Susan Montee, JD, CPA
Missouri State Auditor

City of St. Louis Lambert-St. Louis International Airport

November 2009

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Office of the
Missouri State Auditor
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YELLOW SHEET

The following findings were included in our audit report on the City of St. Louis, Lambert-St. Louis International Airport.

Opportunities exist for airport officials to reduce operating costs. The airport is incurring unnecessary costs by continuing to fund the operations of the south firehouse at the airport. The airport has received confirmation from the Federal Aviation Administration (FAA) that the south firehouse is not necessary to meet FAA regulations for emergency response times. A cost analysis performed by the airport estimated the potential cost savings of closing the south firehouse would be approximately $1.8 million per year. Also, airport management has not performed a cost analysis to determine if janitorial services should be performed by city employees or outsourced.

Landing and fuel flowage fees charged to users of fixed based operator facilities, also called general aviation traffic, have not been updated for approximately 10 years, and the airport has no documentation of how the fees were determined. Fees charged to the various food vendors, car rental companies, and miscellaneous shops at the airport terminals are not subject to a competitive process and have not been updated for approximately 10 years. The airport has not adequately monitored the cash receipt operations of the parking contractor and has not adequately reviewed audit reports of passenger facility charge (PFC) revenues.

Airport accounting controls and procedures could be improved. Accounting duties within the Finance and Accounting Division are not adequately segregated and there is minimal independent oversight related to receipts. Receipts collected and recorded by the account clerk are not always transmitted intact. The Finance and Accounting Division allows vending machine commission checks and petty cash replenishment checks to be cashed from the daily cash receipts. The method of payment is not recorded on some receipt slips issued by the front office window and the composition of receipts is not reconciled to turnovers to the City Treasurer's Office. In addition, several large airport expenditures were not properly approved as outlined by airport policy.

The airport has approximately 319 vehicles including passenger vehicles, trucks, vans, and dump trucks. Monitoring procedures for the airport's vehicles are not sufficient. The city's vehicle policy does not address records to be maintained for vehicles, and the airport does not require vehicle usage logs be maintained for its vehicles. In addition, no documentation was provided to show the airport regularly monitors the fleet to ensure vehicles are used efficiently and effectively. The airport does not have adequate procedures in place to ensure employees assigned a take home vehicle do not continue to receive a commuting allowance. Also, the airport does not reconcile fuel purchased to fuel used.

Procedures for tracking capital assets and depreciation could be improved. The airport has two conflicting written policies concerning assets. The airport has not recently performed an annual physical inventory of assets. Property purchases and accumulated depreciation are not adequately reconciled between the general ledger trial balance and the capital asset list. The property records maintained do not include all necessary information and some descriptions are not accurate. The airport police department maintains an additional property list which duplicates the records maintained by the Finance and Accounting Division. In addition, the police department list contains small items (minimum value of $20) which may not need to be tracked.

CITY OF ST. LOUIS
LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT

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SUSAN MONTEE, JD, CPA
Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of St. Louis. The city engaged KPMG LLP, Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended June 30, 2008. To minimize duplication of effort, we reviewed the CPA firm's audit report for the year ended June 30, 2008. We have conducted an audit of the City of St. Louis Lambert-St. Louis International Airport. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2008. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.

2. Determine if the airport has adequate internal controls over significant management and financial functions.

3. Determine if the airport has complied with certain legal provisions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the airport, as well as certain external parties; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We 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 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

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instances of noncompliance significant to those provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

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 History and Organization is presented for informational purposes. This information was obtained from the airport's management and was not subjected to the procedures applied in our audit of the airport.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of St. Louis Lambert-St. Louis International Airport.

Additional audits of various officials and departments of the City of St. Louis, fulfilling our obligations under Section 29.230, RSMo, are still in process, and any additional findings and recommendations will be included in subsequent reports.

Susan Montee

Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CIA, CGFM
Audit Manager:	Robert Showers, CPA
In-Charge Auditor:	Carl Zilch, Jr.
Audit Staff:	Deborah Whitis, MBA, CPA
	Lisa Henderson

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF ST. LOUIS
LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Operational Costs

Opportunities exist for airport officials to reduce operating costs. The airport is currently incurring costs to operate an additional firehouse which may not be needed and has not conducted a cost analysis of janitorial services to determine if cost savings could be achieved by providing the service with city employees.

