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Missouri State Auditor

City of St. Louis

Department of Public Utilities

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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of St. Louis - Department of Public Utilities

Water Division Revenues	<p>The City of St. Louis has not ensured water revenues are sufficient to adequately maintain the city's water distribution system. Water rate increases have not been implemented in over 10 years despite 4 rate sufficiency studies recommending such increases over that timeframe. As a result, needed capital improvements to the system were delayed and projected costs have significantly increased. Additionally, by not performing necessary maintenance of the water system, the Water Division is at risk of violating bond covenants. The delay of rate increases will also potentially result in more significant rate increases in the future to make up for past inaction, which would negatively impact rate payers. The Water Division also forgoes potential revenues by not billing the city for water consumption at city-owned buildings and properties.</p>
Payroll Controls and Procedures	<p>Water Division payroll procedures need improvement. The Water Division modified the permanent work schedules for some Water Division employees without obtaining approval from the city's Department of Personnel, resulting in the underpayment of overtime earned that was not in accordance with the city's overtime policy or Fair Labor Standards Act requirements. In addition, hours reported on individual employee timesheets did not agree to hours reported on summarized bi-weekly attendance records and/or departmental timesheets created for processing in the city's payroll system. Additionally, our review identified instances of the inconsistent application of city policy related to paid holiday compensation resulting in some employees being compensated for more time than is required by city policy.</p>
Billing Adjustment Procedures	<p>Controls over non-monetary adjustments posted to the Water Division billing system are insufficient and need improvement. Water Division customer service personnel have the ability to post non-monetary adjustments to the accounting system when necessary; however, the Water Division does not have adequate written formal policies and procedures for preparing and approving non-monetary adjustments, including when an adjustment form is required and for what types of transactions. Without sufficient controls in place, non-monetary adjustments can present a significant fraud risk.</p>
Construction Deposits	<p>The Water Division has not processed and disbursed construction deposits held in escrow on a timely basis. Seven of the 9 constructions deposits reviewed showed the related projects were completed prior to 2018; however, the deposits for these 7 projects totaling approximately \$45,000 continued to be held by the Water Division. Invoices had not been generated for these projects, deposits had not been applied to the open invoices, and no invoice or refund had been sent to customers.</p>

Capital Assets

Water Division personnel have not performed a recent, documented, physical inventory of capital assets as required by division policy. Additionally, with the exception of vehicles, the Water Division has not established procedures to ensure assets are tagged, numbered, or otherwise identified as Water Division property. As a result, assets are more susceptible to theft or misuse and asset records may be incomplete and inaccurate.

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

*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 Public Utilities

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NICOLE GALLOWAY, CPA

Missouri State Auditor

To the Honorable Mayor
and
Director of Department of Public Utilities and Water Commissioner
City of St. Louis, Missouri

We have audited certain operations of the City of St. Louis Department of Public Utilities 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 engaged KPMG LLP, Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended June 30, 2020. To minimize duplication of effort, we reviewed the CPA firm's report for the June 30, 2020, audit since the June 30, 2021, audit had not been completed. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2021. 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.

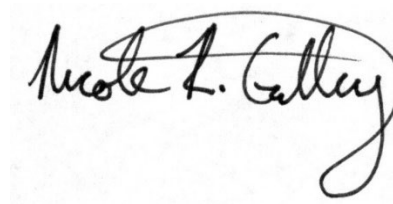
Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the department, as well as certain external parties; and performing sample testing using haphazard and judgmental selection, as appropriate. The results of our sample testing cannot be projected to the entire populations from which the test items were selected. We obtained an understanding of internal control that is significant to the audit objectives and planned and performed procedures to assess 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 Public Utilities.

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 that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the word "Galloway".

