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FILE COPY

April 3, 2014

Todd Waelterman, Director
Department of Streets
1900 Hampton Avenue
St. Louis, MO 63139

RE: Process Review of Streets Repair and Resurfacing Division
(Project #2014-P02)

Dear Mr. Waelterman:

Enclosed is the Internal Audit Section's process review report of the Street Division-
Repair and Resurfacing for the period July 1, 2012 through June 30, 2013. A
description of the scope of work is included in the report.

Fieldwork was completed on December 27, 2013. Management's responses to the
observation and recommendations noted in the report were received on March 27, 2014,
and have been incorporated into the report.

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

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

Respectfully,

Dr. Kenneth M. Stone, CPA, CGMA
Internal Audit Executive

Enclosure

CC: Kent D. Flake, Commissioner of Streets



CITY OF ST. LOUIS

**DEPARTMENT OF STREETS
STREET DIVISION**

STREETS REPAIR AND RESURFACING

PROCESS REVIEW

JULY 1, 2012 THROUGH JUNE 30, 2013

PROJECT #2014- P02

DATE ISSUED: APRIL 3, 2014

Prepared By:



The Internal Audit Section

OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
DEPARTMENT OF STREETS
STREET DIVISION
STREETS REPAIR AND RESURFACING
PROCESS REVIEW
JULY 1, 2012 THROUGH JUNE 30, 2013**

EXECUTIVE SUMMARY

Background

The Street Division (Division) is responsible for the maintenance of streets and alleys within the City. The Division's streets maintenance efforts include, but not limited to: street and alley paving; patching (arterial potholes, residential potholes, alley potholes, cuts ponding); crack sealing; curb sealing, curb repairs and bridge maintenance. The mission is for the Division's crews to continue maintenance of streets, curbs, and bridges, adhering to our quick turnaround times to repair conditions on major streets, and particular potholes.

Purpose

The Division's repair and resurfacing was selected for review based on the Internal Audit Section's annual risk assessment. The purpose was to determine if the Division effectively and efficiently manages risks to ensure the:

- Accomplishment of established objectives and goals.
- Compliance with applicable laws, regulations, policies, and procedures.
- Safeguarding of assets.
- Reliability and integrity of financial and operational information.

Scope and Methodology

The review was confined to evaluating internal controls over the Division's repair and resurfacing processes. The review procedures included:

- Inquiries of management and staff.
- Observations of relevant processes.
- Administered questionnaires.
- Reviews for compliance with applicable city ordinance and regulations.
- Limited tests of controls.
- Other procedures as considered necessary.

Exit Conference

An exit conference was conducted at the Commissioner of Streets' Office, on March 21, 2014. The Division was represented by Commissioner of Streets, the Internal Audit Supervisor, and the Auditor II in-charge represented the Internal Audit Section.

Conclusion

The opportunity exists for the Division to improve its control over the street repair and resurfacing processes. The following are observations resulting from the review:

1. Opportunity to improve street repairs and resurfacing.
2. Opportunity to update city streets database.
3. Opportunity to improve resurfacing contract terms.

These observations are discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.


Dr. Kenneth M. Stone, CPA, CGMA
Internal Audit Executive


Date

**CITY OF ST. LOUIS
DEPARTMENT OF STREETS
STREET DIVISION
STREETS REPAIR AND RESURFACING
PROCESS REVIEW
JULY 1, 2012 THROUGH JUNE 30, 2013**

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OBSERVATIONS

Status of Prior Observations

The Internal Audit Section (IAS) had not performed process reviews of the streets repairs and resurfacing previously.

Summary of Current Observations

The opportunity exists for the department to improve the Division's internal controls over its streets repair and resurfacing process. The following are observations resulting from the review:

1. Opportunity to improve streets repairs and resurfacing reporting.
2. Opportunity to update City street database.
3. Opportunity to improve resurfacing contract terms.