A. The airport is incurring unnecessary costs by continuing to fund the operations of the south firehouse at the airport. The airport has received confirmation from the Federal Aviation Administration (FAA) that the south firehouse is not necessary to meet FAA regulations for emergency response times. A cost analysis performed by the airport estimated the potential cost savings of closing the south firehouse would be approximately $1.8 million per year. Because the airport operations are accounted for as an enterprise fund of the city, the costs associated with the south firehouse are charged to the airport. However, the airport does not have the authority to close the south firehouse or reassign the firefighters stationed there. The City of St. Louis Fire Department is in control of all firehouse operations and would be responsible for making the decision to close the south firehouse. Based on discussions with Fire Department officials, they feel the south firehouse is still necessary, but did not provide any specific information to support this position. To eliminate unnecessary operating costs, airport management should continue to work with the fire department regarding the closure of the south firehouse.

B. Airport management has not performed a cost analysis to determine if janitorial services should be performed by city employees or outsourced. Currently, the airport contracts with a company to perform janitorial services for the concourses for approximately $2.9 million per year. Janitorial services for the terminals are performed by in-house airport staff at a cost of approximately $3.7 million. The airport's Senior Deputy Director stated it may be difficult to staff a full in-house janitorial crew due to the airport location in St. Louis County and the city requiring city employees to live in the City of St. Louis. However, without a cost analysis, the airport cannot ensure the services are provided in the most economical way.

According to the Deputy Director of Finance and Administration, unnecessary and inflated operating costs contribute to Lambert being considered a high cost airport relative to its peers. Higher operational costs are passed on to the airlines through increased fees; the airlines then pass those costs on to the consumer. High fees can also be an obstacle to attracting new airlines to St. Louis, according to the official. More airlines at the airport results in more competition and potentially better rates for the consumer.

WE RECOMMEND the Airport Director:

A. Work with the St. Louis Fire Department to conduct additional analysis regarding the feasibility of closing the south firehouse.

B. Perform a cost analysis to determine the most cost effective method of providing janitorial services.

AUDITEE'S RESPONSE

The Airport provided the following written responses:

A. The Airport agrees with this finding and recommendation. This cost is directly passed on to the airlines because it is attributable to the airfield. Therefore, STL's landing fee could be lower and, potentially, assist in attracting new carriers. We will continue to pursue this request with the City's Fire Department.

B. The Airport agrees that an updated cost analysis is appropriate.

2. Contract Monitoring

The airport has not documented in at least 10 years how some airline and vendor fees were determined. In addition, an adequate review has not been conducted of audit reports and accounting records for the parking facilities management company and the passenger facility charges.

A. The airport has not documented in at least 10 years how the fees generated from general aviation through fixed based operators and for car rental and concession companies are determined.

   1) Landing and fuel flowage fees charged to users of fixed based operator facilities, also called general aviation traffic, have not been updated for approximately 10 years, and the airport has no documentation of how the fees were determined. The airport collected approximately $1.6 million during the year ended June 30, 2008, from fixed based operators for general aviation activity. An analysis is needed to ensure the fees charged to fixed based operators are sufficient to cover related costs.

   2) Fees charged to the various food vendors, car rental companies, and miscellaneous shops at the airport terminals are not subject to a competitive process and have not been updated for approximately 10 years. Each vendor contract requires the vendor to pay a minimum annual

guarantee, or a fixed percent of gross revenues, whichever is larger. Historically, the majority of vendors pay the fixed percent fee. While the bid process for concession vendors allows the vendors to state their annual minimum guarantee, the fixed percent fee remains the same for all vendors and is not subject to a competitive process or negotiated.

Airport officials stated the fixed percent fees used are industry standards and putting the fee portion up for bid would not generate additional revenues. However, discussions with officials at the Indianapolis, Kansas City, and Cincinnati airports indicated the fee portion of their concession contracts is subject to a request-for-proposal process and negotiated. In addition, considering incentives exist for vendors to submit attractive bids, a competitive process to determine the fee portion of concession contracts appears reasonable and could increase operational revenues. Maximizing operating revenues would also help to offset operating costs and could reduce the fees charged to airlines.

B. The airport has not adequately monitored the cash receipt operations of the parking contractor. The airport entered into an agreement with a company to manage the day to day operations of the six airport parking facilities. All of the receipts from the operation are transmitted to the airport's accounts and the airport is required to reimburse the company for operational expenses plus a management fee. For the year ended June 30, 2008, revenues for parking facility operations totaled approximately $29.7 million, of which $9.2 million (31 percent) was cash. The remaining $20.5 million collected was in the form of credit cards.

