



Susan Montee, JD, CPA
Missouri State Auditor

City of St. Louis
Department of Public
Utilities



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Office of the
Missouri State Auditor
Susan Montee, JD, CPA

March 2010

The following findings were included in our audit report on the City of St. Louis, Department of Public Utilities.

The city does not pay the Water Division for water use at city owned facilities (approximately 300 structures). Water is also consumed, but not paid for, by the city for other purposes including parks, fighting fires, and watering right-of-way property. Most city water usage is not metered; however, usage for Forest Park alone was estimated to be \$6.7 million annually.

The division has historically implemented large water rate increases infrequently, rather than smaller, more frequent increases, which potentially creates financial stress on individuals and families with low and fixed incomes. In addition, the division has not prioritized its list of system improvement projects to be funded with expected bond proceeds, and has not obtained and reviewed the City Collector of Revenue's settlement of fees to ensure excess water division fees have been returned to the division.

Monies received by the Water Division are not logged or receipted to allow reconciliation of monies received to monies transmitted to the City Collector of Revenue, and checks are not restrictively endorsed upon receipt. The duties of reviewing and approving customer account adjustments are not adequately segregated from the duties of collecting and receiving customer payments. Accounting duties and responsibilities for managing non-customer accounts receivable and water customer deposits are also not adequately segregated. In addition, collections are not adequately safeguarded when they are transmitted to the City Collector's office.

Inventory controls and procedures do not adequately ensure inventory balances and reorder quantities are maintained to provide only for current needs and prevent overstocking or stocking of obsolete items. Documentation is not maintained to show inventory balance adjustments are adequately investigated to determine the possible reasons for any inaccurate inventory balances. Procedures to monitor the pipeyard's fuel inventory and use reports are also not adequate. There are no procedures to reconcile the beginning and ending fuel balances to records of purchases and uses.

The division does not actively monitor the usage of the division's 180 vehicle fleet and, as a result, the fleet may be larger than necessary. An analysis of division records show of the division's 130 pickup trucks, service vans and passenger cars, 32 vehicles are used less than 6,000 miles per year. Such low annual mileage accruals may indicate some vehicles are not needed to accomplish required activities. In addition, based on division data, the division owns one pickup truck, van or car for every 2.7 employees.

YELLOW SHEET

Controls related to system access and data recovery are not adequate to properly protect the division's financial data from loss or unauthorized access, and backups of non-financial data are not adequately protected. Password controls of the general ledger system do not require active users to change passwords periodically. Backup tapes for the non-financial system are not stored at an offsite location.

Finally, the division paid approximately \$1.7 million in overtime during fiscal year 2008, and has not performed a study to determine the optimum use of overtime versus hiring additional employees.

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CITY OF ST. LOUIS
DEPARTMENT OF PUBLIC UTILITIES

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STATE AUDITOR'S REPORT



SUSAN MONTEE, JD, CPA
Missouri State Auditor

To the Honorable Mayor
and
Director of the Department of Public Utilities
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. We have conducted an audit of the City of St. Louis Department of Public Utilities. 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 department has adequate internal controls over significant management and financial functions.
3. Determine if the department has complied with certain legal provisions.

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

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 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 department's management and was not subjected to the procedures applied in our audit of the department.

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 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, 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:	Gayle Garrison
Audit Staff:	Robert H. Graham Matt Goans

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

DEPARTMENT OF PUBLIC UTILITIES
CITY OF ST. LOUIS, MISSOURI
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Water Division Administration

Several concerns were noted regarding the administration of the Water Division including: city water usage, rates, construction planning, and Collector fees. The division operates as an enterprise fund. Enterprise fund revenues are restricted for the purpose of providing services to customers and enterprise fund net income is retained by the fund.

- A. The city does not pay the division for water use at city owned facilities. Records indicate properties maintained by the city include approximately 300 structures, ranging from large office buildings to public restrooms, which are potential water consumers. In addition, water is also consumed, but not paid for, by the city for other purposes including fighting fires and watering right-of-way property.