Nicole R. Galloway, CPA
State Auditor

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

1. Water Division Revenues

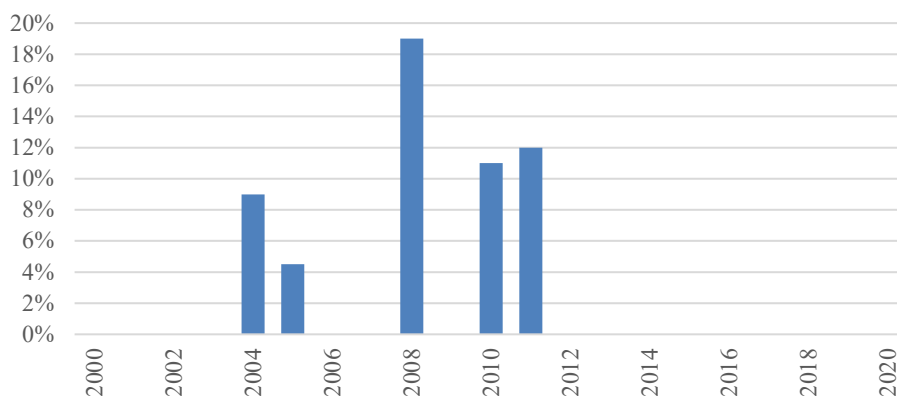
The City of St. Louis has not ensured water revenues are sufficient to adequately maintain the city's water distribution system. As a result, needed repairs and improvements have been delayed or have not been completed, and projected costs have significantly increased. While Department of Public Utilities Water Division personnel can recommend rate increases, the Mayor's office is responsible for advancing rate recommendations to the Board of Aldermen, and the Board is ultimately responsible for setting and approving the rates for the Water Division. The Water Division also forgoes potential revenues by not billing the city for water consumption at city-owned buildings and properties.

The Water Division obtains biennial rate sufficiency studies, as required by the city's water revenue bond indenture. The division has had 4 rate sufficiency studies completed since the last rate increase in 2011.¹ The purpose of these studies is to analyze the Water Division's compliance with current bond covenants and assess the sufficiency of the division's revenues to allow it to operate while also making needed capital improvements. All 4 rate sufficiency studies completed since the last rate increase recommended an increase to water rates to make needed improvements.

1.1 Water rate increases have not been implemented, resulting in delays in needed improvements

Water rate increases have not been implemented in over 10 years despite 4 rate sufficiency studies recommending such increases over that timeframe. As a result, needed capital improvements to the system were delayed and projected costs have significantly increased. Additionally, by not performing necessary maintenance of the water system, the Water Division is at risk of violating bond covenants. The delay of rate increases will also potentially result in more significant rate increases in the future to make up for past inaction, which would negatively impact rate payers.

Figure 1: Water Division rate increases, fiscal years 2000 to 2020



Source: Water Division data

¹ Studies were conducted in fiscal years 2013, 2015, 2017, and 2020. The Water Division delayed a scheduled rate sufficiency study in 2019 due to an anticipated rate increase. The delayed 2019 study was contracted to begin in March 2020; however, it was further delayed due to the COVID-19 pandemic and staffing problems at the contracted agency.



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Cost of needed system
maintenance increasing

According to rate sufficiency studies completed for the Water Division since the most recent rate increase in 2011, the projected cost of needed system improvements has increased significantly in recent years. For example, the fiscal year 2013 rate study projected an estimated cost of \$17 million for distribution and transmission main replacement and improvements. By fiscal year 2017, the estimated cost had increased to approximately \$70 million, and the estimated cost for the project in the fiscal year 2020 rate study was approximately \$77 million, an increase of approximately 353 percent from the initial estimate. Similarly, the 2015 study estimated repairs to the Chain of Rocks pump station to cost \$6 million, while just 2 years later in the 2017 study the same repair was estimated to cost \$30 million.

According to the rate sufficiency studies, these capital projects, as well as several others, were needed to improve operations, provide system redundancy, replace aging infrastructure, and allow the system to maintain itself as a "sound, viable utility into the future." The most recent 4 rate sufficiency studies concluded that if rates were not increased the city would be out of compliance with the master indenture, which requires that the system to be maintained in good working order.

Rate increase
recommendations have not
always been advanced to
Board of Aldermen

Despite the rate studies consistently recommending rate increases to fund capital improvements, such increases have not always advanced to the Board of Aldermen for consideration. In addition, such recommendations by the division are not regularly formally documented. According to Water Division personnel and available documentation, the Water Division only formally recommended a rate increase to the Mayor's office twice² over the past 10 years, and in only 1 of those instances, in 2017, did the rate increase proposal make it to the Board of Aldermen Public Utilities Committee. The committee voted against the proposed rate increase, and therefore, it was not forwarded to or voted on by the full Board of Aldermen. Discussions with Water Division administrators did not identify a clear cause as to why rate increases have not been formally advanced to the Board.

