Card usage is quite common, even in public entities, and it's extremely important in environments where P-Cards are used, that Management reviews are in place and written policies are enforced.

Given the Entity's current practices, and in order to improve the process going forward, the Brown Smith Wallace forensic accounting team recommends that both the City of Hannibal and HBPW undergo a full fraud risk assessment. Fraud risk assessments are designed to dig into an organization and to identify the areas where the opportunity, pressure, and rationalization to commit fraud exists. After the risk areas are identified, Management can then take appropriate action to improve policies and procedures that will allow the Entity to reduce the risk to an acceptable level.

Additionally, if the Entity is going to continue with the business practice of using its travel cards like P-Cards, we recommend moving from an internal credit card system – where the Entity issues credit cards to employees – to an external credit card system – where the Entity reimburses employees for Entity related expenditures made on personal credit cards. By requiring employees to request reimbursement for Entity expenditures made on personal credit cards, HBPW can keep expenditures off the books until each transaction is approved and reimbursement is made. Further, this approach should increase employee compliance with written policies – by requiring documentation for reimbursement – and will eliminate the current issues facing HBPW related to personal expenditures made on Entity owned credit cards.

In the event HBPW does not elect to move to an external credit card system, at a minimum we recommend the following changes listed in the table below be added to the Entity's current written policies.

Credit Card Policy Recommendations

Ref. No.	Inherent Risks	Control Type	Current Controls (Where Applicable)	Municipal Code (Where Applicable)	Brown Smith Wallace Proposed Control Enhancements
CC1.1	Unauthorized cards are issued.	Issuing Credit Cards	The General Manager's approval is needed for all company-issued cards. Credit cards are issued based on an employee's need for business travel and to initiate purchases that require credit cards (e.g. online purchases of inventory and tools by the Purchasing Agent).	Sec. 2-211. - Use of city procurement (credit) cards. The city may issue procurement (credit) cards to its employees or departments as prescribed by city policy. The issuance, use, and oversight policies applying to procurement (credit) cards shall be further established by Resolution of the city council.	The credit card issuance policy should be defined to include more specific details. Where feasible the distribution of credit cards should be restricted. The policy should establish restrictions around what types of employees should be issued credit cards. Some of the stipulations should include the employee's role and frequency of card use and travel (i.e. credit cards may be needed for employees who travel more than 5 times per year). If it is not necessary for infrequent travelers to be issued company credit cards, define those parameters (>5 trips per year). When a credit card is issued, employees should be given a credit card agreement to sign, with a per transaction and monthly spending limit. The acknowledgement agreement should specify that the credit card belongs to HBPW and should be used only for business purchases. It should also reference the employee's responsibilities and the consequences for incorrect use.

Ref. No.	Inherent Risks	Control Type	Current Controls (Where Applicable)	Municipal Code (Where Applicable)	Brown Smith Wallace Proposed Control Enhancements
CC1.2	Unauthorized use of credit cards.	Employee Onboarding and Termination	Cards will be issued after the employee signs and dates a "Credit Card User Agreement." This agreement must be updated as needed and kept on file in the Finance Director's Office.		<p>A policy and procedure (P&P) should be added to get credit card agreements completed during onboarding of new employees (who hold positions that are predetermined as frequent travelers). At that time, a credit card should be requested. Credit cards should not be issued prior to an employee's start date.</p> <p>The P&P should also include procedures for situations where the need arises to terminate an employee. Human Resources (HR) should notify the Finance Director (or delegate) upon the termination of an employee, for cancellation of the credit cards as soon as possible and within 1 business day.</p>
CC2.1	Unauthorized, prohibited or excessive purchases are made.	Purchase Guidelines, Authority Limits and Matrix	Any charges that appear outside the normal course of HBPW business will be referred to the Finance Director immediately (ideally the same business day). The Finance Director will then follow up on the purchase and take necessary action in conjunction with the Department Supervisor and/or the General Manager.		The credit card policy should outline guidelines for purchasing practices, including types of business purchases allowed for office use and for travel. The policy should establish spending and transaction limits for common types of spend. Requests and rationale for exceptions to the established limits should be submitted from the employee's manager to the General Manager, for written approval. A Spending Authority Matrix created by the General Manager and maintained by the AP Admin should be used as the basis to determine when purchases are within guidelines. The spending limit amounts per category should be added to the Spending Authority Matrix and should also include all card users with their respective individual spending limits.
CC2.2	Unauthorized, prohibited or excessive purchases are made.	Travel Thresholds and Procedures			<p>The Entity should require documented justification and General Manager approval of airfare and hotel prices greater than allowable amount.</p> <p>Define procedures for selecting out of town training/seminars (i.e. exhaust local/most cost-effective options). Out of town training options to be presented to employee's Manager prior to booking, to ensure the most cost-effective options are utilized. When airfare and lodging exceed a certain threshold, documentation to support the decision along with viable alternatives must be reviewed by the General Manager for approval.</p>

