



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



DARLENE GREEN
Comptroller

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June 16, 2014

FILE COPY

The Honorable Darlene Green, Comptroller
City of St. Louis
1200 Market Street, Room 311
St. Louis, MO 63103

RE: Tower Grove Park (Project #2014-FHL3)

Dear Comptroller Green:

Per your request, we have completed a fiscal process review of Tower Grove Park. Enclosed is the report covering the period July 1, 2012 through September 30, 2013. A description of the scope of the work is included in the report.

Fieldwork was completed on March 31, 2014. Tower Grove Park's management's responses to the observations and recommendations noted in this report were received on June 10, 2014 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: John Karel, Director – Tower Grove Park
Robert W. Sellers, President – Tower Grove Park, Board of Commissioners
Elaine Spearman, Legal Advisor & Chief Staffing Officer to the Comptroller
John Zakibe, Deputy Comptroller



CITY OF ST. LOUIS

TOWER GROVE PARK

FISCAL PROCESS REVIEW

JULY 1, 2012 THROUGH SEPTEMBER 30, 2013

INTERNAL AUDIT PROJECT # 2014-FHL3

DATE ISSUED: JUNE 16, 2014

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

EXECUTIVE SUMMARY

Background

Tower Grove Park (TGP) is the second largest park in the City, encompassing 289 acres. Donated to the City in 1868 by Henry Shaw, TGP is governed by a Board of Commissioners that has an approved master plan to guide infrastructure improvements.

To achieve its mission for the development, operation and maintenance of the park, TGP annually receives a City subsidy, allocations from the Capital Improvements (one-half cent), the Metro Parks (one-tenth cent) sales tax, and pledges/grants and donations. TGP received \$764,738 and \$1,207,910 from the City in fiscal years 2012 and 2013 respectively.

The Tower Grove Park Foundation and the Friends of Tower Grove Park are legally separate tax-exempt component units of the Park. The units were created to ensure the on-going preservation, restoration and enhancement of the Park, and to supplement resources for its programs. The majority of income generated is for the direct benefit of the Park. Although the units are separate, some of the Park's Commissioners serve as the Directors of the Foundation. Also, the Director of the Park serves as Executive Director of the Foundation.

Purpose

TGP was selected for review based on IAS' annual risk assessment and at the request of the Comptroller. The purpose was to determine if TGP's effectively and efficiently managed risks within its' fiscal processes to ensure:

- 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 scope of the review included the fiscal and reporting activities from the period July 1, 2012 through September 30, 2013. 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.
- Observations of relevant processes.
- Reviews of processes and transactions for compliance with applicable laws, regulations, policies and procedures.
- Limited tests of internal controls and related transactions.
- Follow-ups on any prior observations.
- Other procedures considered necessary.

Exit Conference

An exit conference was conducted at Tower Grove Park (TGP) on May 27, 2014. The Director, Deputy Director, two members of the Board of Commissioners and a representative of the Anders audit firm represented TGP. The Internal Audit Executive and Auditor-in-Charge represented the City's Internal Audit Section.

Conclusion

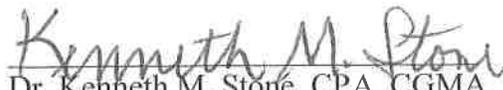
Several control strengths were noted within TGP's fiscal and reporting activities. These included, but were not limited to, the following:

- The Board of Commissioners meets regularly to discuss the financials and program activities.
- Bank statements are reconciled monthly.
- Dual signatures are required on checks for vendors/suppliers over \$10,000.
- Invoices, credit card receipts, and check requests are approved by a supervisor - Only approved invoices are entered into the accounting records.

However, the opportunity exists for the Board and management of TGP to improve internal controls over financial and reporting activities. Based on our observations, TGP has the opportunity to:

1. Execute a contract with the City of St. Louis. **(Repeated)**
2. Review, update and revise the Director's compensation agreement.
3. Segregate Capital Improvement and Metro Parks sales tax funds from donations.
4. Improve controls for safeguarding assets.
5. Segregate incompatible duties.
6. Develop written procurement policies and procedures.
7. Develop formal accounting policies and procedures.
8. Periodically perform supervisory reviews of the bank reconciliations.

