



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



DARLENE GREEN
Comptroller

Internal Audit Section
1520 Market St., Suite 3005
St. Louis, Missouri 63103-2630
(314) 657-3490
Fax: (314) 552-7670

FILE COPY

June 25, 2014

Curtis Skouby, Director
Department of Public Utilities
Water Division
1640 S. Kingshighway Blvd.
St. Louis, MO 63110-2285

RE: Fixed Asset Review - Water Division (Project #2014-FA08)

Dear Mr. Skouby:

Enclosed is the Internal Audit Section's fixed asset review report of Water Division as of July 31, 2013. A description of the scope of our work is included in the report.

Fieldwork was completed on February 26, 2014. Management's responses to the observations and recommendations were received on May 13, 2014 and have been incorporated in the report.

This review was made under authorization contained in Article XV, Section 2, 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

cc: James C. Sondermann, Special Assistant to the Commissioner
Perla Burk, Accounting Manager



CITY OF ST. LOUIS

WATER DIVISION

FIXED ASSET REVIEW

AS OF JULY 31, 2013

PROJECT #2014-FA08

DATE ISSUED: JUNE 25, 2014

**Prepared by:
Internal Audit Section**



OFFICE OF THE COMPTROLLER

**CITY OF ST. LOUIS
WATER DIVISION
FIXED ASSET REVIEW
AS OF JULY 31, 2013**

EXECUTIVE SUMMARY

Purpose

The Internal Audit Section (IAS) has completed a review of fixed assets of the Department of Public Utilities-Water Division. The purpose was to determine if the Water Division effectively and efficiently manages risks to ensure:

- Safeguarding of assets.
- Economic and efficient use of resources.
- Compliance with applicable policies and procedures.

Scope and Methodology

The review was confined to evaluating Water Division's internal controls over the operational and physical activities of fixed assets. The review procedures included:

- Inquiries of management and staff.
- Reviews for compliance with policies and procedures.
- Limited tests of related controls.
- Other procedures considered necessary.

Background

The Water Division is an Enterprise Fund under the City's Department of Public Utilities. Its mission is to efficiently provide high quality water to its residents. The Water Division maintains and operates various water collection, treatment, and distributions facilities. Its operations are funded by fees charged to customers based on flat-rates and metered sales of water.

Exit Conference

An exit conference was offered but was declined by management.

Conclusion

The opportunity exists for the Water Division to improve internal controls over fixed assets. The following observation resulted from the review:

Opportunity to perform and document annual physical inventory.

The observation is 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
WATER DIVISION
FIXED ASSET REVIEW
AS OF JULY 31, 2013**

TABLE OF CONTENTS

Description	Page(s)
OBSERVATIONS	
Status of Prior Observations	1
Summary of Current Observations	1
DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSE:	2

Status of Prior Observations

There has been no review of Water Division's fixed assets in the last five years by the Internal Audit Section (IAS).

In a report dated March 2010, the Missouri State Auditor's Office recommended that the Water Division undertake a study to determine the optimal utilization level of vehicles usage. The Water Division declined to undertake the study.

Summary of Current Observations

The opportunity exists for the Water Division to improve internal controls over fixed assets. The following observation resulted from the review:

Opportunity to perform and document annual physical inventory.

OPPORTUNITY TO PERFORM AND PROPERLY DOCUMENT ANNUAL PHYSICAL INVENTORY

The Water Division does not perform an annual physical inventory count of its fixed assets.

Good business practice dictates that effective management of fixed assets begins with an accurate count of fixed asset inventory. The only way to verify and validate the fixed asset information is to conduct a physical inventory.

Due to the retirement of key personnel, the annual physical inventory was not performed. The current Accounting Manager has been assigned the task of coordinating the inventory count, but has been unable to perform it due to a backlog of work assignments.

Failure to perform an annual physical inventory increases the risk that items may be misused, lost or stolen and not be noticed. Also, by not performing and properly documenting the annual physical inventory, inaccuracies in financial reporting may exist.

Recommendation:

IAS recommends that the Water Division perform and properly document the annual physical inventory of fixed assets. Any differences noted should be reconciled to the Fixed Asset Property Listing (FAPL).

Management Response

In lieu of the annual physical inventory, the Water Division performs an annual verification of each vehicle wherein the section managers annually report changes of vehicle information within their respective sections to the Commissioner's Office. This process requires each section to account for the vehicles in their respective section. The vehicle list is updated on an annual basis.

Because of the volume of the fixed assets that the Water Division owns, we do not perform an annual inventory. However, each section head is responsible for keeping track of fixed assets within their section. A Declaration of Surplus Property is filled out for approval to properly dispose of fixed assets. Transfer of fixed assets between sections within the Water Division and other City departments is documented using the Fixed Asset Transfer Form. In conformance with GASB 42, any impairment of fixed assets is also reported through a yearly verification by our Finance Section and adjusted accordingly within the Water Division's general ledger.