Ref. No.	Inherent Risks	Control Type	Current Controls (Where Applicable)	Municipal Code (Where Applicable)	Brown Smith Wallace Proposed Control Enhancements
CC2.3	Unauthorized or prohibited purchases are made.	Proper Use of Credit Cards			<p>Define policies that limit the use of credit cards (to travel related purchases) and establish steps that will be taken by the AP Admin for quick identification and reporting of card use that is outside of policy.</p> <p>Define specific circumstances where online purchases are acceptable. Regular ongoing purchases/supplies/etc. should be made through a list of authorized vendors using a purchase order, invoice and paid through accounts payable, where possible. Purchases over a certain dollar amount should be made from authorized vendors using house accounts or POs, where possible. Safety, warranty, tax exemption and shipping costs should be considered when defining acceptable purchasing guidelines.</p>
CC2.4	Unauthorized or prohibited purchases are made.	Online Purchases	All online purchases, such as via Amazon.com, are to be made through the Purchasing Agent, as this individual maintains the company's tax-exempt account.		For employees (outside of the Purchasing Agent), credit card use should be prohibited for online product purchases. In rare cases where there's a business need to purchase products online, the Purchasing Agent (or backup) must complete the purchase. The Purchasing Agent should have a written P&P on what types of online purchases are allowed, a list of acceptable online vendors, dollar amount thresholds and an approval process to follow when a prospective purchase is outside of policy. The Purchasing Agent should obtain prior written approval from the General Manager for purchases outside of policy.
CC2.5	Unauthorized or prohibited purchases are made.	Credit Card Training and Acknowledgement			<p>All cardholders (including temporary cardholders) and their Managers should receive initial and annual training to ensure understanding of the credit card use, review and approval responsibilities. Manager/Reviewer training should include proper vs improper documentation as well as their responsibilities as the Reviewer. Employees and Managers should be instructed to ask questions prior to making questionable purchases. Consequences should be defined for employees who violate credit card policies (revocation of credit cards, up to termination), make unauthorized or non-business purchases more than once.</p>

Ref. No.	Inherent Risks	Control Type	Current Controls (Where Applicable)	Municipal Code (Where Applicable)	Brown Smith Wallace Proposed Control Enhancements
CC2.6	Unauthorized or prohibited purchases are made.	Expense Report Approval	Expense reports are required within 7 days.		<p>Department Managers are responsible for reviewing, understanding and signing off on employee's expense reports, ensuring that supporting receipts match the report and that all charges are allowable, in accordance with policy requirements, prior to submitting to the AP Admin. Expense reports for Department Heads should be reviewed and approved by the next level leader or the General Manager. General Manager's expense reports should be approved by the Finance Director.</p> <p>Unauthorized credit card charges made outside of policy should be tracked on an ongoing expense exception log kept by the accounts payable admin (AP Admin). Within 2 weeks, employees must repay the expense and the AP Admin document the repayment date, source and journal entry of reimbursement on the Expense Exception Log. The Expense Exception Log should be reviewed and signed monthly by the General Manager and Finance Director as they are responsible for directing corrective employee action and ensuring timely reimbursement.</p>
CC2.7	Unauthorized or prohibited purchases are undetected.	Proper Documentation	Any time a card is used an itemized receipt must be obtained and provided to the Accounting Department, listing the exact items/services purchased.		<p>Itemized receipts should be submitted with expense reports for each transaction. On rare occasions when itemized receipts cannot be located, alternative documentation should be provided and exceptions must be reviewed, approved and documented by signature of the Finance Director. If itemized receipts are lost, an additional list of other acceptable documentation should be provided and approved by the Finance Director. Credit card privileges should be revoked by the Finance Director with approval of General Manager for abuses of policy and/or missing receipts.</p>
CC3.1	Card spending is not adequately controlled.	Expense Report Receipts	Expense reports with itemized receipts are required within 7 days of trip or purchases.		<p>Expense reports should be completed within 7 days of trip or purchases. Expense reports should be completed using a template that requires date, business purpose, city visited (if applicable), and name of attendees (if applicable). Original itemized receipts should be submitted along with the expense report.</p>
CC3.2	Card spending is not adequately controlled.	Expense Monitoring	Credit card use will be monitored by the AP Administrator in the course of reconciling and documenting the months' charges.		<p>AP Admin. should review reports for duplicate payments and errors. Monthly credit card statements should be reconciled to approved expense reports to ensure that all charges are properly accounted for.</p>