Rate increases have
historically been large and
infrequent

The Water Division has historically implemented large and infrequent water rate increases, rather than smaller, more frequent increases. As shown in Figure 1, the last 3 rate increases in 2008, 2010, and 2011 averaged approximately 14 percent. Prior to these 3 rate increases, rates had only been increased twice since 1997.

Such significant rate increases in a short timeframe can potentially cause financial stress on utility customers, particularly those with low and fixed

² A rate increase recommendation was provided to the Mayor's Office in 2017 and 2019. The 2017 rate increase recommendation was forwarded to the Public Utilities Committee for consideration, and the 2019 rate increase recommendation was later pulled from consideration by the Water Division due to the start of the pandemic.



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1.2 Water usage at city facilities has not been billed

incomes. According to the Environmental Protection Agency (EPA),³ implementing more frequent and moderate rate increases may help avoid "rate shock" and would allow customers to more easily absorb rate increases.

These periodic rate increases would allow the Water Division to maintain compliance with the division's bond covenants, cover increases in operating costs, and provide funding for capital improvements necessary to maintain the division's aging infrastructure.

The Water Division does not bill the city for water consumption at city-owned buildings and property. As a result, the Water Division is forgoing revenue from city sources and spreading the cost of city water usage across city water customers. According to Water Division personnel, currently only 147 of an estimated 841 city buildings and properties are metered for water use (17.5 percent). The meters located on these city properties are read on a quarterly basis to measure water usage, but is not billed. The estimated water usage for these 147 city buildings and properties for fiscal year 2021 would have generated \$738,376 in potential revenue.

The Water Division's water rates are required by bond covenants to produce sufficient revenue to cover all operating costs and to provide for bond payments. Currently the division's rate calculations spread these revenue requirements across all paying utility customers. The Water Division has a potential source to assist in generating revenue that could be used to fund capital improvement projects necessary for maintaining functionality of the water distribution infrastructure.

The Water Division does not believe collection of this potential revenue source is reasonable or feasible based on the increased cost of billing and accounting. According to the Water Division, the city only uses water for purely public purposes and for the public good, and due to this, it cannot bill other city divisions for water consumed on city-owned properties. However, this is inconsistent with how the Water Division interacts with other city departments when services are provided. For example, the Collector of Revenue processes and collects payments for water customers for the Water Division and receives compensation for this service by retaining 4 percent from customer water bills. The Water Division and other city departments/divisions also pay allocated costs to the Comptroller's office on an annual basis for accounting and administrative services received. Additionally, the Streets Department compensates the Water Division for

³ Environmental Protection Agency, Office of Water, *Setting Small Drinking Water System Rates for a Sustainable Future*, <<https://nepis.epa.gov/Exe/ZyPDF.cgi/2000D2NM.PDF?Dockkey=2000D2NM.PDF>>, accessed September 22, 2022.



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services provided to the Streets Department related to refuse services. It is not unreasonable for other city departments to be billed for water consumption since the Water Division is providing a service to these departments.

The city's revenue bond indenture states that all users of water services shall be charged such rates and charges to be fully adequate to meet the requirements of the Waterworks Revenue Fund. In addition, City Charter Article XIII, Section 12, states, "The accounts of all public utilities owned and operated by the city and dependent for the revenues upon the sale of their products or services shall. . . contain proportionate charges for all services performed for such utilities by other departments, as well as proportionate credits for all services rendered." Based on this, the Water Division should be paid for any services provided to other departments, as well as pay all other departments for services received, as is typical for other city enterprise funds.

Conclusion

While the Water Division has formally recommended rate increases on 2 occasions since 2011, the Board of Aldermen has not taken a vote on the topic. Without the additional revenues from increased rates the Water Division is not able to incur additional debt necessary to perform any significant capital improvements needed. The estimated costs of needed improvements have increased significantly over the past 10 years. Ensuring improvements and repairs to the water system are made in a timely manner is in the best interest of the customers of the Water Division and of the system in general. Significant increases in water rates will need to be implemented in order to finance needed improvements. Any supplemental revenue provided by billing city water use to appropriate city departments would help offset any additional revenues needed to be collected via increased rates.