The airport's agreement with the parking contractor provides the airport the right to audit and examine the accounting records of the management company at any time; however, the airport has not performed a review of parking cash collections or receipt transmittal operations since 2007. The time frame of this review was for the 2 years ended June 30, 2005. The parking contractor has performed its own internal audits which have been critical of parking operations; however, the airport has not requested copies of such reports be submitted for review. The parking contractor also had financial statement audits performed and copies are not submitted to the airport for review. The financial statement audits are not required by the agreement to be conducted and submitted to the airport.

By not conducting a review of the parking contractor's receipt procedures and accounting records and not reviewing related audit reports, the airport cannot ensure the amount of revenues submitted to the airport is accurate. A periodic review of the audit reports and accounting records would help ensure the airport is receiving the proper amounts. In addition, the airport should consider requiring financial statement audits be submitted to the airport for review.

C. The airport has not adequately reviewed audit reports of passenger facility charge (PFC) revenues. The airport receives PFC revenues for FAA approved projects from each airline. Currently, the airlines are required to charge $4.50 per enplaned passenger and remit this charge, less an 11 cent per passenger administration fee, to the airport monthly. The airport received PFC revenues of approximately $30.5 million for the year ended June 30, 2008. FAA regulations require each airline with more than 50,000 passengers annually to provide for an annual audit of their PFC accounts. While the airport received an audit of its PFC Fund expenditures with no issues noted, the airport has not requested copies of the airlines' PFC audits for verification of revenues or general review.

By not conducting a review of the PFC account audit reports, the airport cannot ensure the amount of revenues submitted to the airport is accurate. A periodic review of the audits would help ensure the airport is receiving the proper amounts.

WE RECOMMEND the Airport Director:

A.1. Review and document the costs of fixed based operators and establish the fee to recover those costs.

2. Subject the fee portion of concession contracts to a competitive process.

B. Ensure a periodic review is conducted of the parking facility management cash collection and transmittal procedures. In addition, the agreement with the contractor should require copies of audit reports related to the parking facilities be submitted, and those audit reports should be reviewed by airport management.

C. Request and review all PFC account audit reports to ensure amounts received are correct.

AUDITEE'S RESPONSE

The Airport provided the following written responses:

A.1. The Airport does not agree with this finding. While it is accurate to say the Airport has not raised landing fees and fuel flowage fees in recent years, it must be noted that the environment for attracting general aviation (GA) traffic has been, and continues to remain extremely competitive. The following table demonstrates this fact for GA traffic:

	Landing Fees	*Fuel Flowage Fees*
Lambert-St. Louis		
Less than or equal to 12,500 lbs	*$7.50*	*$.06/ gallon*
12,500 to 65,000 lbs	*$10.00*	*$.06/ gallon*
Spirit of St. Louis	*$0.00*	*Fuel is purchased from the Airport*

<u>Downtown-Parks</u>	*$0.00*	*$.09/gallon*
<u>Mid-America Airport</u>		
12,500 lbs & under	*$0.00*	*$0.00*
Over 12,500 lbs	*$1.10/1,000 lbs*	*$0.00*

A.2. The Airport does not agree with this finding. Lambert does take advantage of a competitive bid process for its concessions. The concessions are awarded based on a bid of the highest Minimum Annual Guarantee (MAG). A MAG is the minimum dollar amount the concession operator promises to pay the Airport each year of the agreement. In addition to the MAG, concession agreements have financial terms that call for payment of the greater of the MAG or a specific percentage specified to bidders, in advance, by the Airport. This percentage becomes payable if the concession operator's total gross sales percentage surpasses the MAG. For example, a concession operator with a MAG of $100,000 and a percentage of 10% would begin paying 10% of all gross sales over $1 million.

It is true that the Airport only bids the amount of the MAG and sets the percentage fee for concession agreements. This policy allows the Airport to conduct a clear solicitation process, wherein, a single bid item can be evaluated transparently.

B. The Airport partially agrees with this finding. Finance and Accounting has been performing in-depth monthly revenue reconciliations for the Airport parking operations. This reconciliation ensures that:

a) credit card activity reconciles between the credit card clearinghouse, the Airport's bank account and financial reports, and the Central Parking financial reports; and

b) cash activity reconciles between the Airport's bank account and financial reports, and the Central Parking financial reports.

In addition, Central Parking is listed on the Airport Audit Plan for fiscal year 2010 and is scheduled to be audited by the City's Internal Audit Section for the period 7/1/08 – 6/30/09.

The Airport has requested a copy of Central Parking's most recent financial statement audit. In addition, language requiring the parking facility management company to obtain an annual financial statement audit and to submit a copy to the Airport will be incorporated in a future operating agreement.