Ref. No.	Inherent Risks	Control Type	Current Controls (Where Applicable)	Municipal Code (Where Applicable)	Brown Smith Wallace Proposed Control Enhancements
CC4.1	Proper oversight is not maintained to identify and manage risks.	Audits and Ongoing Monitoring			<p>Quarterly, a sample of employee expenses and a sample of the Purchasing Agent's, General Manager's, Finance Director's reports are to be reviewed by an independent party. The review should ensure that all credit card transactions for that time period are properly accounted for on timely expense reports, itemized receipts are attached, business detail was documented and properly approved. The auditor should ensure that credit card purchase limits were followed. Additionally, the auditor should confirm that any purchase exceptions identified were properly documented on the Expense Exception Log and that employees reimbursed the company for any and all unauthorized and non-business related expenses.</p> <p>Reports should be reviewed and analyzed to identify unusual amounts of spend by vendor, employee, category, and budget variances. Audit results should be communicated to Management and the HBPW Board for necessary adjustments and follow up action.</p>
CC4.2	Proper oversight is not maintained to identify and manage risks.	Audits and Ongoing Monitoring			<p>Quarterly, obtain a list of active cards from the credit card administrator to ensure that cards are assigned to current employees. During the audit, any temporary or department cards should be physically (where possible) retrieved for confirmation. Obtain an HR report of active employees and confirm that only active employees are listed on the credit card administrator's list. Also ensure that all employees with credit cards are listed on the Credit Card Matrix.</p>
CC4.3	Improper decisions or overspending due to a lack of information.	Purchases Coded to Specific GL Accounts			<p>Credit card charges should be booked to specific (subsidiary) accounts, instead of generalized General Ledger (GL) accounts. GL accounts should include the specific type of asset, liability, equity, revenue or expense (Office supplies, Operating Supplies, Meals & Entertainment, Education, etc.) and there should be pre-established budgets for each GL category.</p>
CC5.1	Documentation records are not adequately maintained.	Documentation Retention			<p>The Finance Director should establish retention practices and schedules for maintaining supporting documentation and ensure that all documentation is maintained according to the retention policy.</p>

Travel Policy Recommendations

Ref. No.	Inherent Risks	Control Type	Current Controls (Where Applicable)	Municipal Code (Where Applicable)	Brown Smith Wallace Proposed Control Enhancements
T1.1	Travel expenses are not controlled.	Ordinary Expenses	Travel Expenses are the ordinary and necessary expenses of traveling away from home for HBPW business.		To minimize cost of travel, the policy should establish spending and transaction limits for common types of travel expenses (for example, nightly hotel rate <\$150, roundtrip airfare <\$400, daily meals <\$100).
T1.2	Travel expenses are not controlled.	Booking Travel	It is recommended the Executive Board Secretary compare rates on different sites to obtain the lowest available airfare. A copy of quoted fares first page should be attached to the employee's expense report showing the range of fares available and that prudent care was exercised. Only economy fares will be allowed.		All travel should be booked through the Executive Board Secretary. When possible, require lead times (2 weeks or more) for booking travel. Specify allowable hotel room types (Standard, Suites, etc.) and provide a list of recommended airline and hotel vendors for cost savings.
T1.3	Travel expenses are not controlled.	Travel Cost Savings			To minimize cost of travel, define procedures for dollar thresholds, lead times and preferred vendors for booking airlines and hotels. Define procedures for selecting out of town training/seminars (i.e. exhaust local/most cost-effective options). Out of town training options should be presented to employee's Manager prior to booking, to ensure the most cost-effective options are utilized. When airfare and lodging exceed the established thresholds, documentation to support the decision along with viable alternatives must be reviewed by the General Manager for a documented approval.
T1.4	Travel expenses are not controlled.	Meal Expenses While Traveling	Meal allowance should be a reasonable customary charge based on location and availability.	Sec. 21-8. - Payment of travel expenses. Officers and employees of the city shall be allowed the IRS approved cents per mile for use of personal vehicle on official business. Reasonable and necessary costs of meals and lodging shall be paid, subject to a maximum daily reimbursement.	Policy should be updated to include the Municipal Code 21.8 daily limit of up to \$100/day for meals.

