



OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



DARLENE GREEN  
Comptroller

*Internal Audit Section*  
1520 Market St., Suite 3005  
St. Louis, Missouri 63103-2630  
(314) 657-3490  
Fax: (314) 552-7670

July 14, 2015

John Zakibe, Deputy Comptroller  
1200 Market Street, Room 311  
Saint Louis, MO 63103-2806

RE: Contract Review (Project No. 2015-CN11)

Dear Mr. Zakibe

Internal Audit has completed a contract compliance review of the City contract with the Pepsi Beverage Company (Vendor). The Vendor has the exclusive right to place soda products and soda machines in City owned locations. Enclosed is the report covering the period September 1, 2007 through January 31, 2015. A description of the scope of our work is included in the report.

Fieldwork was completed on February 2, 2015. Management responses to the observations and recommendations noted in the report were received on July 8, 2015 and have been incorporated in the report.

This review was made under the authorization contained in Section 2, Article XV, of the Charter, City of Saint Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Respectfully,

A handwritten signature in black ink, appearing to read "Mohammad H. Adil".

Mohammad H. Adil, CPA, CGMA  
Internal Audit Supervisor

Enclosure:

CC: Judy Armstrong, Executive Assistant II



# CITY OF ST. LOUIS

**COMPTROLLER'S OFFICE**

**CONTRACT REVIEW**

**PEPSI BEVERAGE COMPANY**

**SEPTEMBER 1, 2007 THROUGH JANUARY 31, 2015**

**PROJECT #2015-CN11**

**DATE ISSUED: JULY 14, 2015**

**Prepared by:  
The Internal Audit Section**



## OFFICE OF THE COMPTROLLER

**HONORABLE DARLENE GREEN, COMPTROLLER**

**COMPTROLLER'S OFFICE  
CONTRACT REVIEW  
PEPSI BEVERAGE COMPANY  
SEPTEMBER 1, 2007 THROUGH JANUARY 31, 2015**

**TABLE OF CONTENTS**

---

<b>SUMMARY.....</b>	<b>1</b>
Background.....	1
Purpose .....	1
Scope and Methodology .....	1
Conclusion.....	1
Summary of Current Observations.....	1
Management Response.....	2
<b>DETAILED OBSERVATIONS AND RECOMMENDATIONS.....</b>	<b>3</b>

**COMPTROLLER'S OFFICE  
CONTRACT REVIEW  
PEPSI BEVERAGE COMPANY  
SEPTEMBER 1, 2007 THROUGH JANUARY 31, 2014**

**SUMMARY**

---

**Background**

The contract was awarded to Pepsi Americas; name later changed to Pepsi Beverage Company, (the Vendor) on September 1, 2007, and is still in effect. The contract provided the Vendor exclusive rights to place soda products and soda machines in existing City-owned locations for a commission of 50% due the City on the prices charged by the Vendor for soda products.

The Comptroller's Office maintains a list of vending machines per location. Currently, there are 74 machines in various City locations. The total commissions received under the contract for the period of the review amounted to \$553,561.25.

**Purpose**

The purpose of Internal Audit's review was to determine if the Vendor complied with the terms, conditions, and various provisions of the contract.

**Scope and Methodology**

Inquiries were made and test procedures were performed regarding the Vendor's compliance with the contract approved by the City. The scope of the review was from September 1, 2007 through January 31, 2015.

**Conclusion**

The City did not appear to have an adequate system of internal controls in place to ensure the Vendor's compliance with the contract requirements regarding the quality of the merchandise in a manner satisfactory and acceptable to the City.

**Summary of Current Observations**

We noted the following observation and opportunity for improvement:

- Outdated Merchandise

This observation is discussed in more detail in the *Detailed Observations and Recommendations* section of this report.

**COMPTROLLER'S OFFICE  
CONTRACT REVIEW  
PEPSI BEVERAGE COMPANY  
SEPTEMBER 1, 2007 THROUGH JANUARY 31, 2014**

**SUMMARY**

---

**Management Response**

The Comptroller's Office management declined an exit conference. They subsequently provided a written response to the observation and recommendation noted in the report to the internal Audit on July 8, 2015, which has been incorporated in this report.

**CITY OF ST. LOUIS  
COMPTROLLER'S OFFICE  
CONTRACT REVIEW  
PEPSI BEVERAGE COMPANY  
SEPTEMBER 1, 2007 THROUGH JANUARY 31, 2015**

**DETAILED OBSERVATIONS AND RECOMMENDATIONS**

---

**Outdated Merchandise**

The Vendor had outdated merchandise in two (2) out of ten (10) vending machines we inspected at two (2) separate locations on January 12, 2015, as follows:

- One (1) row of Mountain Dew soda in the vending machine on the 9th floor of the Carnahan Court House had an expiration date of November 2014.
- One (1) row of Sierra Mist soda in the vending machine on the 1st floor of 101 S. Tucker Boulevard had an expiration date of November 2014.

The "General Conditions" of the contract state that the Vendor will keep all vending machines properly serviced with quality merchandise in a manner satisfactory and acceptable to the City of St. Louis.

**Recommendation**

Internal Audit recommends that the City work with the Vendor to ensure that outdated merchandise is not sold to the public.

***Management Response***

I agree with this finding. I have received calls from various locations about expired products. The number of soda products being sold has decreased over the years, so it is important that we not overstock the machines with products that are not selling. I have been working with the driver to determine the quantity as well as the type of soda products that should be placed in various machines. In areas where we don't have much traffic, we have cut down the quantity of soda products that are placed in those machines. I have also asked the driver to check the product expiration date when filling the machines and remove any products that have expired or will expire before the next visit.

I will continue to monitor this and keep a record of the calls I receive about expired products.