C. The Airport agrees with this finding. The Airport's Passenger Facility Charges (PFC) fund is audited annually by an outside, independent accounting firm. St. Louis has *received an unqualified (clean) audit report since the mid-1990s when annual PFC audits were mandated by the FAA.*

Effective July 2009, the Airport implemented a policy requiring airlines with more than 50,000 passengers annually to provide a copy of their FAA mandated annual PFC audit.

3. Airport Accounting Controls and Procedures

Airport accounting controls and procedures could be improved. Accounting duties are not adequately segregated and there is minimal independent oversight related to receipts. Improvements are also needed in procedures related to receipts. In addition, the airport policy on the approval of large expenditures was not followed in several instances.

The Finance and Accounting Division is responsible for the accounting duties of the airport as well as the collection of most airport receipts. The Finance and Accounting Division administers the collection of monies for passenger facility charges, grants, airline agreements, landing fees, concession fees, rental car fees, etc. The Finance and Accounting Division transmitted approximately $206 million to the City Treasurer during the year ended June 30, 2008.

A. Accounting duties are not adequately segregated and there is minimal independent oversight related to receipts. An account clerk in the Finance and Accounting Division receives monies in the mail such as rent payments, landing fees, passenger facility charges, and airline fees. The clerk also receives a turnover from the Finance and Accounting Division's front office window clerk for ID badges, fingerprint fees, copies of police reports, etc. The same account clerk reconciles the turnovers from the front window clerk, records all of the transactions, prepares transmittals to the City Treasurer's office, and reconciles the monies transmitted to the City Treasurer to airport documentation. There is no documented supervisory review or comparison of the monies received by the account clerk to amounts transmitted to and received by the City Treasurer's office.

   The segregation of receipting duties to the extent possible can help provide reasonable assurance all transactions are accounted for properly and assets are adequately safeguarded, and can help safeguard against possible loss or misuse of funds. If proper segregation of duties is not possible, timely supervisory or independent review of the work performed and investigation into unusual items and variances is necessary.

B. Receipts collected and recorded by the account clerk are not always transmitted intact. The Finance and Accounting Division allows vending machine commission checks and petty cash replenishment checks to be cashed from the daily cash receipts.

Cashing checks from the daily cash receipts is a poor practice and reduces the accountability for monies received. Transmitting daily receipts in the same form in which they were received helps to ensure cash receipts are accounted for properly.

C. The method of payment (i.e., cash, check, or money order) is not recorded on some receipt slips issued by the front office window and the composition of receipts is not reconciled to turnovers to the City Treasurer's Office. To ensure all receipts have been recorded properly and transmitted intact, the method of payment should be recorded on each receipt slip, and the composition of receipts should be reconciled to the composition of transmittals.

D. Several large airport expenditures were not properly approved. According to airport policy prior to June 2008, the Airport Director or the Assistant Director of Finance was required to sign requisitions and vouchers over $100,000. Our review of expenditures noted errors on 2 of 14 (14 percent) applicable transactions reviewed:

- In October 2007, the airport paid an expenditure voucher for taxiway reconstruction for approximately $1,875,000. The voucher was signed by one of the Finance and Accounting Division's Accounting Managers. The voucher indicated the accounting manager's approval was intended to be in place of the approval of the Assistant Director of Finance.

- In November 2007, the airport paid an expenditure voucher for a rescue and fire fighting vehicle for approximately $834,000. The voucher was again approved by one of the Finance and Accounting Division's Accounting Managers for the Assistant Director of Finance.

In June 2008, airport policy was changed to require approval from the Airport Director or the Deputy Director of Finance and Administration for expenditures over $100,000. This policy change does not allow Accounting Managers to approve major expenditures as noted in the errors above.

Good business practice requires all expenditures to be reviewed and properly authorized and established policies be followed. Failure to properly review all invoices and other supporting documentation, and to document authorization, increases the possibility of inappropriate expenditures occurring. To adequately document the airport's approval, expenditure vouchers should be signed by the appropriate employee. Failure to follow airport policy regarding the approval of large expenditures reduces the airport's ability to monitor and control expenditures.

WE RECOMMEND the Airport Director:

A. Segregate the accounting duties of the Finance and Accounting Division to the extent possible. If proper segregation of duties cannot be achieved, timely supervision or independent review of the work performed and investigation into unusual items and variances is necessary.

B. Discontinue the practice of cashing checks from daily cash receipts. Daily receipts should be deposited intact.

C. Ensure the method of payment is recorded on each receipt slip, and the composition of the receipt slips issued is reconciled to the composition of transmittals.

