



CITY OF ST. LOUIS CITY OF ST. LOUIS

COMPTROLLER'S OFFICE

GATEWAY TRANSPORTATION CENTER

REVENUE REVIEW

JULY 1, 2013 THROUGH DECEMBER 31, 2014

PROJECT #2015-RR08

DATE ISSUED: OCTOBER 19, 2015

Prepared By:

The Internal Audit Section



OFFICE OF THE COMPTROLLER OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER



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CITY OF ST. LOUIS



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October 19, 2015

James M. Garavaglia, Asset Manager
Asset Management Section
Comptroller's Office
1520 Market Street, Suite 3005
St. Louis, MO 63103

RE: Gateway Transportation Center Revenue Review (Project #2015-RR08)

Dear Mr. Garavaglia:

The Comptroller's Internal Audit Section has completed a revenue review of the Gateway Transportation Center (Fund 1116). Enclosed is our report covering the period July 1, 2013 through December 31, 2014. A description of the scope of work is included in the report.

Fieldwork was completed on September 21, 2015. Management's responses to the observations and recommendations noted in the report were received on October 16, 2015, 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. Ishmael Ikpeama
Internal Audit Supervisor

Enclosure

Cc: Darlene Green, Comptroller
Robin Jones, Manager, Gateway Transportation Center

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SUMMARY

Background

The St. Louis Gateway Transportation Center is an intermodal transportation center constructed by the City of St. Louis and operated/managed by the Comptroller's Office. The Center provides passengers and guests with a clean, safe and friendly transportation center featuring 24- hour operations staff and security.

The City of St. Louis entered into lease agreement with Greyhound Lines, Inc. (Greyhound) and National Railroad Passenger Corporation (AMTRAK) for the use of the allotted portions of the station for their transportation business.

The City of St. Louis also entered into a lease and concession agreement with Arch City Deli, LLC, an experienced business provider of food, beverage and merchandise concessions to operate at the center.

Purpose

The purpose of this review was to determine if management at the Gateway Transportation Center effectively and efficiently managed risks relating to its revenue to ensure:

- All revenues are properly budgeted, tracked, collected and recorded.
- Compliance with applicable laws, regulations, City/Comptroller's policies and procedures pertaining to revenues.
- Lease and Concession agreements exist and are current.

Scope and Methodology

The scope of the review covered the period July 1, 2013 through December 31, 2014. The review was confined to evaluating internal controls over the revenue procedures relating to the objectives noted above. The review procedures included:

- Inquiries of management and staff.
- Analytical review of past years revenues.
- Reviews of revenue procedures and compliance with applicable laws, lease and concession agreements, regulations, policies and procedures.
- Limited tests of the accuracy of revenues collected.
- Other procedures as considered necessary.

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Exit Conference

The management of Gateway Transportation Center declined an offer for an exit meeting. Pre-exit meeting was held with the management, and the report's observations and recommendations were discussed.

Management Response

The management of Gateway Transportation Center provided written responses to the Internal Audit Section on October 16, 2015, which have been incorporated in this report.

Status of Prior Observations

A prior audit was performed and the report was issued on July 17, 2012. The status of observations noted in the report is as follows:

- Opportunity to improve internal controls over lease revenue (Observation #4) **Resolved.** National Railroad Passenger Corporation (Amtrak) now sends checks for monthly lease rent payments to the Comptroller's Office.
- Opportunity to document capital expenditure (\$22,500 questionable depreciation) (Observation #1). **This is considered outside the scope of this review. No additional audit procedure was performed.**
- Inadequate tracking of year-to-date sales (Observation #2). **Partly Resolved.**
- Failure to review insurance requirements (Observation #3). **This is considered outside the scope of this review. No additional audit procedure was performed**

Conclusion

The Gateway Transportation Center has an opportunity to improve internal controls over the accuracy of the lease and concession rent due and collected.

Summary of Current Observations

The opportunity exists for Gateway Transportation Center to improve controls over the revenue procedures. The following are observations resulting from our review:

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1. Underpayment of Rents (Uncollected Revenue of \$3, 731.75).
2. Compliance with Lease and Concessionaire Agreement Terms and Conditions.

These observations are discussed in more detail in the *Detail Observations and Recommendations*.

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

1. Underpayment of Rents (Uncollected Revenue of \$3,731.75)

Based on the annual Report of Gross Receipts certified by their independent Certified Public Accountant, Arch City Deli owes the City an additional **\$3, 731.75** in rents for the period January 1, 2014 through December 31, 2014.

Article 5 section 5.1 (Percentage Rents) of the Lease and Concession agreement provided that the Concessionaire shall pay to the Lessor (City) the following " Percentage Rents" commencing on the effective date with respect to gross receipts from concession sales:

- 0 to \$700,000 in Annual Gross Receipts - 7%.
- \$700,000 to \$800,000 in Annual Gross Receipts - 8%.
- \$800,000 to \$900,000 in Annual Gross Receipts - 9%.
- Excess over \$900,000 in Annual Gross Receipts - 10%.