Similar conditions previously reported

Similar conditions were noted in our prior audit report. In the *Follow-Up Report on Audit Findings City of St. Louis - Department of Public Utilities*, Report No. 2018-107, issued in October 2018, department officials indicated the previous recommendations for Management Advisory Report (MAR) Finding Number 1.2 had not been implemented and MAR Finding Number 1.1 had been partially implemented; however, we found that the problems identified in MAR Finding Number 1.1 continue to exist.

Recommendations

The Water Division:

- 1.1 Consider the suggestions of completed rate sufficiency studies and formally document any proposed rate increases suggested to the Mayor and Board of Aldermen. In addition, work with the Mayor and Board of Aldermen to ensure water rates are more evenly increased to allow customers to more easily absorb rate increases and ensure critical infrastructure is updated and maintained.



Auditee's Response

1.2 Work with city officials to meter water usage or develop alternative water usage estimates to determine the city's water usage and compensate the Water Division for city water use.

1.1 *The Water Division agrees with the finding. See the division's full written response in the Appendix.*

1.2 *The Water Division disagrees with the finding. See the division's full written response in the Appendix.*

2. Payroll Controls and Procedures

Water Division payroll procedures need improvement. A lack of proper approval of schedule changes with the Department of Personnel has resulted in unpaid overtime for employees, and inadequate supervision of payroll clerks has resulted in holiday week compensation being inconsistently calculated and unnecessary overtime paid.

2.1 Schedule modifications not approved, resulting in unpaid overtime

The Water Division modified the permanent work schedules for approximately 56 Water Division employees without obtaining approval from the city's Department of Personnel as required by city policy. This schedule change required the division to circumvent the city's payroll system controls by moving hours worked in one week to another, resulting in the underpayment of overtime earned. This practice is not in accordance with the city's overtime policy or Fair Labor Standards Act (FLSA) requirements.

The Water Division's modified work schedules require certain employees to work three (3) 12-hour shifts in one week, and four (4) 12-hour shifts the following week, for a total of 84 hours per pay period. Employees' hours worked are either electronically or manually documented on time cards and recorded by the section supervisor on a bi-weekly attendance record submitted to a Water Division payroll clerk for further processing. In weeks in which the employee is required to work 48 hours, supervisors "move" 4 of those hours to the 36-hour work week on the attendance record. This modification of records of hours worked reduces the amount of overtime payable to employees and is a violation of the FLSA, the city's compensation ordinance, and the Department of Personnel Administrative Regulation No. 134, all of which require overtime be calculated on a per workweek basis, and not be averaged or calculated over the course of a pay period.

Based on auditors' inquiries, the city's Department of Personnel directed the Water Division to immediately stop this practice in a September 2021 letter, and further instructed the division to calculate and compensate all impacted employees for the prior 2 years.



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We estimated each employee was underpaid 2 hours⁴ each pay period resulting in approximately \$83,800 annually in underpaid time for the 56 employees affected by this practice. Department personnel indicated changes to the work schedules had been made several years ago to accommodate the shortage of employees in some areas, but they could not provide a more precise date. It is unclear why the division did not obtain the proper approval for the schedule change in question, or whether the Department of Personnel would have approved such a change due to the increased overtime that would have resulted.

2.2 Payroll Supervision

Supervisory review procedures of payroll records need improvement. Our review of payroll transactions identified instances in which hours reported on individual employee timesheets did not agree to hours reported on summarized bi-weekly attendance records and/or departmental timesheets created for processing in the city's payroll system. Additionally, our review identified instances of the inconsistent application of city policy related to paid holiday compensation. The errors identified resulted in some employees being compensated for more time than is required by city policy.

We reviewed a sample of employee attendance records for a pay period involving a holiday and identified multiple employees with inaccurate time recorded. City ordinance⁵ states any employees not working on a paid holiday are to be provided with compensatory time equivalent to their regular shift. However, our review determined certain employees were paid overtime in addition to earning compensatory time for the paid holiday. For example, an employee whose scheduled day off fell on the holiday was paid for working 6 additional hours that work week in addition to earning 12 hours of compensatory time for the paid holiday.

The errors in question were isolated to one particular payroll clerk, so the full financial impact of these errors could not be easily estimated. However, this issue would potentially affect 77 employees, or 29 percent, of Water Division personnel. Proper reviews of timesheet information entered into the payroll system are necessary to ensure individual timesheet information is calculated correctly and entered into the department's payroll system accurately.