D. Ensure all expenditures are properly authorized.

AUDITEE'S RESPONSE

The Airport provided the following written responses:

A. The Airport partially agrees with this finding. Finance and Accounting has independent oversight related to the receipts through the monthly reconciliation process for Accounts Receivable, including window cash. The monthly reconciliation for Accounts Receivable is reviewed and approved by the Accounting Manager I.

The duties for Accounts Receivable, including window cash, have been properly segregated as a result of the audit recommendation. Both the Accounts Receivable and Cash Receipts policies and procedures have been updated and the duties are segregated as follows:

	Duty	***Responsible Party***
i.	*Collects Receipts*	*Cash Window Attendant*
ii.	*Deposits Receipts*	*Account Clerk II – A*
iii.	*Records Receipts*	*Account Clerk II – B*
iv.	*Posts Receipts*	*Accountant II*
v.	*Monthly Reconciliations*	*Accounting Manager I*

B. The Airport agrees with this finding and recommendation. The Accounts Receivables policy and procedure has been updated:

- *All receipts collected are required to be properly recorded and deposited intact; and*
- *Checks of any kind are prohibited from being cashed from the daily cash receipts.*

C. The Airport partially agrees with this finding. Finance and Accounting records cash receipts on a triplicate copy of pre-printed and pre-numbered receipts. The Cashier *receiving cash at the cash window is required to complete the receipt in its entirety, which includes spaces for the following information:*

i.	*Type of transaction (fingerprint, ID card, ID replacement, Police rpt, etc.)*
ii.	*Total amount received*
iii.	*Method of Payment (Cash, Check, including check number)*
iv.	*Name of person cash received from and his/her employer*
v.	*Name of the Cashier who received the cash and issued the receipt*
vi.	*Date of the transaction*

At the end of each day, all receipts are reconciled to a daily transmittal form used to deposit funds with the Treasurer's Office. During a verbal exit interview, the auditors informed management that they found 9 examples that were of concern. The Airport generates approximately 1,000 receipts annually so this is .9%, or less than 1% of the total receipts issued.

D. *It is difficult to disagree with a recommendation that the Airport had already taken care of long before the auditors began their audit. As noted in their report, "In June 2008, the policy was changed…"*

4. Vehicles and Fueling Procedures

Records and monitoring procedures for the airport's fleet of vehicles are not sufficient. The airport does not have adequate procedures to ensure employees with take-home vehicles do not also receive a commuting allowance. In addition, the airport does not reconcile fuel purchased to fuel used.

A. Monitoring procedures for the airport's vehicles are not sufficient. The city's vehicle policy does not address records to be maintained for vehicles (see audit report No. 2008-61, *City of St. Louis Board of Public Service*, issued in September 2008). The airport has approximately 319 vehicles including passenger vehicles, trucks, vans, dump trucks, etc.

The airport does not require usage logs be maintained for its vehicles. Although a monthly vehicle mileage report is maintained documenting the airport vehicles and mileage, the report only shows the odometer reading for the beginning of the month. The report does not include documentation of the daily beginning and ending odometer readings, destination, and purpose.

In addition, no documentation was provided to show the airport regularly monitors the fleet to ensure vehicles are used efficiently and effectively. The airport could accomplish this with a review of usage logs. For example, the Properties Management Department which is under the Finance and Accounting Division has two pool vehicles that were driven only 2,195 and 1,122 miles during the year ended June 30, 2008.

Without adequate usage logs, the airport cannot effectively monitor that vehicles are used for official business only and vehicles are used efficiently and effectively. Vehicle usage logs should include trip information (i.e., beginning and ending odometer readings, destination, and purpose) which should be reviewed by a supervisor to ensure vehicles are used only for city business and the vehicles are used efficiently and effectively.

B. The airport does not have adequate procedures in place to ensure employees assigned a take home vehicle do not continue to receive a commuting allowance. The commuting allowance is authorized under Ordinance 68126, Section Two, (the compensation ordinance) which states employees residing in the city and assigned to a position located outside of the city limits are entitled to a commuting allowance of $141 every two weeks. The airport has approximately 30 vehicles which have been assigned to employees and can be taken home due to the nature of their position at the airport. An employee assigned a vehicle for commuting from home would not be eligible for the commuting allowance. Our review of take-home vehicles noted two employees which had been assigned vehicles and were also receiving the commuting allowance. The total amount of overpayment to these two employees when they first received the allowance in September and October 2008 through the pay period ending March 28, 2009, was approximately $2,100 and $910, respectively.