Most of the water consumed by the city is not metered and accurate estimates of use are difficult to obtain. However, 35 buildings do have metered water flow. Meter readings for these buildings indicate unbilled water usage valued at approximately \$285,000 during the year ended June 30, 2008. Division personnel indicated they presented the unbilled usage totals to the city in June 2008, and requested the city pay for the water services; however, the division has not received payment. Considering the number of city buildings, the unbilled amounts for unmetered buildings is likely to be significantly greater than this total.

Using temporary water flow measuring devices and other estimation devices, the division prepared an estimate of water usage by lakes, pools, and fountains in Forest Park during the spring of 2008. The division estimated annual unbilled amounts for these water features totaled over \$6.7 million dollars. Park Department employees estimated water use that would equal \$2.3 million for these facilities; however, it is not clear how the Park Department acquired these estimates. It seems reasonable that the unbilled amounts for other water using features outside Forest Park are also likely to be significant.

The division's water rates are required by bond covenants to produce sufficient revenue to cover all operating costs and to provide for bond payments. The division's rate calculations spread these revenue requirements across all paying utility customers. As a result, the city's paying utility customers are covering the cost of city water consumption.

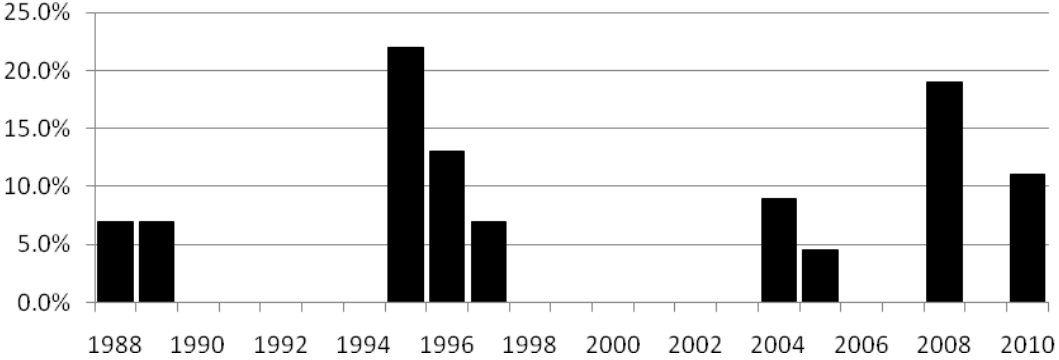
City Charter, Article XIII, Section 11, states "The accounts of all public utilities owned and operated by the city and dependent for their revenues upon the sale of

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 upon this, the division should be paid for any services provided to other departments as well as pay all other departments for any services received, as is typical of any enterprise fund. For example, the city bills the division for actual direct costs and for the division's portion of city administrative costs. For the year ended June 30, 2008, the division's actual payments to the city for direct costs and administrative expenses totaled over \$2.3 million. Similarly, the city should be paying the division for water used in city owned facilities.

To ensure compliance with the City Charter and to equitably allocate the cost of city water use to taxpayers, the division and other city officials must work together to determine the city's water usage and provide compensation to the division for city water use.

- B. Large water rate increases have historically been implemented infrequently, rather than smaller, more frequent increases, which potentially create financial stress on individuals and families with low and fixed incomes. The division adequately projects system costs and is aware of the need to increase rates on a more timely basis; however, rate increases have not been submitted to the Board of Aldermen for approval. Discussions with division management indicated that, historically, rate increase requests to the Board have not been made until the increases were required to remain in compliance with revenue requirements of the division's bond covenants, cover increases in operating costs, and provide capital for system expansion and improvement.

The table below reflects a history of rate increases from 1988 to 2010.



However, implementing more frequent and moderate rate increases when necessary to cover costs, similar to inflation increases or other relevant industry indexes, would allow customers to more easily absorb rate increases. These periodic rate increases would also allow the division to more easily ensure compliance with the revenue generating requirements of the existing bond covenants described above.

