



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

DR. KENNETH M. STONE, CPA
Internal Audit Executive

FILE COPY

September 5, 2012

Pamela Rice Walker, Interim Director
Department of Health
1520 Market Street, Room 4045
St. Louis, MO 63103

RE: Food Control Section (Project #2012-27)

Dear Ms. Walker:

Enclosed is the Internal Audit Section's process review report of the Food Control Section for the period July 1, 2010 through June 30, 2011. A description of the scope of the work is included in the report.

Fieldwork was completed on July 2, 2012. Management's responses to the observations and recommendations noted in this report were received on August 30, 2012, and have been incorporated in 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: Melba R. Moore, Commissioner
Joan McCray, Fiscal Manager
Rhonda Bartow, Health Services Manager – Food Control Section



CITY OF ST. LOUIS

CITY OF ST. LOUIS

DEPARTMENT OF HEALTH – FOOD CONTROL SECTION

PROCESS REVIEW

JULY 1, 2010 THROUGH JUNE 30, 2011

PROJECT #2012-27

DATE ISSUED: SEPTEMBER 5, 2012

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

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HONORABLE DARLENE GREEN, COMPTROLLER

CITY OF ST. LOUIS
DEPARTMENT OF HEALTH
FOOD CONTROL SECTION
PROCESS REVIEW
JULY 1, 2010 THROUGH JUNE 30, 2011

EXECUTIVE SUMMARY

Purpose

The Food Control Section (FCS) was selected for review based on the annual risk assessment. The purpose was to determine if FCS' internal controls effectively and efficiently manage risks in achieving goals and objectives relating to:

- Compliance with laws, regulations, policies and procedures applicable to goals and objectives.
- Safeguarding of assets.
- Reliability and integrity of financial and operational information.
- Economic and efficient use of resources.

Scope and Methodology

The scope of the review included assessments, inspections, permits, and violation fees from the period July 1, 2010 through June 30, 2011. The review was confined to evaluating internal controls over the financial and operational activities relating to the objectives noted above. The review procedures included:

- Inquiries of management and staff.
- Observation of relevant processes.
- Reviews for compliance with policies and procedures, as well as applicable laws and regulations applicable to goals and objectives.
- Limited tests of controls.
- Follow-ups on prior observations.
- Other procedures considered necessary.

Background

FCS inspects food establishments, producers and retail outlets to prevent food borne illnesses and ensure that foods produced and distributed in the City are safe and wholesome. The primary regulations affecting the operations of FCS fall under City ordinances #68597 and #63699. Ordinance #63699, section 11.51 regulates frozen desserts. Ordinance #68597 adopted standards set by the 2009 National Food Code for the preparation and handling of food and increased permit fees. This ordinance addresses inspections, and permits issued for food establishments, grocery stores, temporary permits, and plan reviews.

Exit Conference

An exit conference was conducted at the Health Department on August 29, 2012. The Commissioner, Fiscal Services Manager, Health Services Manager, and the FCS Supervisor represented Health Department. The Internal Audit Executive and the Auditor-in-Charge represented the Internal Audit Section.

Conclusion

Several control procedures were noted in FCS' financial and operational activities. These included, but were not limited to, the following:

- FCS monitors the number of active and inactive establishments by ward.
- Priority assessments were conducted annually for food establishments at the time of permit renewal. The assessment sets the frequency of inspections as well as the permit fees.
- Annual permit renewal applications were mailed to establishments three months prior to the expiration dates.
- The new ordinance (# 68597) prohibits waivers of permits except where authorized by State law. Customers requesting waivers were referred to the City Counselor's Office.
- A *Daily Record* report of inspections was used by the supervisor in monitoring inspections.
- The inspectors were not allowed to issue permits.
- A labor allocation review and a comparable fee survey of other cities was conducted in 2009 to ensure the permit and inspection fee structure was cost effective. Based on the studies, a clear statement of fees and fines criteria was introduced via ordinance #68597.
- Key verification of the types of permits and codes identify cash register transactions by personnel.
- Independent reviews were performed and documented of deposits from fees received.
- Monthly management performance reports were generated on inspections performed, permits issued and revenues collected.