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
TOWER GROVE PARK
FISCAL PROCESS REVIEW
JULY 1, 2012 THROUGH SEPTEMBER 30, 2013**

TABLE OF CONTENTS

Description	Page(s)
OBSERVATIONS	
Status of Prior Observations	1
Summary of Current Observations	1
DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES	2-10

OBSERVATIONS

Status of Prior Observations

The Internal Audit Section (IAS) followed up on the observation included in State Auditor's report, issued December 2008.

- The Comptroller's Office did not have a contract for monies totaling \$1.2 million passed to Tower Grove Park. **(Repeated)**

Summary of Current Observations

Several control strengths were noted within TGP's fiscal and reporting activities. These included, but were not limited to, the following:

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6. Develop written procurement policies and procedures.
7. Develop formal accounting policies and procedures.
8. Periodically perform supervisory reviews of the bank reconciliations.

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

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

1. Execute A Contract With The City Of St. Louis (Repeated)

The TGP Board of Commissioners and the City has not established a written agreement confirming the purpose and terms for funding the maintenance of the Park. TGP and the City relied upon the October 20, 1868 deed as the source of authorization and distribution of funds for maintenance of the Park.

As a condition of the deed, the City is required to make annual appropriations approved by the Board of Alderman for maintenance of the Park. The deed also states that the Board of Commissioners has exclusive power to manage the park, and pass ordinances and regulations not inconsistent with the ordinances and regulations of the City.

It was noted that improvements of the Park, expended at the discretion of Commissioners, is not sufficiently documented and is inconsistent with City and State laws. Article XXV, Section 9 of the City Charter, requires that all contracts relating to City affairs be in writing, signed and executed in the name of the City. In cases not otherwise provided by law or ordinance, they shall be made by the Comptroller, registered, and in no case by the Board of Alderman or any committee thereof.

Section 432.070 of the Revised Statutes of Missouri (RSMo) also requires contracts of political subdivisions to be in writing. Written contracts, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts should clearly outline expectations, provide a means for the City to monitor compliance with the contract terms, and provide protection for the City in the event of a dispute.

Recommendation

It is recommended that the TGP Board of Commissioners and Comptroller seek the advice of the City Counselor's Office to ensure compliance with City and State laws. Upon execution, the contract should provide adequate details of funding commitments, protections for the City, and the use of taxpayers' dollars.

Management's Response

This strikes us as reasonable. We stand ready to work with the Comptroller and the City Counselor's Office, and will take their lead.

2. Review, Update And Revise The Director's Compensation Agreement

During our review, it was noted that the TGP Board of Commissioners was in the process of updating the Director's compensation agreement. The agreement, dated December 13, 2011, should be updated and re-evaluated in accordance with the Board of Commissioners' By-Laws.

The compensation agreement conflicts with the Foundation's conflict of interest policy and the Board of Commissioners' By-Laws. In addition, the Director's supplemental compensations were paid from the special projects bank account in which the Metro Parks Sales Tax and donations were reported, see observation #3.

Contrary to the Foundation's policy, the agreement states that the Director shall receive a bi-weekly salary from City appropriations and quarterly supplemental compensations from donations for the following:

- Park residency, including maintenance of structure and grounds, security cost, insurance for personal property, and utilities.
- Vehicle, including maintenance, insurance and fuel.
- Membership dues at the Racquet Club and the Whittemore House.
- Cell phone.
- Fees for forest consultancy to Missouri Botanical Garden.

Article XII of the Board of Commissioners By-Laws states that the Park Director shall be compensated for his or her service and shall receive an annual review in the manner deemed appropriate by the executive committee of the Board of Commissioners. Yet the Foundation's conflict of interest policy states that persons employed by the Foundation or the Park to administer, solicit, or negotiate gifts will be paid a salary or hourly wage and will not receive any commissions or other compensation that gives or has the potential appearance of giving them a personal interest in any gift.