- C. The division has not prioritized its list of system improvement projects to be funded with expected bond proceeds. The division was planning to issue bonds for system improvements and use a 2010 rate increase to make the debt payments. However, a portion of the rate increase will be required to cover unexpected operational cost increases, and as a result, a smaller bond issuance will be required, resulting in less funds than originally planned for system improvement. Although the division is aware of the fiscal impact of the operational cost increases, an adequate plan has not been developed to react to changes in the amount of available bond proceeds.

Prioritizing the list of needed system improvements by critical need, cost, desirability of the effect on water production or delivery, and other relevant criteria would help ensure any new bond funding is used to conduct the most essential and desirable projects first.

- D. The division has not obtained and reviewed the City Collector of Revenue's settlement of fees to ensure excess water division fees have been returned to the division. The City Charter requires the Collector to collect the division's water bill receipts and allows the Collector to retain a 4 percent collection fee. The Collector is required by Section 82.660, RSMo, to prepare an annual settlement of fees retained and disbursements made to support the related collection activities. Unexpended fees are paid to the division. During the fiscal year ended June 30, 2008, the net collection fee totaled \$905,017.

Division personnel indicated they had requested a copy of the settlement from the Collector but had not received a copy. A review of the Collector's settlement would allow the division to properly monitor the collector's retention and use of the fee.

WE RECOMMEND the Water Division:

- A. Meter city water use or develop other water use estimates for city owned buildings, facilities, and other water-using features, and work with the city to ensure payment is received from the city for water used by the city.
- B. Work with the city to ensure water rates are more evenly increased to allow customers to more easily absorb rate increases.
- C. Prioritize the list of needed system improvement projects by critical need, cost, desirability of the effect on water production or delivery, and other relevant criteria.
- D. Obtain and review the Collector of Revenue's annual settlement to monitor the use and retention of the 4 percent collection fee retained from water bill collections.

AUDITEE'S RESPONSE

The Water Division provided the following written responses:

- A. *In earlier audits, the City has agreed with almost every recommendation from the auditor. This finding would also make sense if four factors existed: the City used water for private, special interests; the City charged exorbitant rates for water; the City attempted to generate profits from water; the City was the only municipality with this policy. But, none of those factors exist. For background, the City of St. Louis owns the Water Division. Unlike other places, the City has not sold its Water Division to a private company. In other municipalities and counties in Missouri, private companies charge for the cost of water, plus the cost of the debt they took on to buy the water company, plus a profit.*

Unlike other communities in Missouri, the St. Louis Water Division exists solely for the public good, not to generate private profits. Since 1835, the City has sold water at cost with no profit, and used water for the public good. Both are important, and both benefit people and businesses in St. Louis. That's why the St. Louis Water Division cannot be compared to private companies, and why the Water Division is not regulated by the Public Service Commission.

Let's consider each factor individually. The City does not use water for private, special interests. The City uses water for purely public purposes. The audit cites two uses of water: Forest Park and putting out fires. Forest Park is a civic treasure available to everyone. Is the auditor now suggesting the City charge everyone who uses Forest Park a fee for the cost of water needed to keep the park beautiful? Having water to put out fires is a valuable service available to every single resident and business in the City. Is the auditor suggesting we bill every property owner after we use water to put out a fire?

If you take this argument to its fullest extent, the City should charge a fee to crime victims for water usage in the police department. It should charge a fee for everyone who uses City parks for the cost of watering them. It should charge the State of Missouri a fee for water used by state prisoners held in City jails. (Our guess is that the State would refuse to pay it).

The second issue is water fees. The City of St. Louis has the best quality water in the region at the lowest cost. We must be doing something right.

