

The seal of the Missouri State Auditor is circular and features a central figure holding a scale and a sword. The text around the seal reads "SEAL OF THE STATE AUDITOR" at the top, "JUSTICE WE STAND DIVIDED" in the middle, and "1820 MISSOURI 1892" at the bottom.

Nicole Galloway, CPA

Missouri State Auditor

City of St. Louis

Department of Streets

Report No. 2022-005

January 2022

auditor.mo.gov



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of St. Louis - Department of Streets

Towing Division	The Towing division's accounting controls and procedures for recording and reconciling payments collected were poor. Division personnel have not performed a formal review of towing rates since the current rates went into effect on January 1, 2008.
Scrap Metal Sales	Refuse division procedures did not ensure the accuracy of scrap metal payments received.
Accounts Receivable	Department personnel do not follow established procedures to ensure contractors are denied permits, as required, when they have outstanding balances due. Department personnel did not refer individuals with amounts due for damages to lights or light poles or general damages to the City Counselor's office in the timeframe required.
Capital Assets	Traffic and Lighting division personnel did not perform an annual physical inventory of capital assets as required.

In the areas audited, the overall performance of this entity was **Fair**.*

All reports are available on our website: auditor.mo.gov

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

City of St. Louis - Department of Streets

Table of Contents

State Auditor's Report	2
------------------------	---

Management Advisory Report - State Auditor's Findings	1. Towing Division.....4 2. Scrap Metal Sales6 3. Accounts Receivable7 4. Capital Assets8
---	--

Organization and Statistical Information	10
---	----



NICOLE GALLOWAY, CPA

Missouri State Auditor

To the Honorable Mayor
and
Director of Department of Streets
City of St. Louis, Missouri

We have audited certain operations of the City of St. Louis Department of Streets in fulfillment of our duties under Section 29.200.3, RSMo. The State Auditor initiated audits of the City of St. Louis in response to a formal request from the Board of Aldermen. The city has engaged KPMG LLP, Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended June 30, 2019. To minimize duplication of effort, we reviewed the CPA firm's report. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2019. The objectives of our audit were to:

1. Evaluate the department's internal controls over significant management and financial functions.
2. Evaluate the department's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

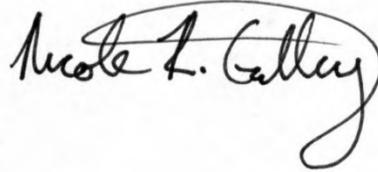
Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the department, as well as certain external parties; and testing selected transactions using systematic and haphazard selection, as appropriate, but the results of our test cannot be projected to the population of all transactions. We obtained an understanding of internal control that is significant to the audit objectives and assessed the design and implementation of such internal control to the extent necessary to address our audit objectives. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of applicable contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the department.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the City of St. Louis Department of Streets.

Additional audits of various officials and departments of the City of St. Louis are in process, and any additional findings and recommendations will be included in subsequent reports.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA
State Auditor

City of St. Louis - Department of Streets

Management Advisory Report

State Auditor's Findings

1. Towing Division

The Towing division's accounting controls and procedures needed significant improvement. Towing receipts were at greater risk because a large portion were received in cash. As a result of significant control weaknesses, there is less assurance these receipts have been handled and accounted for properly. In addition, towing rates charged have not been reviewed.

The Towing division is responsible for the towing, storage, and if necessary, auction of abandoned, wrecked, and illegally parked vehicles within the city. The division assesses and collects fees for the towing and storage of vehicles. In addition, the division receives proceeds from the auction of vehicles that are not claimed by their owners within 30 days. The division uses the Regional Justice Information System (REJIS) to obtain information concerning a towed vehicle and also to record information such as the towing and storage fees charged and collected. During the year ended June 30, 2019, the division collected approximately \$1.5 million in towing fees and \$1.8 million in auction proceeds.