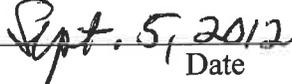
FCS adequately addressed internal controls and risks relating to the goals and objectives noted above, except for the following observations:

1. Opportunity to adopt policies and procedures for reconciling financial records **(Repeated)**
2. Opportunity to safeguard receipts **(Repeated)**

3. Opportunity to periodically update and approved policies and procedures (**Repeated**)
4. Opportunity to document supervisory reviews

Each of these observations 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
DEPARTMENT OF HEALTH
FOOD CONTROL SECTION
PROCESS REVIEW
JULY 1, 2010 THROUGH JUNE 30, 2011**

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OBSERVATIONS

Status of Prior Observations

The Internal Audit Section (IAS) followed up on the observations included in the report issued July 19, 2002. The status is as follows:

1. Opportunity to improve consistency and efficiency of revenue processing procedures (**Not Resolved - See observation #1**)
2. Opportunity to improve controls over permit fees (**Not Resolved – See observations #2**)
3. Opportunity to develop a policy on waiver of fees for temporary food permits (**Resolved**)
4. Opportunity to update and revise written procedures manual (**Not resolved – See observation #3**)
5. Opportunity to improve goals and objectives (**Resolved**)

Summary of Observations

Several control procedures were noted in FCS' financial and operational activities. These included, but were not limited to, the following:

- FCS monitors the number of active and inactive establishments by ward.
- Priority assessments were conducted annually for food establishments at the time of permit renewal. The assessment sets the frequency of inspections as well as the permit fees.
- Annual permit renewal applications were mailed to establishments three months prior to the expiration dates.
- The new ordinance (# 68597) prohibits waivers of permits except where authorized by State law. Customers requesting waivers were referred to the City Counselor's Office.
- A *Daily Record* report of inspections was used by the supervisor in monitoring inspections.
- The inspectors were not allowed to issue permits.
- A labor allocation review and a comparable fee survey of other cities was conducted in 2009 to ensure the permit and inspection fee structure was cost effective. Based on the studies, a clear statement of fees and fines criteria was introduced via ordinance #68597.
- Key verification of the types of permits and codes identify cash register transactions by personnel.

- Independent reviews were performed and documented of deposits from fees received.
- Monthly management performance reports were generated on inspections performed, permits issued and revenues collected.

However, opportunities exist for management to improve internal controls over the financial and operational activities of FCS. The following observations resulted from the review:

1. Opportunity to adopt policies and procedures for reconciling financial records (**Repeated**)
2. Opportunity to safeguard receipts (**Repeated**)
3. Opportunity to periodically update and approved policies and procedures (**Repeated**)
4. Opportunity to document supervisory reviews

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Opportunity To Adopt Policies And Procedures For Reconciling Financial Records (Repeated)

FCS and the department's Fiscal Services Section (FSS) do not review and reconcile its internal records of receipts to the City's general ledger. It was noted that FCS' receipts are recorded in a payment record book, register summary tapes, and on Receipt Coding Forms (RCFs) when making deposits. Although copies of the RCFs are sent to FSS, improvements are needed to properly account for all receipts. The following control weaknesses were noted:

- FCS' payment record book does not include subtotals to facilitate reconciliations of deposits recorded in the general ledger. A tape is ran on the checks and money orders received. This tape is then compared to the register summary tape. No tape is ran on receipts recorded in the payment record book, and compared to the register tape and deposits. Differences were noted in the amounts recorded in the payment record book and the summary tape for August 2010. As result, corrections were made by the supervisor during our review.
- During the fiscal year 2011, deposits were also made by FSS. These include mail receipts in which copies of the checks were sent to FCS for recording in a separate log. There was no indication in this log as to when or the amount deposited by FSS, because FCS was not aware of the deposit dates.
- FSS maintains a Deposit Reconciliation Log of the department's daily deposits. However, the log does not include monthly totals for each program, account, and fund to facilitate reconciliations to the general ledger.