*The auditor also has pointed out the City's Charter to support the idea that the City's general revenue should be contributing to the water division. The law of Missouri favors statutory interpretation that harmonizes with reason and tends to avoid absurd results. *David Rankin, Jr. Technical Inst. v. Boykins*, 816, SW 2d 189, 192 (Mo. banc 1991). Although the City owns the Water Division, the Water Division operates independently and its income covers its operating and capital costs. Article XIII, Sec. 12 of the Charter should not be interpreted to require that the City's general revenue subsidize these costs,*

but rather to mean that the Water Division should operate and keep accounts separately, just as it has since the City's inception.

Finally, we are baffled that the Auditor has chosen to single out the City of St. Louis for this common accounting practice. Not only do other municipalities and counties not charge themselves for water, but some of them actually mark the price up above the cost of providing the service itself. Can you imagine the auditing and bureaucratic nightmare caused by municipalities and counties billing users of municipal services for the cost of water used in those services? Would the benefit be worth the increased cost of billing and accounting?

While the overall State Audit has been a great benefit to City government and the people of St. Louis, we respectfully disagree with this finding.

- B. Water Division management will confer with the proper executive and legislative authorities to determine whether more frequent but lower rate increases are preferred to higher and less frequent rate increases.*
- C. The Water Division compiles and maintains a list of critical projects amounting to tens of millions of dollars. These projects are not rated or prioritized as 1, 2, 3... Rather, all are important projects that should be completed at some point. No decisions on which projects to pursue has been made since any bond issue has been delayed due to funding concerns. That decision on which of the critical projects to fund must necessarily wait until Water Division management knows what funds are available. We may then have to adjust and select projects to meet the funding level available. Water Division management is fully aware of the needs of the system and will select the most critical projects that funding allows.*
- D. The Water Division will request a copy of the settlement statement from the Collector of Revenue on an annual basis.*

Auditor's Comment

- A.** The above auditee response mischaracterizes our audit recommendation by suggesting user fees need to be implemented to pay for city water usage at city facilities. In actuality we are recommending water use be paid out of each department's respective budget, based on usage (or estimated usage). For example, water costs for parks would come out of the Parks Department budget, and water usage at the Police Department would come out of the Police Department budget, etc. The burden of paying for the city's water usage would then be more appropriately shifted from water customers to the appropriate city department budget and be paid out of existing city tax revenues. The audit does not recommend the General Fund subsidize the Water Division, but rather, each fund or department of the city pay for its water use.

Weaknesses exist in the division's process of receiving customer payments, including a lack of segregation in duties related to receiving customer payments and billing adjustments, and in the physical security of payments received.

- A. Monies received by the Water Division are not logged or receipted to allow reconciliation of monies received to monies transmitted to the City Collector of Revenue, and checks are not restrictively endorsed upon receipt. Although the majority of water collections go directly to the Collector, the division's customer service staff accept check or money order walk-in payments at the division office. The collections are transmitted to the Collector daily. However, no log or record of receipt is prepared by the division staff. Because no log or receipt records are maintained, the division cannot ensure all receipts were properly transmitted to the Collector and recorded in the customer's accounts by the Collector.

In addition, our review of water bill collections for one day indicated checks and money orders are not usually endorsed immediately upon receipt. The day's collections totaled nearly \$23,000 and included 135 checks or money orders. Endorsements were not applied to checks and money orders totaling over \$19,000 and included 123 of the 135 checks or money orders.

Reconciling receipts or logs of monies collected to monies transmitted and restrictively endorsing checks and money orders immediately upon receipt helps ensure collections are accounted for properly and safeguarded.

- B. The duties of reviewing and approving customer account adjustments are not adequately segregated from the duties of collecting and receiving customer payments. The customer service section of the division has the ability and responsibility to receive customer payments and make adjustments to customer accounts. Adjustment review procedures in place are not sufficient. System generated adjustment reports are routinely prepared for various types of adjustments and are provided to customer service supervisors or information system staff for review. However, the customer services supervisors and the information system staff person responsible for the adjustment review may have initiated some or all of the adjustments to the customer's account. Therefore, adjustment report reviews are not performed by an independent person. In addition, the customer service supervisors do not document the reviews performed and do not ensure the adjustment reports are organized and retained for future reference.