Also, Article III of the Foundation's By-Laws states that Directors of the Foundation shall not receive any salary for their services. Article XII of the By-Laws states the Director of Tower Grove Park serves as the Executive Director of the corporation.

Recommendation

It is recommended that the TGP Board of Commissioners evaluate the compensation agreement annually ensuring it does not conflict with the Board's or Foundation's By-Laws or policies.

Management's Response

We agree, and will present the compensation agreement to the Board of Commissioners annually. The by-laws will be reviewed for external and internal consistency. In addition, we will work with the Executive Committee to schedule an annual review with the Director within 90 days.

3. Segregate Capital Improvement And Metro Parks Sales Tax Funds From Donations

According to the Missouri State Statutes, the funds received from the sales taxes should be segregated from donations and pledges. TGP deposits City funds in the operation, capital projects and special projects bank accounts. Receipts from fundraising events and pledges are also deposited to the capital and special projects bank accounts.

Numerous transfers between the three accounts were observed. The transfers were approved by the TGP Board and the Treasurer based on the budget and projects planned at the beginning of the year. The transfer report stated that monthly transfers were subject to change to satisfy varying cash flow needs.

Also, disbursements were made between entities. As of June 30, 2013, disbursements of \$56,553 from the operation account to Friends of Tower Grove and \$52,216 from the special projects account to Tower Grove Society were made. Since sales tax funds and donations are commingled, it is difficult to determine the source of funds expended for capital and special projects.

TGP's June 30, 2013 financial statements reported the following City funds and donations used for capital and special projects:

Capital Projects	2013	2012
Revenues (City ½ cent tax)	\$412,386	\$0
Expenses		
Tennis Courts Repairs	\$363,699	-
Entrance Repairs	30,745	-
Historic Structures	27,775	30,919
Misc. Small Projects	23,123	6,612
Equipment Replacement	21,220	6,375
Drinking Fountains	18,284	620
Other	14,769	9,922
Paving and Road Repairs	14,549	1,275
Lighting	7,960	9,773
Playground Renovations	2,906	1,456
Greenhouse Renovations	-	1,570
Total Expenses	\$525,030	\$68,522

Special Projects	2013	2012
Revenues (City 1/10 cent tax)	\$95,524	\$80,288
Expenses		
Park Reforestation	\$162,622	\$142,718
Emerson Trail Project	80,489	109,778
Director's Residence Renovations	79,028	39,383
Other	61,101	44,813
Tower Grove Park Society	52,216	77,444
Administrative Support	46,411	52,079
Drought Recovery	35,218	-
Moss Mountain Trip	20,147	-
Education and Training	11,510	16,473
Development Campaign	7,664	11,215
Fountain Ponds & Ruins	7,243	2,561
Public Relations Fund	3,279	2,829
Tribute Fund	1,241	16,441
Total Expenses	\$568,169	\$515,734

Chapters 90.010 and 90.550 of RSMo require that funds received from taxes for the maintenance of parks or pleasure grounds shall be kept separate and apart from all other funds, and shall be deposited in the park fund. When funds are commingled and numerous transfers are made between accounts and entities, the risk exists that tax dollars may be misdirected or used for unauthorized purposes.

3. Continued...

Recommendation

It is recommended that the TGP Board review the State requirements and its current policies to ensure funds are properly segregated. It is also recommended that the Board consider using accounts currently established for Tower Grove Foundation and Friends of Tower Grove Park as alternative means to account for donations.

Management's Response

We agree, and will setup or utilize dedicated accounts for all city funds and donations.

4. Improve Controls For Safeguarding Assets

Key internal controls were not operating effectively to properly safeguard assets. The February 21, 2014 inspection of the safe revealed a February 19, 2014 transfer check payable to Tower Grove Park for \$23,843. The check was not restrictively endorsed for deposit.