Without adequate procedures to reconcile take home vehicles and employees receiving the commuting allowance, the airport cannot ensure overpayments are not made to employees assigned an airport vehicle for commuting purposes. The airport should establish procedures to ensure the appropriate employees are notified when a take-home vehicle is assigned to an employee and the commuting allowance is discontinued.

C. The airport does not reconcile fuel purchased to fuel used. The Fleet Maintenance Division purchases diesel and unleaded fuel for two bulk tanks located at the airport. The bulk fuel tanks are equipped with an electronic meter system to record fuel use. The system can produce a fuel report showing the amount of fuel used by each airport vehicle. The fleet manager indicated he examines the report for reasonableness of fuel used by each of the airport vehicles, but this review is not documented. In addition, the fleet manager is not using the fuel report to reconcile the amount of fuel used at the airport to the amount of fuel purchased. The airport spent approximately $538,000 on fuel during the year ended June 30, 2008.

Reconciliation of fuel purchased to fuel used helps ensure fuel is accounted for properly and helps detect and prevent loss, theft, or misuse of fuel. The airport should perform the reconciliations, and use past experience or industry standards to analyze the data to understand if temperature changes or other known factors are the reasons for discrepancies, and then follow up on unanticipated discrepancies.

WE RECOMMEND the Airport Director:

A. Require the preparation of usage logs for all vehicles and ensure these logs are properly reviewed.

B. Establish procedures to ensure employees assigned a take home vehicle do not also receive a commuting allowance.

C. Require reconciliation of fuel purchased to fuel used, and require follow-up procedures on significant differences. In addition, the reconciliation and follow-up procedures should be properly documented.

AUDITEE'S RESPONSE

The Airport provided the following written responses:

A. The Airport does not agree with this finding and recommendation. We believe daily reports would be time consuming and not cost effective. An employee would have to collect the reports and tabulate them. Reviewing the daily logs for a fleet this large would take an incredible amount of man-hours and would not be efficient. The Airport believes the monthly reports we are already using demonstrates potential spikes and valleys in individual mileage that can be reviewed. This system has worked effectively for years at minimal cost. Even though the Fleet Manager reviews these logs on a regular basis, the process will be formalized. In addition, the Airport has six Global Positioning System (GPS) units that can be installed on any of the vehicles if problems are suspected.

We also do not agree with the report's statement that "...the airport does not regularly monitor the fleet to ensure vehicles are used efficiently and effectively." Monitoring the fleet's usage is performed on an annual basis by the Airport Assistant Director-Operations & Maintenance with the Fleet Manager. This is part of the review and update of the five year vehicle replacement program. Vehicles are moved from one department to another so low mileage vehicles are placed in a department with high usage and high mileage vehicles are placed in a department with low usage. The life of many vehicles has been lengthened by this process. However, we have still begun a more formal procedure for this process and will do this on a semi-annual basis instead of annually.

B. The Airport agrees with the finding and the recommendation but believes the audit report left out a very important fact. The report cites that "approximately 30 vehicles" are assigned to employees "due to the nature of their position at the Airport." The audit report would have indicated if it was found that any of these vehicles did not meet the criteria and approval for a take-home vehicle. This is because all take-home vehicles do meet the criteria of being available in case of any Airport emergency.

The two employees listed in the report as receiving the commuting allowance and assigned a take-home vehicle are required to return the commuting allowance. One employee repaid the appropriate amount in July, 2009. The other employee has a repayment plan which will be completed in September, 2009.

A procedure is in place to ensure this situation will not occur again. The Fleet Manager is required to generate a bi-weekly list of employees assigned a take-home vehicle and send it to each department manager for verification. Each department manager is required to review, update, and return this list to the Fleet Manager. The Fleet Manager will then submit a complete list to the Human Resources Manager and to the Accounting Manager II responsible for the Airport's Payroll. The Payroll Specialist II will cross reference the take-home vehicle list with the commuting allowance list for possible duplications.

C. *The fuel tanks are tested for leaks according to EPA regulations on a regular basis. The Airport also checks fuel usage by reviewing the vehicle card/shop card on a monthly basis. If unusual activity is detected, it is investigated. In fact, it was just recently discovered that the fuel dispensers were out of calibration. The appropriate company was called to recalibrate. This company indicated that all of the fuel dispensers were, in fact, within the calibration range as dictated by the State. However, our Fleet Manager said that was not acceptable to the Airport and asked them to recalibrate each fuel dispenser to as close to a zero range as possible. The Airport will continue to monitor on a regular basis. In addition, monthly reconciliation reports will be generated and reviewed by the Fleet Manager.*

5. Asset Controls and Procedures

Procedures for tracking capital assets and depreciation could be improved. The airport is responsible for maintaining a complete detailed record of airport property separate from the City Comptroller's Office. The Finance and Accounting Division maintains two asset lists. The first list is maintained in the accounting section and contains items costing over $10,000. The airport capitalizes the items on this list. The second list is maintained by the Materials Management Department under the Finance and Accounting Division and contains items costing between $1,000 and $10,000, which are not capitalized.