Staff with the ability to adjust customer accounts should not have access to customer receipts. In the event they do, account adjustments should be reviewed by persons who do not initiate adjustments, the report reviews should be

documented, and reports should be organized and retained for future reference to ensure the validity and integrity of the adjustments.

- C. Accounting duties and responsibilities for managing non-customer accounts receivable and water customer deposits are not adequately segregated.
- 1) Duties related to billing, collecting, and maintaining non-customer accounts receivable records are not adequately segregated. The division collects monies for items such as wholesale water sales, construction deposits from developers for water system connections, and collections for water system damages. Fiscal staff prepare invoices, receive payments, record payments in the subsidiary ledgers, and match payments to copies of invoices before the receipts are transmitted to another staff person for deposit preparation. In addition, the individual responsible for construction deposits also initiates the vouchers which refund deposits to vendors.
 - 2) Duties related to maintaining accounting records for water customer service deposits and initiating refunds of deposits to customers are not adequately segregated. The customer services representative who initiates vouchers that refund water customer account deposits is also responsible for recording various customer account deposit entries in the subsidiary billing ledger and for reconciling the customer deposit cash balance to other accounting records.

Proper segregation of accounting duties related to collections and disbursements helps ensure accuracy and integrity of accounting records and helps prevent the loss or misuse of division funds.

- D. Collections are not adequately safeguarded when they are transmitted to the City Collector's office. As indicated above, receipt records are not prepared for water bill collections received by the division. In addition, the monies transmitted are not verified and signed for by the City Collector's office at the time of transmittal, and monies are not secured in a locked bank bag during transmittal.

Receipt slips should be obtained documenting transmittal of collections to the City Collector's office and collections should be secured in a locked container during transmittal to properly safeguard collections.

WE RECOMMEND the Water Division:

- A. Receipt or log all monies received and reconcile the receipt slips or log to transmittals and to payments recorded by the City Collector of Revenue in the subsidiary accounts receivable ledgers. In addition, checks and money orders should be restrictively endorsed at the time of receipt.

- B. Segregate the duties of receiving customer payments and making customer account adjustments and ensure water customer account adjustment reports are reviewed by persons independent of the transaction, the reviews are documented, and the adjustment reports are organized and retained for future reference.
- C. Adequately segregate accounting duties.
- D. Obtain receipt slips from the City Collector's office to document monies transmitted and ensure collections are transmitted in a secured container.

AUDITEE'S RESPONSE

The Water Division provided the following written responses:

- A. *Monies collected at the Water Division Kingshighway office are collected as a service to customers with the approval of the Collector of Revenue. We agree that the checks and money orders collected should be immediately restrictively endorsed. That is, and has been, a policy of the Water Division which was not adhered to properly. This lapse has been rectified. No receipt log is kept since all funds are sent to the Collector's office daily which complies with the Collector's procedures. There is little likelihood of theft or fraud since no cash is accepted at this facility. Funds collected at the Kingshighway office are not yet Water Division funds. These funds must go to the Collector's office to be processed and must be entered through the Collector of Revenue's system. Therefore, it would be impossible and improper to record the funds as payments in the Water Division subsidiary accounts receivable ledger. The Collector's office and the Water Division have been working on the implementation of a bill collection kiosk for some time. This kiosk is currently being installed at this location (and should be operational prior to publication of this report). This installation will take Kingshighway office water bill collection completely out of the hands of the Water Division, even as an "agent" of the Collector of Revenue.*
- B. *The Customer Service Manager is required to review and approve all adjustment transactions initiated by the Customer Service staff. Any adjustments initiated by the Customer Service Manager will be reviewed and approved by the Fiscal Manager.*
- C. *In order to strengthen the segregation of duties among our limited staff, Finance will initiate restrictively endorsing checks upon receipt by a person outside of the Accounts Receivable section. Furthermore, the Accounting Supervisor will review and document approval of refunds prior to creation of the refund voucher. As always, voucher approval is authorized to a very few upper level managers.*

It should be noted that the Customer Service Representative that refunds customer account deposits does not accept the customer account deposits. While that same Customer Service Representative does record the deposit entries, the reconciliation duties performed are simply data gathering. The Customer Service Manager reviews and

approves the actual reconciliation report and has been instructed to now document that approval.