1.1 Accounting controls and procedures

The Towing division's accounting controls and procedures for recording and reconciling payments collected were poor. During the audit period, division procedures included recording receipts in a notebook division personnel used as a manual ledger and in the REJIS; issuing a receipt slip to the customer; and transmitting the receipts to the Treasurer's office. However, division personnel did not consistently follow these procedures.

Our initial review of receipt records for 2 months noted significant differences between the amounts and composition of receipts recorded in the manual ledger and in the REJIS, as well as, differences between recorded amounts and the amounts transmitted to the Treasurer's office. As a result, we determined additional audit work was necessary. We obtained transmittal and deposit support, for a haphazardly selected month, from the Treasurer's office and bank, respectively, and contacted auction participants. This work allowed us to verify the method of payment for each transaction along with the nature of the transaction. During our review of 894 August 2018 transactions, which included 522 transactions for towed vehicles and 372 auction transactions, we identified the following concerns:

Recording

Towing division personnel did not properly record receipts in the manual ledger and/or in the REJIS.

- For the 4 auctions held in August, division personnel incorrectly recorded receipts for 96 auctioned vehicles, totaling \$24,400, as cash receipts in the REJIS. However, bank records show these payments occurred by check.
- Division personnel incorrectly recorded 32 towing receipts, totaling \$13,290, as cash receipts in the manual ledger. Bank records indicate the



City of St. Louis - Department of Streets
Management Advisory Report - State Auditor's Findings

payments occurred by check. In addition, division personnel recorded 6 towing receipts, totaling \$1,770, as check payments in the REJIS. However, bank records indicate the payments were made by cash.

- Receipts for 4 towed vehicles were recorded in the manual ledger, but not in the REJIS. Conversely, receipts for 4 other towed vehicles were recorded in the REJIS, but not in the manual ledger.
- The receipt amounts recorded in the manual ledger for 5 towed vehicles differed from the amounts recorded in the REJIS. These receipts included 2 payments by check, 2 using cash, and 1 by credit card.

Reconciling

Division personnel did not reconcile receipt information, including the composition of the receipts, recorded in the REJIS to the manual ledger to ensure all collections were recorded and transmitted and towing records updated. Division procedures required personnel to record towing receipts in the REJIS and in the manual ledger. The ledger also served as supporting documentation for the receipt coding form that was submitted to the Treasurer's office with the transmitted receipts and the Comptroller's office for recording the receipts in the city accounting system.

Conclusion

Division personnel were unaware of the various discrepancies until we discussed the issues with them. They also indicated they have changed procedures for handling towing and auction receipts. Failure to implement adequate recording and reconciling procedures increased the risk that loss, theft, or misuse of money would go undetected and accounting records would contain errors.

1.2 Towing rates

Division personnel have not performed a formal review of towing rates since the current rates went into effect on January 1, 2008. As a result, there is less assurance the rates are set at an appropriate level to cover the costs of the department. It is unclear why a formal review has not occurred.

Section 67.042, RSMo, provides that fees may be increased if supported by a statement of costs that shows the increase is necessary to cover costs of providing the service. By periodically preparing cost analyses of the tow rates that consider expenses such as the cost of using the tow trucks, driver salaries, administration costs, and facility and utility expenses, division personnel can evaluate if rates are sufficient to cover costs. The preparation of a comprehensive statement of costs would not only allow the division to determine the rates necessary to recover costs of services and support current and future operations, but also provide documentation to customers of the rationale behind the tow rates.



Recommendations

The Department of Streets:

- 1.1 Continue to improve procedures to ensure receipts are recorded properly, the composition of receipts is reconciled to the composition of amounts recorded and transmitted, and the manual ledger and REJIS records are reconciled to each other and transmittals to ensure records are accurate and complete.
- 1.2 Periodically perform a formal review of tow rates to ensure the amounts reflect current costs and revenues are sufficient to cover the cost of providing services.

