



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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FILE COPY

November 20, 2014

The Honorable Francis Slay, Mayor
City of St. Louis
1200 Market Street, Room 200
St. Louis, MO 63103

RE: Expenditure Review of the Mayor's Office (Project #2015-ER01)

Dear Mayor Slay:

Enclosed is the Internal Audit Section's expenditure review report of the Mayor's Office for the period July 1, 2013 through June 30, 2014. A description of the scope of the work is included in the report.

Fieldwork was completed on September 26, 2014. Management's responses to the observations and recommendations noted in the report were received on November 13, 2014 and have been incorporated in the report.

This review was made under authorization contained in Article XV, Section 2 of the City of St. Louis Charter, 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: Mary Ellen Ponder, Executive Director for Operations



CITY OF ST. LOUIS

MAYOR'S OFFICE

EXPENDITURE REVIEW

JULY 1, 2013 THROUGH JUNE 30, 2014

INTERNAL AUDIT PROJECT #2015-ER01

DATE ISSUED: NOVEMBER 20, 2014

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
MAYOR'S OFFICE
EXPENDITURE REVIEW
JULY 1, 2013 THROUGH JUNE 30, 2014**

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SUMMARY

Background

Article VII, Section 1 of the City Charter authorizes the Mayor to serve as chief executive officer of the City of St. Louis and to have and exercise all the executive powers of the City. The Mayor has general supervision over all executive affairs of the city and sees that each officer and employee performs their duty and that all laws, ordinances, and charter provisions are enforced.

As the chief executive, the Mayor's primary responsibilities include policy formulation and executive direction and coordination of the activities of City departments and agencies. The Mayor also is a member of the Board of Estimate and Apportionment.

The chart below provides a breakdown of the budgeted and actual non-payroll expenditures of the Mayor's Office in fiscal year 2014. As can be seen in the chart, the fiscal year 2014 non-payroll expenditures were under budget by 26%. Specifically:

Non-Payroll Expenditure Category	Budget FY 2014	Actual FY 2014	Percent of Actual to Budget
Material & Supplies	\$32,700	\$15,089	46%
Rental and Non-Capital Services	12,350	7,267	59%
Contractual and Other Services	177,800	142,058	80%
Total	\$222,850	\$164,414	74%

Purpose

The purpose of this review was to determine if the Mayor's Office effectively and efficiently managed fiscal risks related to its non-payroll expenditures to ensure:

- Compliance with applicable laws, regulations, policies and procedures.
- All expenditures are properly recorded and reported in a timely manner.
- The proper safeguarding of assets.
- The reliability and integrity of financial and operational information.
- The economic and efficient use of resources.

Scope and Methodology

The scope of the review included non-payroll expenditures from the period July 1, 2013 through June 30, 2014. 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 of compliance with applicable laws, regulations, policies and procedures.
- Limited tests of internal controls and transactions.
- Follow-ups on prior audit observations.
- Other procedures considered necessary.

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SUMMARY

Status of Prior Observations

The Internal Audit Section (IAS) followed up on the observation included in the State Auditor's report issued April 2010. The observation was as follows:

- The Mayor's Office has not periodically solicited proposals for lobbying services.
(Repeated)

Conclusion

Opportunities exist for the Mayor's Office to improve controls over expenditures. The following observations resulted from the review:

1. Solicit bid proposals for lobbying services in accordance with City laws and procurement policies **(Repeated from State Auditor's Report)**.
2. Process and document expenditures in accordance with City and State laws.
3. Questionable expenditures related to City Public School audit.
4. Develop formal policies, procedures and standards for processing expenditures.

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

Management's Responses

An exit conference was conducted at the Mayor's Office on October 31, 2014. In attendance from the Mayor's Office were the Executive Director for Operations and Operations Manager. In attendance from Internal Audit were the Internal Audit Supervisor and the Internal Auditor II. At the exit conference the report observations and recommendations were discussed. Management provided written responses on November 13, 2014 which have been incorporated in this report.

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1. Solicit Bid Proposals for Lobbying Services in Accordance with City Laws and Procurement Policies (Repeated)

The State Auditor's April 2010 report indicated that the Mayor's Office did not periodically solicit proposals for lobbying services. The Mayor's Office entered into an agreement with a firm in January 2002 and has renewed it annually; however, no proposals have been solicited since 2002.

The original contract was for \$150,000 and was renewed for the year ended June 30, 2014 for \$90,000. IAS observed an amendment for 2015 in process. Supporting documentation for approval of the extensions and amounts were not available for review.

The Mayor's staff indicated the lobbying firm was considered a sole-source provider and the contract was approved by the Board of Estimate and Apportionment. The Office did not provide any recent official written documentation of this decision as required by the Board of Public Service's (BPS) rules and regulations.