Sound accounting practices requires a system of accounting for all receipts. The system should include control procedures to ensure the efficient and consistent processing of receipts. Also, FCS' written procedure requires the payment record book to be reconciled to the cash register summary tapes.

Causes identified were as follows:

- Written reconciliation procedures were not adopted and effectively communicated to FCS; therefore, FCS assumed the reconciliation function was performed by FSS.
- FSS and FCS do not have access to the City's general ledger, although requests were made on several occasions by FSS to gain access to the system.
- FCS was unaware that deposits were made by FSS through June 2011.

1. Continued... ..

- FCS' procedure requires deposit documents to be reviewed by a second clerk and a supervisor; however, no review is required of the payment record book.

When both sections make deposits for recording in the general ledger, and the internal records are not reconciled, there is an increased risk that fees may not be timely processed, accurately reported, and properly classified. This includes errors in the payment book which may not be detected and properly corrected.

As result of our review, FSS received a monthly general ledger report. FSS no longer processes FCS' mail receipts or prepares the deposits.

Recommendations

It is recommended that FCS adopt written policies and procedures for the reconciliation process. The policies and procedures should include adequate controls such as independent reviews, data source, documentation of reconciling items and date of resolution. In addition:

- Management should determine whether the reconciliations will be done by FSS or FCS.
- Management should prepare a written request to the Comptroller's office for designated personnel to have direct network access to the general ledger.
- RCF numbers and monthly totals should be recorded in the payment record book or a shared computerized spreadsheet and reconciled to the general ledger.
- The reconciliations should be independently reviewed and documented.
- Additional employees should be cross-trained in performing reconciliations.

Management's Response (Received August 30, 2012)

Management agrees with the recommendations and will adopt policies and procedures for full compliance.

2. Opportunity To Safeguard Receipts (Repeated)

At management's request, a review of the security concerns in processing receipts was performed. Management was informed the following improvements are needed to ensure checks and money orders are adequately safeguarded.

- The cash register was not adequately secured. Checks and money orders are kept in the cash register after working hours. The cash register was not locked and was located in an open cubical in a high traffic area during the day. On two occasions, IAS was able to ring open the register drawer. During the review, FCS researched and corrected the problem by implementing the security functions on the cash register.

2. Continued... ..

- Checks were not restrictively endorsed for deposit immediately upon receipt and logged into the payment record book. On one occasion, five checks totaling \$1,210 were observed in the register drawer. None of the checks were restrictively endorsed and only one was recorded in the log. On another occasion, eight checks totaling \$1,395 were observed. All were recorded in the log; however, none were restrictively endorsed for deposit.

Sound accounting practices require that control procedures should be in place to ensure funds are safeguarded from loss or misappropriation. These should include the immediate endorsement of checks and money orders, prompt recording and restricted physical access to funds. The lack of sufficient controls increases the risks that funds may be diverted or misappropriated before they are accounted for and deposited.

IAS noted the endorsement of the checks was not initially addressed in the written procedures. The checks and money orders were endorsed the following morning, when the deposit documents were prepared. IAS observed, however, that the register procedures were recently updated to include the endorsement policy, and an endorsement stamp is now maintained near the cash register.

Recommendations

It is recommended that management continuously monitor the accounting activities to ensure policies and procedures adopted are operating effectively to safeguard receipts. As noted in Observation #1, an independent review and reconciliation of the payment record book should be performed. For receipts on hand after working hours, physical restrictions should be implemented. The receipts should be placed in a security bag in a locked office.

Management's Response (Received August 30, 2012)

Management agrees with the recommendations and will adopt policies and procedures for full compliance.

3. Opportunity To Periodically Update And Approved Policies And Procedures (Repeated)

FCS' fiscal policies and procedures were updated during the review; however, there was no indication of a management's review and approval. These include the following:

- Daily Deposit Procedures, dated July 15, 2008 and revised February 2, 2012
- Instructions for Using Cash Register, not dated - The procedures were revised January 10, 2012 to include the new permit fees effective January 2010, and a statement on the endorsement of checks.
- Monthly Renewal Letters, revised February 2, 2012
- Procedures for Handling Counter Payments, not dated

3. Continued... ..

- Procedures for Payments Received by Mail, not dated - The procedures need revising since mail receipts are not entered in the payment record book.
- Procedures for Refunds, not dated
- Procedures for Handling Returned Checks, not dated - The procedures do not agree with Comptroller's procedures. In addition, the \$25 returned check fee was not substantiated. According to ordinance #62785, the fee should be \$20.