Auditee's Response

- 1.1 *The manual ledger has been removed from use. Reconciliations are being completed at the end of each day by the Administrative Assistant. The Administrative Assistant, or his/her designee, reconciles all monies for the day versus the REJIS totals for the day, any discrepancies are noted on the reconciliation sheet and saved as a PDF on a network computer drive. The Towing division has worked with REJIS to make sure that card or check payments require a card or check number, names, etc. for a complete record of transactions.*

The following Standard Operating Procedures as of April 2020, have been developed and are currently in practice.

1. *Daily Cash, Check and Credit Card Reconciliation Tow and Storage Fees*
 2. *Monthly First Data/Credit Card Reconciliation Tow and Storage Fees*
 3. *Receiving Cash, Check and/or Credit Card Tow and Storage Fees*
- 1.2 *The Towing division's current rates are adequate to cover their current costs. Comparatively The Towing division's rates are significantly lower than most local private companies based on an informal review. The Towing division will keep this recommendation in mind and evaluate on an annual basis.*

2. Scrap Metal Sales

Refuse division procedures to ensure the accuracy of scrap metal payments received need improvement.

Refuse division personnel weigh sold scrap metal at a transfer station and record the net tonnage before it is given to the buyer. The buyer then weighs the scrap metal using the buyer's scales and makes a payment based on that weight. Division personnel do not reconcile the net tonnage of scrap metal



City of St. Louis - Department of Streets
Management Advisory Report - State Auditor's Findings

weighed at the division transfer station to the net tonnage the buyer uses to calculate payment to determine if there has been any significant loss and the payment received is appropriate. For example, for one invoice reviewed, we noted the weight recorded from the buyer's scales was 2,000 pounds less than the weight recorded at the transfer station.

It is unclear why the Refuse division did not have procedures in place however, reconciliation and review of net tonnage used to calculate payment is necessary to help detect net tonnage loss and ensure all scrap metal payments are appropriate. Significant differences need to be investigated by division personnel.

Recommendation

The Department of Streets reconcile the net tonnage weighed at the transfer station to the net tonnage weighed by the buyer to ensure the payment is appropriate and investigate any significant differences.

Auditee's Response

Current practices will be reviewed. Procedures will be established to reconcile and track the net tonnage used for payment calculations.

3. Accounts Receivable

Department of Streets' personnel do not always follow established accounts receivable procedures.

3.1 Issuance of permits

The department does not follow established procedures to ensure contractors are denied permits, as required, when they have outstanding balances due. For example, one contractor with an outstanding balance from July 2018 was allowed to purchase work permits in December 2018 and May 2019. The vendor paid the outstanding balance in July 2019.

It is unclear why department personnel did not follow established policies and procedures related to obtaining a permit. Department accounts receivable procedures for contractors indicate if a contractor goes more than 30 days without paying for city permits, department personnel should deny any permit applications until the contractor's accounts are made current or the contractor agrees to a payment plan. Adequate review of available accounts receivable reports prior to issuing a permit, as well as, permit denial, when applicable, are necessary to ensure timely payment and prevent lost revenue.

3.2 City Counselor referral

Department personnel did not refer individuals with amounts due for damages to lights or light poles or general damages to the City Counselor's office in the timeframe required. We reviewed accounts receivable listings for damages, and noted multiple accounts with amounts due for over 90 days that were not immediately referred to the City Counselor's office. As of June 30, 2019, 60 accounts with amounts due for damages to light and light poles, totaling \$122,971 and 24 accounts with amounts due for general damages, totaling \$94,155, were more than 90 days overdue before they were referred



to the City Counselor's office. Twenty-six of these accounts were turned over more than 200 days after the invoice date.

It is unclear why the department did not follow established policies and procedures related to outstanding accounts receivable balances. Department accounts receivable procedures for damages state, after 90 days, invoices for damages should be forwarded to the City Counselor's office for collection. Adequate procedures to timely follow up on amounts due, including identifying and referring accounts more than 90 days overdue to the City Counselor's office, are needed to ensure amounts are collected timely and prevent lost revenue for the city.