⁴ Each employee should have been paid 36 straight time hours in the short week, plus 40 straight time hours and 8 overtime hours (paid at time and a half this is equivalent to 12 straight time hours) in the long week, for a total of 88 hours. However, each employee was actually paid for 40 straight time hours in the short week, plus 40 straight time hours and 4 overtime hours (paid at time and a half this is equivalent to 6 straight time hours) in the long week, for a total of 86 hours. Therefore, each employee was underpaid for 2 hours per pay period.

⁵ City Ordinance No. 71099 states, "Except as otherwise provided in this section, when a City holiday falls on an employee's regularly scheduled day off, the employee shall be entitled to have compensatory time added to his/her balance in an amount proportionate to the number of hours regularly scheduled in a day or shift."



Without thorough reviews of payroll documentation, errors, theft, or misuse of district resources could go undetected.

Recommendations

The Water Division:

- 2.1 Obtain the proper schedule approvals for all personnel with the Department of Personnel, and work with that department to ensure overtime is being calculated properly for all employees going forward.
- 2.2 Ensure proper supervisory reviews of employee hours recorded in the payroll system are performed, hours recorded in the payroll system agree to individual employee timesheets, and timesheets are calculated accurately and in compliance with city ordinances.

Auditee's Response

- 2.1 *The Water Division agrees with the finding. See the division's full written response in the Appendix.*
- 2.2 *The Water Division agrees with the finding. See the division's full written response in the Appendix.*

3. Billing Adjustment Procedures

Controls over non-monetary adjustments posted to the Water Division billing system are insufficient and need improvement. A non-monetary adjustment is a transaction for which an amount owed is adjusted and money is not received. Total non-monetary adjustments posted for flat and metered rate customers' accounts during the fiscal year ended June 30, 2021, totaled approximately \$3.5 million. Without sufficient controls in place, non-monetary adjustments can present a significant fraud risk.

Water Division customer service personnel have the ability to post non-monetary adjustments to the accounting system when necessary, such as writing off water billed due to a water leak. According to division management, customer service personnel are required to prepare an adjustment form to support the reason for the adjustment and obtain supervisory approval for each such adjustment. However, the Water Division does not have adequate written formal policies and procedures for preparing and approving non-monetary adjustments, including when an adjustment form is required and for what types of transactions. As a result, the use of adjustment forms to approve adjustments has been inconsistent.

Our review of adjustments made to 12 customer accounts noted an adjustment form had not been prepared for 6 (50 percent) of the adjustments reviewed. Of the 6 remaining customer account adjustments that included an adjustment form, 1 form did not contain supervisory approval.

In addition, the Water Division does not reconcile adjustments performed to customer accounts in the billing system to completed account adjustment



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forms, which are prepared outside of the system. Without such a reconciliation there is a risk that unapproved adjustments are being made within the system. Water Division personnel indicated adjustment forms are not always used for certain types of adjustments or are self-explanatory and were sufficiently documented in the computer.

Review and approval of adjustments by an independent person is necessary to ensure adjustments made are proper. Preparing and approving adjustment forms before they are made in the computer system and ensuring posted adjustments are compared to the list of approved adjustments would help ensure non-monetary adjustments are accurate, complete, and valid.

A similar condition was noted in our prior audit report. In the *Follow-Up Report on Audit Findings City of St. Louis - Department of Public Utilities*, Report No. 2018-107, issued in October 2018, department officials reported this previous recommendation had been implemented; however, we found that the corrective action was not consistently applied and problems continue to exist.

Recommendation

The Water Division develop formal policies and procedures to perform adjustments on customer accounts. Additionally, the Water Division should ensure all non-monetary adjustments made to the computer system are properly approved and compared to actual changes posted to the computer system, and documentation of all such adjustments should be retained.

Auditee's Response

The Water Division agrees with the finding. See the division's full written response in the Appendix.

4. Construction Deposits

The Water Division has not processed and disbursed construction deposits held in escrow on a timely basis. As of May 28, 2021, the Water Division held construction deposits from more than 110 construction companies totaling approximately \$756,000. Some of these deposits date back to 2014.

The Water Division requires customers to pay a deposit for the estimated billable Water Division costs related to any construction project that involves part of the water system. Examples of these projects could include relocating a fire hydrant, moving a water main, or purchasing a water tap. Once the project has been completed, existing procedures require the project manager to notify the Finance section of the project's completion. The Finance section is then supposed to generate the project invoice, apply the deposit to the invoice balance, and bill the customer for any balance due or request a refund be generated for any remaining deposit balance.