In addition, the following exceptions were noted:

- Receipts were not accounted for (incoming log/journal) immediately upon receipt.
- Receipts (cash and checks) were not deposited daily.
- At least four persons had access to the safe.
- The blank check stock was not adequately secured. During our visit, the blank checks were observed stored in the lower drawer of an unlocked cabinet in the Accountant's work area.
- It was also noted that the Director signs his quarterly supplemental checks without a co-signer.

Accepted accounting practice requires that assets be properly and promptly accounted for and safeguarded to avoid potential theft or loss. This includes requiring funds be promptly recorded, independently verified, checks and money orders be restrictively endorsed immediately (as soon as practical) upon receipt, and adequately secured.

The lack of proper controls increases the risk that cash/checks may be lost, incorrectly recorded, and/or misappropriated. Due to improper controls, TGP experienced a loss or theft of checks and cash in July 2013. After consulting with its independent auditors, TGP established fraud prevention procedures which included a new security system, cash handling procedures and limiting access to the safe to the Director and Deputy Director.

The TGP Board was not provided a management report on the adequacy of internal controls from the auditors upon review and submission of the annual financial statements. The Deputy Director stated that due to lack of staff and time, checks were endorsed weekly when deposits were made.

4. Continued...

Recommendation

It is recommended that the TGP Board continuously review and update control procedures to safeguard its assets. It is also recommended that the Board receive from its independent auditors an annual management report on the adequacy of internal controls. In addition, the Board should consider:

- Establishing receipt log(s) noting the dates received, check numbers and dates, amounts, nature, and the receiver. Receipts on the log should be compared with the departments' income sheets.
- Restrictively endorsing checks and money orders immediately upon receipt.
- Depositing checks daily.
- Limiting access to the safe.
- Securing the blank check stock in a separate locked storage area.
- Requiring compensation checks of the Director to be co-signed by the Treasurer.

Management's Response

We agree, and will work to implement these recommendations during the upcoming fiscal yearend audit.

5. Segregate Incompatible Duties

The procedures prepared by the independent auditors were provided for our review. The review revealed that the Deputy Director performed incompatible duties. These included:

- Processing the mail which includes checks, invoices and bank statements.
- Access to the safe.
- Preparation of deposit records.
- Access to the accounting system.
- Processing and approving payroll disbursements.

The Government Finance Officers Association (GFOA) recommends that all aspects of cash receipts and disbursement functions be subject to proper internal controls segregating the authorization, recordation, and custodian functions. More specifically, the receipting and disbursement duties should be segregated.

Adequate segregation of duties reduces the likelihood that errors (intentional or unintentional) remain undetected by providing an accounting check over the receipt of funds. Incompatible duties place employees in a position to perpetrate and conceal errors or irregularities in the normal course of their duties.

5. Continued...

TGP Management and the Board of Commissioners relied upon the procedures prepared by its independent auditors, and therefore did not establish formal accounting policies and procedures to address control activities. However, during the review, management drafted some new procedures, reassigned some duties performed by the Deputy Director and agreed to have the procedures approved by the Board.

Recommendation

It is recommended that the TGP Board of Commissioners establish control procedures to segregate the receipt and disbursement functions. Specifically, it recommended that the employees involved in the receipt and depositing functions not have access to the accounting records. Also, the receipt and disbursement duties should be segregated, where possible. The Board should consider delegating one or more of the Deputy Director's duties to the Office Manager, since this person also has access to the safe.

Management's Response

We concur, and will work with our outside auditors to effectively segregate the duties during the upcoming fiscal yearend audit.

6. Develop Written Procurement Policies and Procedures

Tower Grove Park has not established written procurement policies and procedures for the use of construction and other services. Transactions of seven major vendors/consultants during the months of June and September 2013 were reviewed. Disbursements paid to vendors ranged from \$11,700 to \$72,000 during the two months. The review revealed that:

- There was no current contract with the management construction company. IAS observed a 2005 letter addressing a rate change from 2002; however, the Director's approval was not properly documented.
- Three of the vendor arrangements were based on proposals versus contracts.
- The proposals were developed through the services of the management construction company; however, the proposals were not approved by the management construction company.
- There were no contracts/proposals for two vendors used for electrical and plumbing services.
- Terms of completion were not stated in two vendor proposals.
- Although final billing on one proposal was to be July 1, 2013, payment of \$72,197 was made in September 2013.
- Disbursements of \$656 over the proposal amount were made to one vendor.