To ensure that control procedures and job junctions are performed in accordance with management's objectives, the policies and procedures should be periodically updated and approved by management. The lack of proper authorization of FCS' policies and procedures increases the risks that:

- Control procedures will not be performed and/or overridden
- Performance standards and measures are not obtained
- Employees will not be adequately trained
- Account balances may not be corrected resulting in unreliable financial records

IAS noted that FCS was still in the process of revising its procedures. Due to time constraints and other duties, the development of the manual has been in process for at least four years.

Recommendation

Again, it is recommended that FCS periodically review and update the policies and procedures. The policies and procedures should be approved by management and formally communicated to the staff.

Management's Response (Received August 30, 2012)

Management agrees with the recommendations and will adopt policies and procedures for full compliance.

4. Opportunity To Document Supervisory Reviews

Supervisory reviews of major reports and forms used by FCS are not documented. These include the following:

- Monthly Management Reports – The net difference in revenues reported on the City's general ledger and FCS' monthly reports was \$20,963 for fiscal year 2011; differences ranged from (\$67,040) to \$92,203. FCS' reports did not include all permits issued and revenues for plan reviews. Errors such as incorrect rates; footings, transpositions; and incorrect number of other permits were also noted.

4. Continued... ..

The monthly reports are used for budgetary purposes and for media inquiry. They describe monthly and annual performances on permits issued, inspections, and revenues collected. The reports are generated from data captured from FCS' system tapes, and are placed on the "H" drive for management's review. Although corrections were made after discussions with management, the year end report did not agree with the general ledger.

As a result, the usefulness of the reports was limited, and management had little assurance that account balances were accurate. Also, the reports can not be relied upon in measuring performance levels.

- Inspection Forms – As a result of this review, documentation of the supervisory reviews began in February 2012.
- Explanation of Fines Forms – Three of the nine forms reviewed were not signed by the supervisor as indicated in the procedures. The Explanation of Fines form, communicates to the establishments the amount of fines due for various violations. According the FCS' procedure, this form is prepared by the inspectors if violations are not abated by the follow-up inspection or if critical violations are cited. A copy is given to the establishment and the supervisor; however, there was no indication that the supervisor reviews the forms for accuracy.
- Assessment Forms - Twelve establishment files were reviewed and three did not have the priority assessment documented. Eight of the remaining nine were not reviewed for accuracy.

Two were grocery stores, which were assessed as low priority, yet no forms were on file. According to the Supervisor, grocery stores generally have low priority assessments, and are renewed annually at the standard rate; however, two other assessment forms for grocery stores were documented; these procedures appear inconsistent.

The renewal fees for food establishment permits and plan reviews are based on the priority assessments. The priority assessments determine the frequency of inspections and the rate. Inaccurate assessments may result in disgruntled customers. The lack of management's review increases the risk that fees may not be consistently applied.

Sound management practices require major reports and forms be reviewed periodically by management and documented to ensure assessments and fines are accurately determined. In addition, FCS' procedures require that the Explanation of Fines form to be reviewed and approved before it is issued to the establishments. IAS noted that documents and data in the system are periodically reviewed; however, with the exception of the Explanation of Fines form, there were no written control procedures that would require the forms and reports to be reviewed and approved.

4. Continued... ..

Recommendations

Management should implement procedures for periodic supervisory reviews of major forms that would effect the frequently of inspections, issuance of permits and revenues received. The reviews should be documented either on the forms or within the database. It is also recommended that management reports be reviewed and reconciled to the internal records and the general ledger.

Management's Response (Received August 30, 2012)

Management agrees with the recommendations and will adopt policies and procedures for full compliance.