- D. The Water Division is acting as an agent of the Collector of Revenue in this regard. These concerns will be addressed with the kiosk implementation as explained in 2.A., above.*

3. Inventory Controls and Procedures

Inventory controls and procedures are not sufficient to ensure the cost of maintaining inventory is minimized, inventory adjustments are adequately investigated, and fuel balances are properly monitored.

- A. Procedures are not adequate to ensure inventory balances and reorder quantities are maintained to provide only for current needs and prevent overstocking or stocking of obsolete items. The division's inventory records indicate a number of items with large quantities in stock relative to annual use information. Division personnel indicated the inventory management system has the capability to define reorder quantities and required stock levels based on inventory quantity data and order information parameters for the items; however, this information has not been effectively utilized to make inventory decisions. Finally, division personnel indicated periodic reviews of inventory balances are not performed to identify items on hand which are overstocked or obsolete and need to be offered for sale at the city's surplus auction.

Utilizing the inventory management features in the inventory data base to monitor inventory item order quantities and stock on hand will ensure inventory quantities are maintained at optimal balances, minimize overstocking and obsolete inventory, and minimize the cost of holding inventory. In addition, the division should review inventory on hand for overstocked or obsolete items which should be offered for sale at the city's surplus auction.

- B. Documentation is not maintained to show inventory balance adjustments are adequately investigated to determine the possible reasons for any inaccurate inventory balances. Annual inventory counts are conducted by independent individuals and supervised by accounting personnel. However, discrepancies between physical counts and the accounting system's quantity are initially investigated by performing a recount. After the recount verifies the actual balance, the accounting system's quantity is adjusted without any documented attempt to identify the reasons for the discrepancy. Some inventory items have significant value for scrap or resale and discrepancies should be investigated, reconciled, and documented. The table below indicates the quantity and value of some adjustments that resulted from the June 30, 2008, inventory count.

Item	Inventory			Adjustment Value
	Counted Quantity	Report Quantity	Difference	
Plumbing materials/gasket-field lok	145	245	(100)	\$ (8,217.58)
Fire hydrant #2 breakaway stem	176	352	(176)	\$ (5,073.89)
Plumbing materials frame-ring riser	112	173	(61)	\$ (4,355.99)
Fire hydrant brass drain rod nut	2,962	162	2,800	\$ 9,067.52
Fire hydrant stem-breakaway top	324	61	263	\$ 7,636.42

Investigating significant inventory discrepancies and determining the reasons for significant discrepancies will help ensure inventory items are properly protected from loss or misuse and can identify possible weaknesses in inventory record keeping procedures.

- C. Procedures to monitor the pipeyard's fuel inventory and use reports are not adequate. There are no procedures to reconcile the beginning and ending fuel balances to records of purchases and uses. Although the pipeyard fuel storage tanks provide readings on demand, inventory balances are not periodically reconciled to records of fuel deliveries and fuel dispensed to division vehicles and equipment. In addition, although a fuel use report is obtained from the city's Equipment Services Division and reviewed by the water distribution superintendent, the review procedures and objectives are not clearly defined and the review is not documented.

Periodic reconciliation of fuel inventory to records of fuel deliveries and fuel dispensed can help ensure fuel use is for authorized purposes and fuel balances are monitored for reasonableness. Supervisory reviews of fuel use reports should also be documented.