These observations are discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANGEMENT'S RESPONSES

1. Opportunity To Improve Street Repairs And Resurfacing Reporting

The City streets are repaired and resurfaced based upon the information received from the following two sources:

- Repair requests reported by citizens to the Customer Service Bureau (CSB). CSB generates a repair request report with an I.D. for every request received.
- Street repairs identified by the Division's labor supervisor, foremen and crews during drive by inspections.

The Division, however, only uses CSB reports to document the repairs and resurfacing that was performed. It does not account for the repairs and resurfacing performed based upon the drive by inspection.

Best practices dictate that the Division report on all roads and arteries that were identified and repaired including those that were reported to CSB and those that were identified by the Division's drive by inspections.

Division's management considered it time consuming and requiring additional paper work to track and report on street repairs identified through drive-by inspections.

Not including street repairs identified through drive-by inspections in the CSB's report of total street repairs performed by the Division would result in:

- Inaccurate reporting of total repairs identified and completed by the Division for budgeting purposes.
- Negative impact on the Division's performance measure reporting.

Recommendation

It is recommended that the Division's management establish procedures that will ensure that all street repairs reported to CSB and those identified through drive by inspection are documented and reported.

Management's Response

We are currently working on finding a resolution to monitoring our completed work in an accurate fashion. Currently we receive thousands of CSB's per year along with potholes locations from a myriad of sources. The only locations that counts towards our totals currently are the actual CSB locations. As one can imagine if there is a need to patch in front of one house, there is probably also a need near that location. Currently those neighboring locations are still patched but not reported. Also, in our day to day travels we patch many locations that are also not reported.

1. Continue...

As a division, I am not sure what our best direction is to make sure all work is reported. I would estimate that our totals would increase by at least five fold if all work was reported. We are currently working with the City Works system to find an easy way to capture the remaining work that is currently not being documented.

2. Opportunity To Update City Street Database

The Division maintains a database of all city streets detailing the description of the streets, length, width, type (asphalt, brick and concrete), date last resurfaced, ward (boundary), rating (condition) and the last rating date. The database information also classified the streets as either arterials (A), urban collection (C) or residential (D). The database also identifies if the street is considered a state street or otherwise.

The most recent update of the database, however, was performed in January 31, 2007. Information on some of the streets was last updated in 2003 and 2004. With an outdated City street database, the Division will not be able to accurately plan and budget for street repairs and resurfacing.

The City does not have a system of internal controls to update the streets database on regular intervals. Maintaining comprehensive and updated database of all city streets will assist the management in accurately planning, budgeting and executing street repair and resurfacing projects.

Recommendation

It is recommended that management assigns the responsibility for the update of the city streets database information. Management should make it a policy to update the database at least every five years.

Management's Response

The Street Division agrees that our Pavement Management System needs to be updated regularly. It will be a priority to complete this update in the next 18 months. After that we plan to update every four years at a minimum.

3. Opportunity To Improve Resurfacing Contract Terms

A review of street resurfacing contract agreements with the corporate entities and completed during the period of this review, noted there was no default amount or minimum reimbursement for the costs of resurfacing.

Concerns were expressed by the Division's management for instances in the past where the City was not able to recover the costs of street resurfacing requested by a business to spruce up the area around its premises.

Contracts were duly executed with the businesses for street resurfacing requiring the entity to reimburse the city for the costs of resurfacing without minimum guarantees. The inability of the City to recover the cost of street resurfacing was performed upon the request of a business may drain City financial resources impacting the completion of the planned street repair and resurfacing projects.

Recommendation

It is recommended that the management:

- Includes a provision in the contract agreement requiring a significant down payment, progress payments, and the balance due at the end of the project.
- Consult with the City Counselor's Office for legal advice on the matter.

Management's Response

We will be working with City Counselors and Comptroller's Office in order to find a contract method that is best for everyone. At this point, assuming it is acceptable with the above offices we are learning towards 50% down and the rest of invoice amount due upon completion.