A. The airport has two conflicting written policies concerning assets. For example, one policy indicates physical inventories should be performed every 3 to 5 years, but the other policy indicates the physical existence of assets should be verified and reconciled to the asset records on an ongoing basis. Airport officials indicated they are working on updating the policies to reflect one current policy. To ensure assets are handled in a uniform manner, one policy should be developed and approved by the airport.

B. The airport has not recently performed an annual physical inventory of assets. As noted in the finding above, the airport's policy on physical inventories is not clear regarding how often physical inventories are to be performed. During the year ended June 30, 2008, the airport conducted partial physical inventories of vehicles and equipment purchased with federal funds, but has not conducted a complete physical inventory of airport assets in several years.

The airport should require a physical inventory be conducted annually. Adequate airport property records and procedures are necessary to ensure effective internal controls and provide a basis for determining proper insurance coverage. Physical inventories of airport property items are necessary to evaluate the accuracy of the records and deter and detect theft.

C. Property purchases and accumulated depreciation are not adequately reconciled between the general ledger trial balance and the capital asset list. A difference of approximately $1.2 million was noted between the general ledger and capital asset list for both the original cost entries and accumulated depreciation entries. Periodic reconciliations of the capital asset additions and depreciation amounts are needed to ensure all capital assets are correctly recorded on the property records.

D. The property records maintained do not include all necessary information. The capital asset records for items over $10,000 contain some descriptions which are not accurate. The asset record for items between $1,000 to $10,000 does not include some information such as acquisition costs, tag numbers, complete descriptions of the asset, and date and method of disposal. Adequate asset records are necessary to ensure adequate internal controls over airport property.

E. The airport police department maintains an additional property list which duplicates the records maintained by the Finance and Accounting Division. In addition, the police department list contains small items (minimum value of $20) which may not need to be tracked. While it may be necessary for the police department to track sensitive items, such as badges and weapons, the tracking of many small items and duplication of Finance and Accounting records is an inefficient use of police department resources. In addition, the only documentation of police department property disposal is an approval of the Supply Officer. To ensure assets are disposed of properly, asset disposal authorizations should come from a more appropriate level of the organization, and be properly documented.

<u>WE RECOMMEND</u> the Airport Director:

A. Revise and approve the written policy concerning procedures for assets and ensure the policies do not conflict.

B. Ensure physical inventories are conducted annually.

C. Ensure capital asset additions and depreciation amounts are periodically reconciled to the property records.

D. Ensure asset records contain all necessary information such as accurate descriptions, acquisition costs, tag numbers, and the date and method of disposal.

E. Require the police department to discontinue the practice of tracking all police assets and track only sensitive items, such as badges and weapons. In addition, disposal of police department property should be authorized by an appropriate level of the department and reported to the Finance and Accounting Division.

<u>AUDITEE'S RESPONSE</u>

The Airport provided the following written responses:

A. The Airport agrees with the finding and the recommendation. The fixed asset policy and procedure was updated in March 2009.

B. The Airport partially agrees with this finding and recommendation. The fixed asset policy and procedure was updated in March 2009. Due to the volume of Airport fixed assets, the Airport will attempt to conduct physical inventories for each Airport department every year.

C. The Airport partially agrees with this finding and recommendation. The reconciliation between the general ledger and the Capital Asset Register (CAR) has been updated to reconcile the assets and accumulated depreciation separately. The previous monthly reconciliation process reconciled them by net book value. The current monthly reconciliation process reconciles the assets and accumulated depreciation separately.

The $1.2 million noted in this audit report refers to an impairment adjustment. The impairment adjustment was initially made to the general ledger and the CAR at net. The following year, per the Airport's independent auditors (KPMG, LLP), the impairment entry originally recorded at net was adjusted to reflect assets and accumulated depreciation separately. Both cost and accumulated depreciation were reduced by the same dollar amount ($1.2 million) in the general ledger. However, when Finance and Accounting was making the changes in the CAR, additional questions came up and the changes in the CAR were not made pending additional information from KPMG, LLP.