Ref. No.	Inherent Risks	Control Type	Current Controls (Where Applicable)	Municipal Code (Where Applicable)	Brown Smith Wallace Proposed Control Enhancements
				supported by receipts, of \$100.00 per day. Such daily limit shall not apply for the attendance by officers and employees at conventions or meetings where the costs directly attributable to the convention or meeting will exceed the amount and where the department head has approved a payment for a specific convention or meeting in excess of the dollar limit. The approval shall be filed by the department head with the city clerk.	
T2.1	Unauthorized use of credit cards.	Use of Temporary Credit Cards	HBPW employees that haven't been issued a company credit card will be issued a temporary company credit card for allowable expenses related to business travel.		Define the policy for distributing, tracking and retrieving temporary credit cards.

In addition to the travel and credit card policy recommendations, the Brown Smith Wallace forensic accounting team recommends the following control enhancements be added to HBPW's purchasing policy to increase the transparency surrounding accounts payable transactions.

Purchasing Policy Recommendations

Ref. No.	Inherent Risks	Control Type	Current Controls (Where Applicable)	Municipal Code Requirement (Where Applicable)	Brown Smith Wallace Proposed Control Enhancements
P1.1	Unauthorized purchases are made.	Purchasing Process	Whenever feasible, all HBPW purchases are to be placed through our internal Purchasing Agent or, in his/her absence, through that individual's backup.		A procedure should be included to define the course of actions that will be taken if the process is not followed and how exceptions will be identified and tracked.
P1.2	Unauthorized or prohibited purchases are made.	Unforeseen Purchases Without Purchasing Agent	In situations where purchases are initiated without utilizing the Purchasing Agent, receipts and other documentation for these purchases (including supervisors' approval and general ledger account) should be provided to the Accounts Payable Administrator on at least a weekly basis. A "confirming" purchase order will be prepared for these purchases that were made as an exception to the general policy.		Managers should only approve unforeseen/urgent business purchases initiated outside of the Purchasing Agent. Additionally, documentation should include the urgent business need, and approval should be written by the employee's Manager (verbal approval or 2nd hand signoffs are not allowed).
P1.3	Unauthorized or prohibited purchases are made.	Purchasing Process & AP Process	All purchases over \$1,000 require a purchase order to be prepared by the Purchasing Agent and approved by the Director of Operations, and purchases over \$5,000 require a purchase order and approval by the General Manager. If possible, these approvals are to be obtained in advance of the goods/services being purchased. Purchases that involve an annual contract or a quotation process require the involvement of the Purchasing Agent.		The various types of transactions that can occur in the AP system should be separately identified and an appropriate process and control mechanism defined for each. For example, if payments of taxes do not require the creation of a PO, a preparation and review process should be well defined in the written policies. Depending on system limitations, automation may be an option for streamlining the approval process for recurring payments as long as appropriate authorization is occurring, proof of accuracy can be maintained, and it is well defined in the written policies.

Ref. No.	Inherent Risks	Control Type	Current Controls (Where Applicable)	Municipal Code Requirement (Where Applicable)	Brown Smith Wallace Proposed Control Enhancements
			Purchases less than \$1,000 will be initiated by the Purchasing Agent whenever possible but do not require a purchase order. Splitting orders to avoid the purchase order threshold will be considered a violation of this policy.		