Recommendations

The Department of Streets:

- 3.1 Review all outstanding accounts receivable balances due from contractors prior to issuing a permit and deny applicable permit applications in accordance with department procedures.
- 3.2 Refer accounts with balances due for damages to the City Counselor's office after 90 days as required.

Auditee's Response

- 3.1 *A procedure will be established to evaluate a contractor's outstanding balances owed to the Streets Department and whether subsequent permits can be issued to that contractor.*
- 3.2 *The above noted procedure will include the condition that if a balance owed to the Streets Department exceeds 90 days, invoices will be referred to the City Counselor's office for collections.*

4. Capital Assets

Traffic and Lighting division personnel did not perform an annual physical inventory of capital assets as required.

The city's Fixed Asset Management System (FAMS) policy and procedure manual requires each department to conduct an annual physical inventory of all departmental property, reconcile the inventory to the capital asset listing provided by the Comptroller's office, and notify the Comptroller's office of capital asset additions, dispositions, transfers, and adjustments or corrections necessary to ensure city records are accurate and complete. The Traffic and Lighting Superintendent indicated inventories were not completed because the division's warehouse manager position, which has the responsibility of maintaining the division's inventory listing, was vacant for more than a year.

The policies and procedures required by the city's FAMS policies and procedures manual are necessary to provide controls over city property; safeguard city assets that are susceptible to loss, theft, or misuse; and provide a basis for proper financial reporting and insurance coverage.



City of St. Louis - Department of Streets
Management Advisory Report - State Auditor's Findings

Recommendation

The Traffic and Lighting division perform an annual inventory of capital assets as required.

Auditee's Response

The Traffic and Lighting Division will perform an inventory and update the Fixed Asset Management System in accordance with the city's policy and procedure manual.

City of St. Louis - Department of Streets

Organization and Statistical Information

The Department of Streets is charged with the maintenance of the streets and roadways of the city to ensure their continued use by the public. The department consists of the Director's office and four divisions, which include streets, refuse, traffic and lighting, and towing. The Mayor appoints a director to oversee the operations of the department including the supervision and coordination of all activities for the four divisions. Currently, the Director of Streets is Betherny Williams who was appointed in October 2021. During our audit period the Director was Jamie Wilson who was appointed in September 2017. As of June 30, 2019, the department had 529 employees.

The Director's office is responsible for the administration of the department, and ensuring all other divisions are working towards keeping the roadways of the city functioning. These responsibilities include various accounting duties of the department, as well as oversight on purchasing, accounts payable, and receivables. The office also oversees the issuance of permits and collection of permit fees for various items such as street blockages, parades, parking, and sidewalk and driveway construction. In addition, the office administers the sewer lateral repair, 50/50 sidewalk, and school crossing guard programs.

The Division of Streets is responsible for the maintenance of streets and alleys within the city. These duties include resurfacing and repairing streets, removing snow from the streets, and street sweeping along with street lighting, street signs, and traffic signals.

The Division of Refuse is responsible for the collection and disposal of all refuse from city residences. The division also coordinates efforts to reduce the amount of waste going to landfills, such as recycling, composting, and waste reduction. The division also collects fees for the sale of scrap metal.

The Division of Traffic and Lighting is responsible for the management of the traffic and lighting needs of the city. The division ensures traffic signals are properly maintained and repaired when needed. In addition, the division fabricates, installs, and maintains traffic signage and traffic painting and striping throughout the city. The division also repairs any damage to the traffic signals and signs caused by accidents.

The Division of Towing is responsible for the towing of abandoned, wrecked, and illegally parked vehicles within the city as requested by the St. Louis Police Department and other city departments. The division also stores the towed vehicles on its lot and auctions any not claimed. The division collects fees for towing, storage, and auctioning of vehicles.