Ordinance 64102 requires the formation of a selection committee to recommend and approve awards of any Professional Services Agreement (PSA) in excess of \$5,000. The ordinance further requires that the selection of a professional service contract be governed by the rules and regulations of BPS, specifically:

- The maximum compensation paid for services for any sole-source engagement shall not exceed \$50,000.
- The selection of a committee that is informed of:
 - The purpose of reviewing a sole-source engagement.
 - The method of payment and amounts.
 - Why sole source procurement is appropriate.
- The Committee Chair retains in a PSA file accurate and complete minutes of the proceedings for which the procurement was authorized.

We found no evidence to suggest that Ordinance 64102 and the BPS' rules and regulations were followed by the Mayor's Office.

Recommendation

It is recommended that the Mayor's Office follow City laws and procurement policies for professional service or sole-source provider agreements.

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Management's Response

The Mayor's Office is in agreement with this recommendation regarding lobbying services. It should be noted that the original 2002 contract has been amended and extended numerous times, with each amendment/extension being approved by the Board of Estimate and Apportionment
{Auditor Note: As a part of this response, the Mayor's Office provided IAS the Ninth (9th) Amendment to City of St. Louis Professional Services Agreement, which was approved by the Board of E&A on September 24, 2014, and which extends the Agreement until June 30, 2015}.
Copies of prior amendments to the Agreement will be made available to the IAS, if requested.

It is the intent of the Mayor's Office to coordinate with the President of the Board of Public Service to: convene a selection committee, prior to the current amended agreement expiration date of June 30, 2015; to solicit proposals for lobbying services; for the purpose of reviewing a sole-source engagement; and to determine if the current \$50,000 maximum compensation paid for services for any sole-source engagement should be increased for highly specialized, very experienced and successful professional service.

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2. Process and Document Expenditures in Accordance with City and State Laws

IAS reviewed the Fiscal Year 2014 expenditures for the Mayor's Office and found that funds expensed out of the *Elected Officials Expense Account* (Account #5664000) did not get processed through the City's established voucher system as required by Missouri State Statutes. Instead, the appropriation of \$30,000 was paid out to the Mayor through the bi-weekly payroll process. As a result of not going through the City's voucher process, there was not an adequate audit trail of the expenditures.

Section 105.272 of the Revised Statutes of Missouri (RSMo) requires that expenses actually and necessarily incurred by an employee in the performance of official business be paid through the City's established voucher system. This would allow for adequate documentation such as receipts, invoices and expense statements to support amounts recorded on the disbursement vouchers and allow for reviews to ensure expenses were properly incurred.

Through inquiries, IAS learned that this appears to be a City-wide issue and funds authorized under the City Code in the various *Elected Officials Expense Accounts* have been distributed as payroll to elected officials for a number of years. The documentation supporting this distribution method was not available for review.

Chapter 5.42 of the Revised City Code requires that funds shall be appropriated and set aside annually out of the general municipal revenue and used as a contingent fund. The fund shall be used at the elected official's discretion. An annual report shall be made to the City Register for the use of the funds in the aggregate amounts for the following categories:

- Civic and charitable contributions
- Membership fees
- Miscellaneous expenses
- Flowers and gifts
- Entertainment, lobbying and business related activities
- Personal

We obtained a copy of the Mayor's annual report from the City Register and found that all expenditures related to the Mayor's *Elected Official Expense Account* were reported in the "Personal" category.

In addition, we found that the Mayor's membership fees of \$1,824 were charged to a separate 1010 expense account as opposed to *Elected Officials Account*.

Recommendation

IAS believes the Mayor's Office should process expenditures related to the Mayor's *Elected Official Expense Account* through the City's voucher system in accordance with City and State

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laws to ensure a proper audit trail. However, since this is an issue that is not limited to the Mayor's Office and seems to have been City practice, we have notified the Comptroller and have recommended that she obtain an opinion from the City Counselor's Office regarding the City's current practice to ensure compliance with the State Statute.

IAS recommends that the Mayor's Office follow up through consultation with the Comptroller and the City Counselor's Office as to how these funds should be processed and distributed. Documentation of the resolution and the process should be maintained and, as necessary, the City's current practice should be changed to comply with State Statute.

Management's Response

As stated above in the recommendation from the IAS, the Mayor's Office will follow up through consultation with the Comptroller and City Counselor as to the resolution of how these funds should be processed and distributed in accordance with City Code and State Statute.

Based on initial feedback from the City Counselor's Office, Section 105.272 RSMo, is not applicable to the Elected Officials Expense Account. The Code allows the Mayor to use Elected Officials Expense Account funds for personal expenses, gifts, flowers, etc., which do not fall under the classification of expenditures covered by Section 105.272 RSMo.

The statutory definition of "expenses" to which Section 105.272 applies is limited to those "necessarily incurred ...in the performance of official business." The Elected Officials Expense Account is specifically designated for discretionary expenditures which, by definition, are not "necessarily incurredin the performance of official business."

The establishment of the Elected Officials Expense Account takes into account the practical reality that some officials will incur certain expenses in the performance of their duties that might not be considered technically "necessary," but which are nonetheless legitimately incurred in the performance of their duties. An example would be sending flowers to the memorial service of another public servant.