WE RECOMMEND the Water Division:

- A. Utilize the inventory system management features to monitor inventory item order quantities and stock on hand. In addition, the division should review inventory on hand for overstocked or obsolete items which should be offered for sale at the city's surplus auction.
- B. Improve the documentation of any investigation of significant inventory discrepancies and implement procedures to prevent similar issues in the future.
- C. Implement procedures to periodically reconcile fuel inventory balances to records of fuel deliveries and fuel dispensed. In addition, procedures and objectives should be developed for the review of fuel use reports and supervisory reviews should be documented.

AUDITEE'S RESPONSE

The Water Division provided the following written responses:

- A. *While management agrees that the inventory system could be more effectively utilized by Storeroom personnel, it should be noted that random cycle counts are performed throughout the fiscal year by Finance personnel to help identify and reduce discrepancies. Also, when obsolete items are identified, they are disposed of as required through the City's surplus process.*
- B. *Investigation of physical versus perpetual inventory discrepancies does occur as described in finding 4B., above. The first step to investigate any discrepancy is, of course, the recount. Finance and Storeroom personnel review each material difference in an effort to determine the origin of the discrepancy. Reconciliation of the differences is also performed. Adherence to current policies and procedures would help prevent future discrepancies.*
- C. *We agree that the pipeyard's fuel inventory system and reports are not adequate. That is the reason that Water Division management has worked with the Equipment Services Division to procure and install a more sophisticated system to improve both security and reporting requirements.*

4. Vehicle Controls and Procedures

The Water Division does not actively monitor the usage of the division's 180 vehicle fleet (including heavy equipment) and, as a result, the fleet may be larger than necessary. According to division officials, usage information was tracked at one time, but issues exist with the new system implemented by the city which do not allow all vehicle information tracked by the city's service department to be readily communicated to the division. The division did not request the information from the city's service department, but attempted to keep a separate log of vehicle usage. However, our review of this log showed it is not complete, contains various inaccuracies, and is not updated in a timely manner.

An analysis of division records shows of the division's 130 pickup trucks, service vans, and passenger cars, 32 vehicles are used less than 6,000 miles per year. Such low annual mileage accruals may indicate some vehicles are not needed to accomplish required activities. In addition, based on division data, the division owns one pickup truck, van, or car for every 2.7 employees.

A study of vehicle utilization could help ensure efficient use of available resources, and help develop justification for the number of transportation and water distribution service vehicles required to conduct division activities.

WE RECOMMEND the Water Division study vehicle utilization and develop justification for the number of transportation and water distribution service vehicles required to conduct division activities. The Water Division should reduce the fleet size if underutilized or unneeded vehicles are identified.

AUDITEE'S RESPONSE

The Water Division provided the following written response:

The log the State Auditor refers to is a personal log kept by a Water Division manager. The log does not feed into any Water Division database, nor is it presented or used as anything but a data tracking attempt utilized by that manager prior to the installation of the new fuel tracking system. When the communication issues are resolved in the new system, Water Division management will have accurate data on each vehicle.

All 130 vehicles included here are service vehicles. Each are equipped with the tools and materials necessary for the Water Division personnel to perform their jobs. They are not perks for "transportation" as the auditor implies. In a city of 62 square miles, it should not surprise anyone that some work vehicles would drive to a job site, remain parked while Water personnel perform the task at hand, travel to another job site or return to the Kingshighway/McRee pipeyard facility (which happens to be centrally located), and tally under 6,000 miles per year. Furthermore, there are vehicles assigned to our facilities that rarely leave our facilities grounds. These vehicles are utilized everyday, but never travel great distances in a day.

A high vehicle to employee ratio is not inherently undesirable. Many of the tasks that employees perform require only one or two people. This is by design so that the Water Division's workforce is more efficiently utilized.

At this time, Water Division management does not agree that a study is warranted.

5. Information System Controls and Procedures
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Controls related to system access and data recovery are not adequate to properly protect the Water Division's financial data from loss or unauthorized access, and backups of non-financial data are not adequately protected.

