



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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December 11, 2014

Mr. John Zakibe, Deputy Comptroller
City of St. Louis
1200 Market Street, Room 311
St. Louis, MO 63103-2806

RE: Franchise Fees (Project #2014-RRV08)

Dear Mr. Zakibe:

Enclosed is the Internal Audit Section's revenue review report of the Franchise Fees collected by the City. A description of the scope of our work is included in the report. Fieldwork was completed on July 2, 2014.

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. Ishmael Ikpeama
Internal Audit Supervisor

Ron Steinkamp, CPA, CIA, CFE, CRMA, CGMA
Internal Audit Advisor

Enclosure:

cc: Ms. Beverly Fitzsimmons, Accounting Manager II

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CITY OF ST. LOUIS

FRANCHISE FEES

REVENUE REVIEW

JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

INTERNAL AUDIT PROJECT #2014-RRV08

DATE ISSUED: DECEMBER 11, 2014

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
FRANCHISE FEES
REVENUE REVIEW
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013**

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**CITY OF ST. LOUIS
FRANCHISE FEES
REVENUE REVIEW
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013**

SUMMARY

Background

Franchise Fees are a utility tax collected by the City on the gross receipts of the utility companies operating within the City. Utility companies taxed include: natural gas, telephone, water and steam. In addition, the gross receipts of the Airport as well as the Terminal Railroad Association are taxed. The franchise utility tax comprised approximately 11% (\$53.4 million) of total General Fund revenue of the City of St. Louis in fiscal year 2013.

Purpose

The purpose of this review was to determine if Franchise Fees were effectively and efficiently managed by the Comptroller's Office to ensure:

- Compliance with applicable laws, regulations, and policies and procedures.
- The proper safeguarding of assets.
- The reliability and integrity of financial and operational information.
- Economic and efficient use of resources.

Scope and Methodology

The scope of the review included the Comptroller's Office fiscal and reporting activities from the period January 1, 2013 through December 31, 2013. 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 controls.
- Follow-ups on any prior observations.
- Other procedures considered necessary.

Our procedures did not include verifying the amounts remitted to the City back to the books and records at the utility companies. Only a review of funds once they entered the City's system was performed. Therefore, we cannot conclude as to whether or not the correct amounts were remitted to the City by the utilities.

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SUMMARY

Status of Prior Observations

There has not been a review of Franchise Fees in the last five years. Therefore, there are no current prior observations to follow-up on at this time.

Conclusion

The Comptroller's Office has effectively and efficiently managed the Franchise Fees. We noted several control strengths including the following:

- Adequate management oversight and review of transactions.
- Timely reconciliation of internal documents to Receipt Coding Forms (RCF's) from Treasurer's Office.
- Proper segregation of duties for receiving, recording, processing, and reporting of revenues.
- Daily deposits of revenue to the Treasurer's Office.
- Revenues were properly safeguarded.

However, the opportunity exists for management to improve internal controls over fiscal and reporting activities, specifically:

1. Amend/revise expired ordinance related to the Terminal Railroad Association.
2. Expand the Comptroller's Authority to Examine Utility Books and Records.

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

Management Response

A management response was provided by the Deputy Comptroller on December 11, 2014 and has been incorporated in this report.

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

1. Amend/Revise Expired Ordinance Related to the Terminal Railroad Association

The City of St. Louis was operating under an expired Ordinance related to the Terminal Railroad Association. The authority to collect this revenue lapsed in 2008 and was still being collected by the City.

Ordinance 49025, section five, which authorizes the City of St. Louis to collect \$19,000 a year from the Terminal Railroad Association, was enacted on June 30, 1958 in preparation of expansion of the Jefferson National Memorial. Section four of the ordinance states that the term of the ordinance is fifty (50) years from the effective date of the ordinance. The ordinance was approved on June 30, 1958.

We found no evidence to suggest that the Board of Aldermen had amended the Ordinance to extend the time frame noted in Ordinance 49025, section four. In addition, it appeared that there had not been a review of section five of the Ordinance to determine if an adjustment to the amount collected was necessary.

Authority for the City of St. Louis to collect payments from the Terminal Railroad Association expired in 2008. Continuing to collect this revenue is a potential violation of the City's Ordinance and could possibly lead to the loss of this revenue stream.

Recommendation:

It is recommended that the Comptroller's Office contact the Board of Aldermen to have an amendment to Ordinance 49025 drafted, approved and enacted. This will establish a new municipal/corporate relationship between the City of St. Louis and the Terminal Railroad Association.

In addition the City should determine if the current amount of \$19,000 is still adequate or needs to be adjusted.

Management's Response:

The Comptroller's Office will determine whether the correct fee is necessary or the appropriate amount. Any required ordinance will be requested through the Board of Aldermen.

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2. Expand the Comptroller's Authority to Examine Utility Books and Records

Per the City Code, the Comptroller has the right to examine certain utility books and records, but not for all utilities.

Code sections 23.32.070 and 23.34.040, pertaining to telephone utilities, grant the Comptroller the ability to "... require officers and employees of the corporation concerned to appear before him and submit themselves and its books and papers to his examination." However, there is no clause granting the Comptroller this right related to the following utilities: steam (Code Section 8.88), electric (Code Section 23.30), and gas (Code Section 23.36).

Without a "right to examination" clause added to the Comptroller's powers section in the City Code, the Comptroller's Office does not have the authority to audit the utilities books and records. This could result in a potential loss of revenues to the City of St. Louis.

Recommendation

IAS recommends that the Comptroller's Office request that the pertinent City Code sections be amended to include the Comptroller's "right to examination" in all Sections of the City Code that regulate the City's franchise taxes. This will establish a means of review for the Comptroller to ensure that the City receives all of the revenue that is due to it.

Management's Response

Any City Charter change will require voter approval. We will discuss the feasibility of putting the issue to voters.

Auditor Comment

We believe that the Code and not the Charter would need to be amended.