Our review of 10 deposits held in escrow as of May 28, 2021, showed 9 deposits had been paid to the Water Division between 2014 and 2017. According to the public works records, 7 of the 9 related projects were completed prior to 2018; however, the deposits for these 7 projects totaling



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approximately \$45,000 continued to be held by the Water Division. Invoices had not been generated for these projects, deposits had not been applied to the open invoices, and no invoice or refund had been sent to customers.

The Finance section employee responsible for this process resigned in 2019, and the responsibilities were not reassigned timely. However, based on our review of deposits held, this employee did not always prepare invoices and refunds for several years prior to resigning.

Water Division deposits for construction projects held in escrow are restricted funds held until the construction project is complete. Periodic follow up on construction projects with a deposit balance is necessary to ensure holdings are properly disbursed, and any balance remaining is returned to the customer in a timely manner or applied to the customer's invoice for the services rendered.

Recommendation

The Water Division perform a review to identify and expedite any potential refunds being held from previous periods, and establish procedures to ensure construction deposits held in escrow are reviewed periodically, construction projects are invoiced timely, and money held in escrow is properly handled and disbursed timely.

Auditee's Response

The Water Division agrees with the finding. See the division's full written response in the Appendix.

5. Capital Assets

Water Division personnel have not performed a recent, documented, physical inventory of capital assets as required by division policy. Additionally, with the exception of vehicles, the Water Division has not established procedures to ensure assets are tagged, numbered, or otherwise identified as Water Division property. As a result, assets are more susceptible to theft or misuse and asset records may be incomplete and inaccurate. According to the city's audited financial statements for the fiscal year ended June, 30, 2021, the Water Division had capital assets totaling approximately \$349 million, with approximately \$33 million in equipment and electronics.

The Water Division's policy and procedure for capital assets requires section heads to keep track of capital assets within their sections, perform periodic verifications of their capital assets, and report any changes to the Water Commissioner's office and the Finance section. According to Water Division personnel, with the exception of division vehicle records, which are updated annually for insurance purposes, the division has had difficulties tracking all capital assets and conducting required periodic inventories due to a shortage of employees. Personnel indicated the last comprehensive annual inventory had occurred in 2010 or 2011. Water Division personnel indicated the division had discussed tagging capital assets; however, no formal plan has been developed.



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Adequate capital asset records and procedures are necessary to ensure effective internal 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.

Recommendation

The Water Division ensure complete and accurate inventory records are maintained and annual documented physical inventories are conducted, and ensure assets are properly tagged for identification in accordance with division policy.

Auditee's Response

The Water Division agrees with the finding. See the division's full written response in the Appendix.

City of St. Louis - Department of Public Utilities

Organization and Statistical Information

The Mayor appoints a director of the Department of Public Utilities to oversee operations. The department's 2 divisions are the Water Division and Communications Division. The City of St. Louis acquired an existing waterworks system and began providing water in 1835. The Water Division's budget included 354 full-time employees as of June 30, 2021. Currently, the Director of Public Utilities and Water Commissioner is Curtis B. Skouby, P.E., who was appointed in April 2008. The Communications Division's budget included 12 full-time employees as of June 30, 2021. Currently, the Communications Commissioner is Donna Brooks-Sanders, who was appointed in September 2005.

Communications Division

The Communications Division enforces the city's cable franchise ordinances, inspects cable installations and plant construction, and maintains a government access television channel.

Water Division

The Water Division is responsible for producing and distributing drinkable water to customers, maintaining distribution lines, and billing customers for services rendered. During the year ended June 30, 2021, operating revenues for the Water Division were \$51.5 million. The division has 6 sections including the Commissioner's office and the Finance, Supply and Purifying, Power and Pumping, Distribution, and Customer Service sections. These sections are overseen by the Water Commissioner.

The Commissioner's office enforces city water ordinances related to the operation and maintenance of the city waterworks and the assessment of the water rates. The office provides overall direction and human resources support to the various sections of the division.

The Finance section provides fiscal and budgetary structure and control to the Water Division, prepares financial reports, processes suppliers' invoices, and bills miscellaneous charges.

The Supply and Purifying section chemically treats and filters water in compliance with water quality requirements, and operates and maintains the division's railways, towers, tunnels, basins, reservoirs, and conduits.

