



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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August 25, 2011

Curtis B. Skouby, P.E., Director
Department of Public Utilities
1640 S. Kingshighway Blvd.
St. Louis, MO 63110-2285

RE: Water Division (Project # 2011-14)

Dear Mr. Skouby:

Enclosed is the Internal Audit Section's process review of the Water Division for the period July 1, 2009 through December 31, 2010. A description of the scope of work is included in the report.

Fieldwork was completed on June 6, 2011. Management's responses to the observation and recommendations noted in the report were received on August 23, 2011, 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) 622-4723.

Respectfully,

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: James A. Kummer, Fiscal Manager



CITY OF ST. LOUIS CITY OF ST. LOUIS

DEPARTMENT OF PUBLIC UTILITIES

WATER DIVISION

PROCESS REVIEW

JULY 1, 2009 THROUGH DECEMBER 31, 2010

PROJECT #2011-14

DATE ISSUED: AUGUST 25, 2011

**Prepared By:
The Internal Audit Section**



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HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
DEPARTMENT OF PUBLIC UTILITIES
WATER DIVISION
PROCESS REVIEW
JULY 1, 2009 THROUGH DECEMBER 31, 2010**

EXECUTIVE SUMMARY

Purpose

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

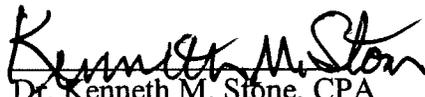
- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies, and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- Economic and efficient use of resources

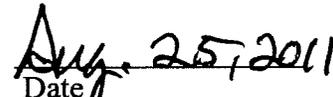
Conclusion

The opportunity exists for the Division to improve controls over the financial and operational activities. The following observation resulted from the review:

Opportunity to perform timely reconciliations of the advance deposits account (Repeated)

This observation is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.


Dr. Kenneth M. Stone, CPA
Internal Audit Executive


Date

**CITY OF ST. LOUIS
DEPARTMENT OF PUBLIC UTILITIES
WATER DIVISION
PROCESS REVIEW
JULY 1, 2009 THROUGH DECEMBER 31, 2010**

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INTRODUCTION

Background

The Water Division is a municipally owned and operated utility dedicated to supplying the highest quality water to its customers. By ordinance, the Division is also responsible for assuring that revenues are sufficient for the maintenance and operations of the City's waterworks and facilities.

The Finance Section performs financial coordination and reviews of the various Division programs. This section develops the annual budget, analyzes overall expenditures and develops the City's water rate proposals. The Customer Service Section is responsible for billing and collecting payments from flat rate and metered customers.

Purpose

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
- Economic and efficient use of resources

Scope and Methodology

The review was confined to evaluating internal controls over the Division's financial and operational activities. The audit procedures included: inquiries of management and other staff; observations of relevant processes; and reviews for compliance with policies and procedures, as well as applicable laws and regulations. Limited tests of controls, follow-ups on prior audit observations, and other procedures considered necessary were performed.

Exit Conference

An exit conference was conducted at the Water Division, on August 18, 2011. The Water Division was represented by James Kummer, Fiscal Manager. The Internal Audit Section was represented by Dorothy Middleton, Auditor II and Olaide Hassan, Auditor-in-charge.

Management's Responses

Management's responses to the observation and recommendations noted in this report were received from the Division on August 23, 2011. The responses have been incorporated into this report.

OBSERVATIONS

Status of Prior Observations

The Internal Audit Section (IAS) followed up on the following observations included in the audit report issued March 9, 2006. The status of these observations are as follows:

1. Opportunity to reconcile receipts to payments reported due on the system reports (**Resolved**)
2. Opportunity to safeguard receipts and improve timeliness of deposit (**Resolved**)
3. Opportunity to improve upon collection of delinquent accounts (**Resolved**)
4. Opportunity to segregate the duties of processing advance water receipts and disbursement transactions (**Resolved**)
5. Opportunity to reconcile advance water deposits to the financial records (**Repeated**)
6. Opportunity to report abandoned funds to the State (**Resolved**)

Summary of Current Observations

IAS noted several internal control procedures of the fiscal operations that contributed to the successful management of the Division. These included, but were not limited to the following:

- Various system reports are generated and reviewed by management for completeness and accuracy.
- Resolutions of previous audit recommendations were observed, except as noted.
- Checks are restrictively endorsed upon receipt and deposited daily.
- Receipts collected and reported by the Collector of Revenue are reviewed daily.
- Commission fees are recalculated daily for accuracy and summarized.
- Payments are matched to billings to ensure proper payment and credit.
- Abandoned property is tracked and consistently reported to the State.
- Written procedures for key functions exist and duties are properly segregated.

The opportunity exists for the Division to improve internal controls over the Division's financial and operational activities. The following observation resulted from the review:

Opportunity to perform timely reconciliations of the advance deposits account (**Repeated**)

This observation is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANGEMENT'S RESPONSES

Opportunity to perform timely reconciliations of the advance deposits account (Repeated)

IAS followed up on the status of a prior observations issued in the March 2006 report regarding reconciliation of advance deposits. The current review revealed that the reconciliations were not timely and consistently performed. IAS noted that February 2010 was the last time a reconciliation of the Division's records to the City's general ledger was performed. This reconciliation was performed in May 2011.

Sound accounting practices require that accounts are reconciled regularly to ensure balances are properly stated. Also, management's policies and procedures require advance deposits recorded in its subsidiary ledger be reconciled to the City's ledger monthly.

Untimely reconciliations increase the risks that errors and omissions are not detected and corrected. Reconciling items not resolved may result in unreliable financial reports. Upon inquiry, IAS was informed the delay in performing the reconciliation was due to staffing problems and increasing workloads requiring immediate attention.

Recommendation

IAS recommends the Water Division implement controls to ensure compliance with its policies and procedures for reconciliation. It is also recommended that the reconciliations are reviewed periodically and documented by management.

Management's Responses

After the March 9, 2006 Internal Audit Section report on the Water Division was issued, the Water Division created a more comprehensive template that allows a three-way reconciliation of advance water deposits' subsidiary ledger, general ledger and the Comptroller's general ledger balances.

However, since the March 2006 audit, the Water Division's reporting need has drastically changed. The Water Division migrated from quarterly to monthly financial reporting. Accruals of significant accounts are recorded on a monthly basis. This methodology avoids "big swings" of revenues and expenditures at year-end, providing management a monthly report that reflects proper matching of revenues and expenditures.

Supplemental reports were created to provide management additional tools to track and monitor sectional spending. These weekly reports are distributed to allow supervisors and managers to be pro-active rather than re-active to their section's purchasing activities. During FY 2011, in an effort to contain costs, two key positions in the Water Division's Finance Section's, an Accountant II and an Accounting Supervisor position were left vacant. With limited staffing and increased workloads, only critical tasks were identified and distributed to the remaining employees.

Continued... ..

The Water Division agrees with the audit observation that timely reconciliation of advance deposit accounts be performed. However, due to the above-mentioned realities and the need to prioritize tasks with a shrinking workforce, a monthly reconciliation of advance water deposits cannot be performed at this time. A fiscal year-end reconciliation of the Water Division's subsidiary and general ledger, using a different format, that has been accepted by the City's external auditor has been and is still being performed. The Water Division's Finance section is in the process of reviewing opportunities to automate certain processes that when implemented could free up workload that will enable us to perform a more timely reconciliation of accounts such as the advance water deposit. Until that time, Finance will change its policies and procedures manual to reflect the annual reconciliation process currently utilized.