6. Continued...

Disbursements for goods and services should be in accordance with laws, regulations and management policy. The lack of procurement policies and procedures increases the risk that purchases may be:

- Unauthorized or improperly authorized.
- Made to an unauthorized supplier.
- Ordered and received by an unauthorized individual.
- Accepted at unauthorized prices and terms, and not met quality standards.
- Made to related parties resulting in conflicts of interest.

Management was unable to address the reason for the lack of written procurement policies and procedures. However, agreed to adopt a policy and include it in the revised procedural manual.

Recommendation

It is recommended that the TGP Board establish written procurement policies and control procedures to ensure that:

- All vendors and suppliers are authorized by the Board through written contracts.
- Competitive bidding over a specified amount is adopted.
- The absence of competitive bidding (emergency services) is justified and documented.
- Agreements are monitored and compared to services provided.
- Changes in terms of the agreements are documented in writing.

Management's Response

We concur, and will prepare the proper paperwork to document our policies and procedures with our vendors.

7. Develop Formal Accounting Policies And Procedures

Formal accounting policies and procedures were not established by management and clearly communicated to all employees. The procedures provided for our review were prepared by the independent auditors. The procedures lacked:

- Control activities.
- Performance standards and measures.
- Processing for City funds.
- Position titles (versus names).
- Management approval and date approved.

The Government Finance Officers Association (GFOA) recommends the development of formal accounting policies and procedures. It also states that:

7. Continued...

- A well-designed and properly maintained system of documenting accounting policy and procedures enhances both accountability and consistency.
- The resulting documentation can also serve as a useful training tool for staff.
- Policies and procedures should be evaluated annually and updated periodically, no less than every three years.
- Periodic changes that occur with the period reviews should be updated promptly as they occur.
- The policies and procedures should indicate which positions are to perform which procedures. Procedures should be described as they are actually intended to be performed rather than some idealized form.
- They should explain the design and purpose of control-related procedures to increase employees' understanding and support of controls.

The lack of properly updated policies and procedures increases the risks that:

- Management's objectives may not be clearly communicated.
- Performance standards and measures may be ineffective.
- Control procedures may not be consistently performed.
- Control procedures may not be effective or may be over-ridden.
- Employees may not be properly trained.

Management stated that it has a small, yet experienced staff that is familiar with the accounting policies and procedures. Also, management relied up on procedures prepared by its independent auditors; however, management has agreed to revise the procedures with the TGP Board's approval.

Recommendation

It is recommended the formal accounting policies and procedures be established and include the items noted above, as considered appropriate. It is also recommended that the procedures be:

- Approved by the Board and dated.
- Periodically reviewed and updated.
- Formally communicated to the staff.

Management's Response

We will work with our outside auditors during the upcoming fiscal yearend audit to review these processes and to improve the policies and procedures as needed.

8. Periodically Perform Supervisory Reviews Of Bank Reconciliations

It was noted that the Accountant was responsible for reconciling at least nine bank accounts; however, supervisory reviews of the reconciliations to the financial records were not performed to ensure completeness and accuracy. A requirement identified in the Deputy Park Director's job description was the ability to prepare and to supervise the records.

The risk exists that errors and omissions to the financial records may be posted and not timely detected and corrected resulting in unreliable monthly financials. Control procedures such as periodic supervisory reviews were not formally documented and communicated to the employee responsible for reconciling the bank accounts.

Recommendation

It is recommended that periodic supervisory reviews be performed of the reconciliations of the bank records to the financial records. The process should be documented in the written policies and procedures.

Management's Response

We concur, and will implement in future reconciliations during the upcoming fiscal yearend audit.