The Power and Pumping section operates and maintains pumping station machinery, steam boilers and furnaces, electric generators and motors, the waterworks railway, heating and refrigerating systems, and machine shop equipment. This section also inspects material and shop work and determines the efficiency of pumps, boilers, generators, motors, and all pumping station appliances.

The Distribution section supervises the manufacture and inspection of steel and cast iron pipes, hydrants, valves, meters, and special castings and fittings;



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Organization and Statistical Information

and directs the laying of extensions and repairs to the pipe system. This section also maintains water service to consumers.

The Customer Service section bills for water services used by residential and commercial customers, maintains customer accounts, and investigates damage claims against the division.



Appendix
City of St. Louis - Department of Public Utilities
Department of Public Utilities Response



TISHAURA O. JONES
MAYOR

City of Saint Louis
DEPARTMENT OF PUBLIC UTILITIES

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CURTIS B. SKOUBY, P.E.
DIRECTOR OF PUBLIC UTILITIES

November 8, 2022

Honorable Nicole Galloway, CPA
Missouri State Auditor
Jefferson City, Missouri

We have reviewed the findings from your office's audit of the City of St. Louis Public Utilities. Below you will find our responses to the audit findings.

1.1 The Water Division should consider the suggestions of completed rate sufficiency studies and formally document any proposed rate increases suggested to the Mayor and Board of Aldermen. In addition, work with the Mayor and Board of Aldermen to ensure water rates are more evenly increased to allow customers to more easily absorb rate increases and ensure critical infrastructure is updated and maintained.

Division's Response: The Water Division agrees with this finding. Smaller, more frequent rate increases are more desirable as opposed to what historically has happen. Proposing rate increases will be done in a documented, formal manner.

1.2 The Water Division should work with city officials to meter water usage or develop alternative water usage estimates to determine the city's water usage and compensate the Water Division for city water use.

Division's Response: The Water Division disagrees with this finding. The issue of developing meter water usage or alternative water usage is a City policy which the Water Division does not control. The Water Division will review the situation with city officials to see where we might be able to make changes.

2.1 The Water Division should obtain the proper schedule approvals for all personnel with the Department of Personnel, and work with that department to ensure overtime is being calculated properly for all employees going forward.

Division's Response: The Water Division agrees with this finding. This has been corrected and the employees who were effected have been made whole in their wages.



Appendix
City of St. Louis - Department of Public Utilities
Department of Public Utilities Response

2.2 The Water Division should ensure proper supervisory reviews of employee hours recorded in the payroll system are performed, hours recorded in the payroll system agree to individual employee timesheets, and timesheets are calculated accurately and in compliance with city ordinances.

Division's Response: The Water Division agrees with this finding. A more thorough review is being performed by all Payroll Specialists at this time. The City will also be implementing a new payroll system which will help prevent this error in the future.

3. The Water Division develop formal policies and procedures to perform adjustments on customer accounts. Additionally, the Water Division should ensure all non-monetary adjustments made to the computer system are properly approved and compared to actual changes posted to the computer system, and documentation of all such adjustments should be retained.

Division's Response: The Water Division agrees with the finding. Although the Water Division already has a formal policies and procedures to perform adjustments on customer accounts, we will work on improving these policies and procedures and strictly enforce them. As workload permits, we will also work with our IT Group to develop an electronic adjustment and approval system to strengthen our internal control and better audit trail.

4. The Water Division perform a review to identify and expedite any potential refunds being held from previous periods, and establish procedures to ensure construction deposits held in escrow are reviewed periodically, construction projects are invoiced timely, and money held in escrow is properly handled and disbursed timely.

Division's Response: The Water Division agrees with this finding. We will work on improving the communication between our Finance and Distribution sections and conduct a quarterly review of open deposits, process completed work orders timely and apply deposits and/or refunds as appropriate.

5. The Water Division ensure complete and accurate inventory records are maintained and annual documented physical inventories are conducted, and ensure assets are properly tagged for identification in accordance with division policy.

Division's Response: The Water Division agrees with this finding. The Water Division will work towards setting up systems that will allow the department to conduct annual physical inventory and provide a manner in which assets are properly tagged for identification in accordance with division policy.

Sincerely,

Curtis B. Skouby, P.E.
Director of Public Utilities
City of St. Louis