Internal Audit reviewed the monthly statements of sales and the accompanying checks for rent payments submitted by Arch City Deli to the Comptroller's Office for the period 1/1/2014 to 12/31/2014.

Based on the monthly statements provided by Arch City Deli, total gross receipts from concession sales at the Center were **\$767,703.09** while the rent paid to the City was **\$38,739.22**. However, the Arch City Deli Report of Gross Receipts for the period ended December 31, 2014, certified by their independent Certified Public Accountant showed gross receipts from concession sales of **\$805,233** and should have resulted in rent of **\$42,470.97** as calculated below.

Gross Receipts (1/1/2014-12/31/2014)	\$	805,233.00
Percentage Rent 0-\$700,000 @ 7%	\$	49,000.00
Percentage Rent \$700,000-\$800,000 @8%	\$	8,000.00
Percentage Rent \$800,000-\$900,000@9%	\$	470.97
Total Rent	\$	57,470.97
Less Investment Credit	\$	15,000.00
Rent Due to the City	\$	42,470.97

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

The City has been underpaid rent in the amount of \$3, 731.75 by Arch City Deli (\$42,470.97-\$38,739.22).

The management of Gateway Transportation was not reconciling the total monthly rent payments at the end of the year to the Report of Gross Receipts as certified by the independent Certified Public Accountant to confirm the accuracy of the reported gross receipts and the rent payments made to the City. In addition, the management of Gateway Transportation Center had not followed-up with the Arch City Deli management to ensure compliance with the Section 5.2 (c) of the lease and concession agreement which requires the Concessionaire to submit to Lessor, within 90 days after the end of each year, a report of all gross receipts for the prior year certified by an independent Certified Public Accountant.

Recommendation

Internal Audit recommends that Gateway Transportation Center management:

- Request and obtain from the Arch City Deli payment of the rent underpayment of \$3, 731.75 for the period ended December 31, 2014.
- Request for Report of Gross Receipts certified by the CPA for prior years and review to determine if rents were correctly paid.
- Request and obtain a Report of Gross Receipts certified by a CPA from the Arch City Deli annually as provided for in the lease and concession agreement.
- Annually reconcile the Report of Gross Receipts to the rent paid for the period and identify and investigate the variances, if any.

Management Response

Management will follow Internal Audit's recommendation to:

- *Request and obtain from Arch City Deli payment of the underpaid rent for the period ended December 31, 2014; although it is still unclear based upon the provided reconciliation what the amount should be: one reconciliation shows a total underpayment of \$42, 470.97 and the underpaid amount noted in the recommendation is \$3,731.75.*
- *Request report of Gross Receipts certified by the CPA for prior years and review to determine if rents were paid correctly.*

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- *Request and obtain a report of Gross Receipts certified by the CPA from the lessee annually as stated in the lease and concession agreement.*
- *Annually reconcile the Gross Receipts to the rent paid for the period and identify and investigate the variances, if any.*

Auditor's Comment:

The under payment percentage rent was \$3,731.75 based on our reconciliation. The amount of \$42,470.97 was the actual rents due, while the actual payments made by Arch City Deli totaled \$38,739.22 for the period ended December 31, 2014. This resulted in underpayment of \$3,731.75.

2. Compliance with Lease and Concessionaire Agreement Terms and Conditions

According to Gateway Transportation Center management, Arch City Deli has not submitted the prior years certified gross receipts reports to the City as required.

Article V Section 5.2 (c) of the executed lease and concession agreement between the City and Arch City Deli, stated that "throughout the term of this Agreement, Concessionaire shall submit to Lessor, within ninety (90) days after the end of each year, a Report of all Gross Receipts (by tiers described in Section 5.1.1) for the prior year certified by an independent Certified Public Accountant'.

Gateway Transportation Center management has not established procedures to ensure the receipts of the certified gross receipts report in accordance with the agreement. As a result, there is no review of concession receipts for accuracy and the City could lose revenue if the reported gross receipts from concession sales are inaccurate.

Recommendation

Internal Audit Section recommends that the management of the Gateway Transportation Center establish procedures for:

- Requesting in writing at the end of each year the certified gross receipts report from concession sales.
- Follow-up and tracking the timely receipt of the certified gross receipts report.
- Reviewing the certified gross receipts report for accuracy.

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

Management Response

Management will follow Internal Audit's recommendation to establish procedure for:

- *Requesting in writing at the end of each year the certified Gross Receipts report from the lessee showing concession sales.*
- *Follow-up and track the timely receipt of certified Gross Receipts report.*
- *Review the certified Gross Receipts report for accuracy.*