- A. Password controls of the general ledger system do not require active users to change passwords periodically. While inactive passwords expire and make the user's ID ineffective for gaining access, active user passwords do not periodically expire. In addition, system access security violation logs are produced by the system but are not monitored or reviewed for attempts at unauthorized data access.

Requiring users to periodically change their passwords and monitoring security violation logs can help ensure financial data is protected from unauthorized access.

- B. Backup tapes for the non-financial system are not stored at an offsite location. Storing backup tapes in an offsite location is necessary to adequately protect data from loss due to disaster or system failure.

WE RECOMMEND the Water Division:

- A. Ensure all user passwords expire and users are prompted to change passwords periodically. In addition, security violation logs should be monitored or reviewed for attempts at unauthorized data access.
- B. Store all system back up tapes at an offsite location.

AUDITEE'S RESPONSE

The Water Division provided the following written responses:

- A. *Password controls have been strengthened as recommended.*
- B. *Offsite storage of that system's back up tapes has been implemented.*

6. Overtime Pay Controls and Procedures
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The Water Division paid approximately \$1.7 million in overtime during fiscal year 2008, and has not performed a study to determine the optimum use of overtime versus hiring additional employees. A division official indicated overtime payments, which are primarily earned by water distribution system maintenance employees, are justified because any additional employees hired would remain idle during periods in which they are not needed. However, with significant amounts of overtime payments occurring throughout the year, some level of increased staffing may be necessary.

Overtime payments		
Fiscal year ended June 30, 2008		
Month	Overtime Payment	Percent of Total
July	\$ 120,760	7.04%
August	178,648	10.42%
September	137,674	8.03%
October	115,428	6.73%
November	218,940	12.77%
December	61,053	3.56%
January	266,377	15.54%
February	187,828	10.95%
March	121,745	7.10%
April	83,797	4.89%
May	79,392	4.63%
June	143,047	8.34%
Total	\$ 1,714,689	100.00%

Applying an average salary of \$41,000 and fringe benefit costs of approximately 32 percent, the division could employ 31 additional full-time positions with the \$1.7 million paid in overtime during fiscal year 2008. In addition to the direct overtime payroll expenses incurred by the division, additional overtime costs, such as meals for employees working overtime, are incurred. A portion of these costs could be avoided by decreasing the amount of overtime required.

Since much of the division's overtime pay is a result of emergency repairs, avoiding all overtime pay is not likely. While additional employees could also require additional equipment and other variable costs which would need to be considered, additional staff could potentially reduce the necessity of some overtime payments and would help ensure the efficient and effective use of division resources.

WE RECOMMEND the Water Division perform an analysis to determine if additional staffing would help reduce the amount of overtime paid.

AUDITEE'S RESPONSE

The Water Division provided the following written response:

We agree that an analysis could be useful to determine if additional staffing would help reduce the amount of overtime paid.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF ST. LOUIS
DEPARTMENT OF PUBLIC UTILITIES
HISTORY AND ORGANIZATION

The Mayor appoints a director of the Department of Public Utilities to oversee operations. The department's two 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 376 full-time employees as of June 30, 2008. Currently, the Director of Public Utilities and Water Commissioner is Curtis B. Skouby, P.E., who was appointed in April 2008. The Communication Division's budget included 17 full-time employees as of June 30, 2008. Currently, the Communications Commissioner is Donna Brooks, 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 production and distribution of drinkable water to customers, maintaining distribution lines, and billing customers for services rendered. The division has five sections including Commissioner's Office, Supply & Purifying, Operating, Distribution, and Customer Service. These sections are overseen by the Water Commissioner.

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

Supply and Purifying – This 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.

Operating - This 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.

Distribution - This section supervises the manufacture and inspection of steel and cast iron pipes, hydrants, valves, meters, and special castings and fittings, and directs the laying of extensions and repairs to the pipe system. This section also maintains water service to consumers.

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