The Mayor's use of Elected Officials Expense Account funds is discretionary, per Code section 5.42.010. The reporting requirements for the discretionary Elected Officials Expense Account expenditures are governed by 5.42 of the City Code, which requires annual reports. The Mayor has submitted the annual reports required by the Code. The annual reporting requirements established in Chapter 5.42 of the Code are sufficient given the discretionary nature of the expenses and the modest amount appropriated.

Upon final advice from the Comptroller and City Counselor, the Mayor's Office will document and maintain all necessary records accordingly.

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3. Questionable Expenditures Related to City Public Schools Audit

The fiscal year 2014 general fund expenditures included advertising costs of \$1,224 for the solicitation of accountants to provide audit services for the Special Administrative Board (SAB) - St. Louis Public Schools. The use of City funds to pay for expenses unrelated to City business is questionable.

Chapter 165.181 of the Missouri Revised Statute authorizes the Mayor to appoint expert accountants to examine records and books of all departments with expenditures and make a report to the Mayor and Board of Education. In addition, chapters 165.181, 165.122, and 165.121 specify that the actual, necessary costs and reasonable compensation for the services shall be paid by the school board or district.

Recommendation

It is recommended that the Mayor's Office seek reimbursement from the SAB-St. Louis Public Schools and ensure that City expenditures are made for City purposes only in accordance with laws and regulations.

Management's Response

*Regarding the \$1,224 in expenses paid for advertising for the solicitation of accountants to provide audit services for the Special Administrative Board (SAB) – St. Louis Public Schools, the Mayor's Office requested an opinion from the City Counselor's Office regarding Chapter 165 of the Missouri Revised Statutes. Specifically, what costs this chapter of the statutes stipulates must be paid by the board. {**Auditor Note:** As a part of this response, the Mayor's Office provided IAS with an email opinion from the Deputy City Counselor, wherein he states} [in part in reference to Section 165.181]: "In my opinion, the term "services," as used above in the statute, references the accountant's services provided at the request of the Mayor, as required by the statute. It would not include other, collateral costs incurred in the process of selecting the accountant."*

Auditor's Comment

The use of City funds to pay for expenses unrelated to City business is questionable. IAS believes the advertising costs related to the St. Louis Public Schools audit should not be paid by the City.

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4. Develop Formal Policies, Procedures and Standards for Processing Expenditures

IAS found that the controls procedures were not established due to the lack of formal accounting policies and procedures. Some informal procedures were prepared and provided during the review process; however the procedures lacked:

- Management's approval and date approved.
- Control activities to ensure expenditures are valid and properly reported.
- Performance standards and measures to ensure invoices are timely processed and paid.

IAS reviewed a sample of invoices and related disbursement vouchers and found there were lapses in the control procedures that resulted in inconsistencies in reporting, overpayments and late charges. Specifically:

- 17 invoices were not date-stamped upon receipt as indicated in the informal procedures, and as a result, the timeliness of payment was not monitored.
- 13 invoices were not timely paid resulting in late charges of \$380.52.
- 10 invoices were overpaid by \$2,315.34 due to a lack of supervisory or independent review. It appeared that each time the Office was billed, the invoices were paid.
- Expenditures for 7 invoices were not recorded in the proper expense account.
- The Office did not maintain a log or ledger of expenditures paid and did not reconcile to the City's general ledger.

According to the Government Finance Officers Association (GFOA), one method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of policies and procedures. GFOA recommends that every government entity develop formal accounting policies and procedures.

Recommendation

IAS recommends that management develop formal policies and procedures and include control activities to ensure that expenditures are properly classified, accurate and timely paid. IAS recommends that the policies, procedures and standards be:

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

Recommended control activities include:

- Invoices date-stamped upon receipt and monitored for timeliness of payment.
- Invoices reviewed by a supervisor for accuracy of amount billed and compliance with agreements prior to payment, and the reviews are documented.
- Transactions recorded in a ledger and periodically reconciled to the City's general ledger.
- Reconciliations independently reviewed to ensure compliance with policy.

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Management's Response

The Mayor's Office agrees with this finding and will implement IAS's recommendations. Specifically, we will:

- 1. Develop formal policies, procedures and standards for processing all expenditures;*
- 2. Ensure that controls are put in place, as part of the policies and procedures, to make sure that all expenditures are valid and properly reported;*
- 3. Include performance standards and measures in our policies and procedures to ensure invoices are timely processed and paid;*
- 4. Maintain a log or ledger of all transactions and expenditures paid, and reconcile to the City's general ledger electronically, where all such reconciliations shall be independently reviewed to ensure compliance with our policies and procedures;*
- 5. Make sure all invoices are date-stamped upon receipt, monitored for timeliness of payment, reviewed by a supervisor for accuracy of amount billed and compliance with agreements or contracts prior to payment, and all such reviews are documented;*
- 6. Ensure that our policies and procedures are periodically reviewed and updated; and,*
- 7. Formally communicate all policies, procedures and standards to the appropriate staff.*