D. The Airport agrees with the finding and the recommendation but believes the audit report left out a very important fact. The draft report states "... items over $10,000 contain some descriptions which are not accurate." These items are primarily items capitalized in excess of 10 years. Prior to 10 years ago, items were capitalized at the end of the contract. Each contract consisted of numerous assets and the assets were capitalized as one unit. In these instances the contract number and company name was used as the description due to the large number of assets capitalized as one unit.

The asset records for items between $1,000 and $10,000 are maintained in the Asset Tracking System. Although the information in the database was complete for each item, the fields for the data on the report were too narrow to display the information and had to be expanded to allow readability. It was also discovered that some of the description fields were not complete. Those fields have now been completed.

E. *We disagree with this finding and recommendation. The Police Chief, with the concurrence of the Airport's Senior Deputy Director, believes these items should be kept track of in the Police Department. While they understand that Finance & Accounting has the official Airport inventory, the Police Department has emergencies and wants to make sure equipment is tracked before, and after, any emergency. This type of equipment includes handcuffs, badges, pepper spray and other "low dollar" items.*

The Airport also disagrees with the finding related to the disposal of assets in the Police Department. Prior to March, 2009, the Supply Officer would generate a memo addressed to the Purchasing Manager in the Materials Management Division. This memo accompanied the property being requested to be disposed of. The Supply Officer prepared the memos, at the direction of the Police Chief's Administrative Assistant III, only to document the disposal request. No property has ever been disposed of directly from the Police Department. All property is returned to Materials Management for final disposition.

This disposition of Airport assets is addressed in the Airport's Purchasing Policy and Procedure. It states that obsolete, excess to department needs, unsafe and unserviceable assets must never be discarded by Airport departments. The proper procedure, as stated in the policy, for disposing an asset is a) department completes a Property Control Form; b) obtain department manager's signature to authorize the request; c) submit the Property Control Form to Materials management for review and approval; and d) Materials Management reports the disposition to the city's Supply Commissioner.

After March, 2009, Materials Management had developed a disposal form to be used by all Airport departments and that is the form now being used by the Police Department. The Police Chief's Administrative Assistant III signs this particular form as the authorized signer.

HISTORY AND ORGANIZATION

CITY OF ST. LOUIS
LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT
HISTORY AND ORGANIZATION

The St. Louis Airport Authority was created in 1968 by an ordinance adopted by the St. Louis Board of Aldermen. It oversees the operations of Lambert-St. Louis International Airport. The Mayor appoints a director to be the chief executive officer of the airport authority. The Director is responsible for the supervision and coordination of activities for the three divisions. The airport's divisions include Finance and Administration, Planning and Development, and Operations and Maintenance. In addition, the director serves as the Chairman of the Airport Commission. Currently, the Airport Director is Richard Hrabko who was appointed in April 2007. The airport has approximately 600 full-time and 16 part-time equivalent employees.

The following briefly describes the Airport Commission, responsibilities of the Director's Office, and each of the three divisions in the airport:

St. Louis Airport Commission

The Airport Commission is responsible for planning, development, operation, and management of the airport. The Airport Commission is made up of 17 members including the airport Director who serves as the Chairman.

Director's Office

The Director's office is responsible for coordinating and directing all aviation activities as well as promoting and developing all aviation facilities at the airport. The Director supervises the airport's three divisions.

Division of Finance and Administration

The division is responsible for the various accounting duties of the airport, as well as oversight on accounts payable, receivables, and establishing rates charged to airlines for use of airport facilities. This division is also responsible for all leases and agreements with the various airlines, concessions, car rentals, etc. involving airport owned property. In addition, the division oversees the airport's federal Disadvantaged Business Enterprise (DBE), the city's Minority Business Enterprise (MBE), and Women Business Enterprise (WBE) programs.

Division of Planning and Development

The division is responsible for planning and managing the airport's development program. This includes development of the airport's long-term strategic plans. One of the primary responsibilities of the division is the planning, design, and construction management for landside and airside capital improvement projects. These duties also include reviewing any improvements which are made by tenants of the airport. The division also has responsibilities for the airport's noise programs which includes relocation, real estate acquisitions, and noise mitigation programs. In addition, the division coordinates various environmental studies and clean up efforts at the airport.

Division of Operations and Maintenance

The division is responsible for administering all activities concerning police protection and building and airfield maintenance on a day to day basis. Duties also include maintenance of the airport's fleet of vehicles and the information technology section of the airport. This division also coordinates with the city's Fire Department under the Department of Public Safety who controls the airport's Fire Department operations.