OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS

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FILE COPY

May 8, 2014

Charlie Hahn, Comptroller St. Louis Development Corporation
1520 Market Street, Suite 2000
St. Louis, MO 63103

RE: Revenue Review – Port Authority (Project #2013-RRV11)

Dear Mr. Hahn:

Enclosed is the Internal Audit Section's revenue review report of the Port Authority for the period January 1, 2011 through December 31, 2012. A description of the scope of our work is included in the report.

Fieldwork was completed on December 26, 2013. Management's responses to the observations and recommendations noted in the report were received on May 2, 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,

Kenneth M. Stone

Dr. Kenneth M. Stone, CPA, CGMA
Internal Audit Executive

Enclosure:

Cc: Ms. Elaine H. Spearman, Legal Advisor & Chief Staffing Officer
Mr. Winston E. Calvert, City Counselor

CITY OF ST. LOUIS

PORT AUTHORITY

REVENUE REVIEW

JANUARY 1, 2011 THROUGH DECEMBER 31, 2012

PROJECT #2013-RRV11

DATE ISSUED: MAY 8, 2014

Prepared by:
The Internal Audit Section

OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

EXECUTIVE SUMMARY

Purpose

The purpose was to determine if the Port Authority's internal controls effectively and efficiently manages risks to ensure:

- The accomplishment of established objectives and goals.
- Compliance with applicable laws, regulations, and policies and procedures.
- All revenue is recorded and reported in a timely manner.
- The proper safeguarding of assets.
- The reliability and integrity of financial and operational information.

Scope and Methodology

The scope of the period of review included revenues from January 1, 2011 through December 31, 2012. The review was confined to evaluating internal controls over the fiscal activities relating to the objectives noted above. The review procedures included:

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

Background

The Port Authority of the City of St. Louis personnel coordinates with individuals or corporations for initial preparation and negotiation of land and mooring leases for development of property owned by the City of St. Louis within the Port District. The Port Authority also:

- Supervises the operation of all floating equipment owned by the Port Authority and works with the staff of the U.S. Army Corps of Engineers and the U.S. Coast Guard on all river related matters within the Port District.

- Coordinates all permits for mooring privileges on the improved wharf with the Director of the Street Department.

- Processes Lease Agreements through the City of St. Louis-Port Authority Commission, Board of Public Service and Board of Aldermen.

Exit Conference

An exit conference was offered but management declined.

Conclusion

The Port Authority addressed internal controls and risk relating to the objectives noted above, except for the following observations:

1. Opportunity to collect past due revenue (Questioned costs $278,875). **Repeated**
2. Opportunity to reconcile accounts monthly.
3. Opportunity to renew rent lease agreements. **Repeated**

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

Kenneth M. Stone

Dr. Kenneth M. Stone, CPA, CGMA
Internal Audit Executive

May 7, 2014
Date

CITY OF ST. LOUIS
PORT AUTHORITY
REVENUE REVIEW
JANUARY 1, 2011 THROUGH DECEMBER 31, 2012

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OBSERVATIONS

Status of Prior Observations

There has not been any recent revenue review performed on Port Authority. A process review was performed and report was issued on February 24, 2011(2010-08).

Summary of Current Observations

The opportunity exists for management to improve internal controls over the Port Authority's fiscal activities. The following are observations resulting from our review:

1. Opportunity to collect past due revenue (Questioned costs $278,875). **Repeated**
2. Opportunity to reconcile accounts monthly.
3. Opportunity to renew rent lease agreements. **Repeated**

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. OPPORTUNITY TO COLLECT PAST DUE REVENUE

Burlington Northern Santa Fe Corporation (BNSF) has not remitted payment for the use of City of St. Louis property for ten years. BNSF owes the City a total of $278,875. The details of that amount are shown below.

Fiscal Year	Rent Due
FY 03	$21,830
FY 04	22,739
FY 05	23,649
FY 06	23,649
FY 07	23,649
FY 08	23,649
FY 09	24,558
FY 10	25,468
FY 11	25,468
FY 12	25,468
FY 13	25,468
Subtotal	$265,595
Late fees	13,280
Total due	$278,875

Good business practices require the timely receipt of revenue. The Government Finance Officers Association (GFOA) recommended practice states in part: "Review all collection options available and establish procedures to maximize collections."

There has been an ongoing dispute with BNSF over the amount owed to the City of St. Louis. Currently there is no contract between the City and BNSF (see opportunity number 3). The City has not used its five year option to renew the contract. The option allows the City to continue leasing the properties to the companies with possible changes in rent due.

The City of St. Louis has been deprived of a total of $278,875 of revenue for the past ten years. This amount includes late fees and does not include the lost opportunity cost this loss of revenue represents. In addition the City had to pay for maintenance of facilities and has not been compensated.

1. **Continued…**

Recommendation:

IAS recommends that the Port Authority either:

- Negotiate a new contract that will address the past due amount if BNSF will continue using the City's property.
- Turn documents over to the City Counselor for possible legal action to recoup the past due revenue owed to the City.

Management's Responses:

We have submitted a draft lease to BNSF which will provide for payment of all back rent and establish a new rate going forward. We are waiting for their response. If we do not come to agreement within 30 days, we will turn it over to the City Counselor's Office.

2. OPPORTUNITY TO RECONCILE ACCOUNTS MONTHLY

The Port Authority does not reconcile their accounts receivable record to the City's general ledger. There were no tick marks or other physical indicators of a reconciliation being performed.

Good business practice dictates that all revenues received should be reconciled to ensure that all funds due to the City of St. Louis are received. GFOA practice for revenue policies recommends that: "Reconciliation to the general ledger and other supporting accounting ledgers shall be performed in a timely manner."

The Port Authority does not receive funds directly. Funds are received by the Comptroller's Office and processed on a Receipt Coding Form and sent to the Treasurer's Office. The Port Authority is not involved in the process.

Without monthly reconciliation of revenues received, there is an increased risk of the City not receiving all of the revenue that is due. There is also an increased risk that funds may be mis-directed in a different account or otherwise not properly recorded.

2. Continued...

Recommendation:

IAS recommends that the Port Authority develop procedures for reconciling their accounts receivable on a monthly basis and incorporate those procedures into its accounting manual.

Management's Responses:

We reconcile the receipts monthly after the receipt of the general ledger from the Comptroller's Office.

3. OPPORTUNITY TO RENEW RENT LEASE AGREEMENT

During the review it was noted that one out of fifteen of the Port Authority's lease agreements had expired. The agreement is with BNSF (see observation number one). This agreement was for ten years with three five-year options for renewal. There were no updated contract extensions for this lease.

Chapter 6.04.010 of the City of St. Louis Charter requires that all contracts entered into by the Board of Public Service shall be signed by the President of the Board and Comptroller. In addition the contract is to be reviewed by the City Counselor and deposited in the Register's Office.

The five-year renewal option of the contracts has not been pursued by the Port Authority. A lack of communication between the Port Authority and parties mentioned above did not occur for the renewing of these contracts. Authority/responsibility for renewing the contracts appears to have not been delegated.

The Port Authority is operating under the lease agreement that expired in 2003 for ADM and does not have a current contract for BNSF. This lack of contractual agreements may complicate current and future revenue collection attempts.

Recommendation:

IAS recommends that the Port Authority obtain/renew leases with the two companies that do not currently have a valid lease with the City.

3. Continued…

Management's Responses:

See management response for observation number one.