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Missouri State Auditor

City of St. Louis
Board of Public Service

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Office of
Missouri State Auditor
Susan Montee, CPA

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The following findings were included in our audit report on the City of St. Louis Board of Public Service.

The city's revised code for motor vehicle policies is outdated, and a new ordinance is needed to clarify which official, board, or department should have overall rulemaking and policy enforcement authority. The Equipment Services Division (ESD) of the Board of Public Service has not been able to complete annual vehicle assignment reports because most city departments were not providing the required information. According to ESD personnel, after two years of unresponsiveness the Mayor's office informed the ESD that this annual report was no longer necessary, and the ESD no longer attempts to obtain the information required to complete this report. This report would aid the city in determining the proper size of the city's fleet, which employees should be assigned vehicles for commuting purposes, and whether the city's vehicle costs are reasonable or whether the city should consider more affordable alternatives. In addition, there is no policy to require usage logs for city vehicles.

In April 2007, the city purchased vehicles for two newly-elected officials. The President of the Board of Aldermen received a sedan that cost \$25,567, with options that included a heated leather steering wheel, heated front driver and passenger seats, a luxury package, and a comfort and convenience package. The Recorder of Deeds also received a sedan with similar options at a similar price. Many of these options appear unnecessary and would add to the price of the vehicle, and the city should consider adopting a policy to limit vehicle options to those considered reasonable and necessary.

The ESD provides fuel and vehicle maintenance services to most other city departments and incurred total expenditures of approximately \$12 million for the year ended June 30, 2007. The city should establish an internal service fund for the ESD, in which the cost of providing fuel and services is billed to and paid by the applicable city departments. During the three years ended June 30, 2007, the ESD's actual expenditures exceeded budgeted amounts by a total of approximately \$2 million. If the city established an internal service fund, each city department would be responsible for budgeting and paying for their share of fuel and vehicle maintenance expenses, which could provide additional assurance that fuel and vehicle maintenance costs are reasonable and necessary.

The ESD does not reconcile diesel fuel purchased to fuel used, and better security is needed over liquid inventories (such as motor oil and antifreeze) in the maintenance garages.

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YELLOW SHEET

CITY OF ST. LOUIS
BOARD OF PUBLIC SERVICE

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STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

To the Honorable Mayor
and
President of the Board of Public Service
City of St. Louis, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of St. Louis. The city engaged KPMG LLP, Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended June 30, 2007. To minimize duplication of effort, we reviewed the CPA firm's audit report. We have conducted an audit of the City of St. Louis Board of Public Service. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2007. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.
2. Determine if the board has adequate internal controls over significant management and financial functions.
3. Determine if the board has complied with certain legal provisions.

Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the board, as well as certain external parties; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting

instances of noncompliance significant to those provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the board's management and was not subjected to the procedures applied in our audit of the board.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of St. Louis Board of Public Service.

Additional audits of various officials and departments of the city of St. Louis, fulfilling our obligations under Section 29.230, RSMo, are still in process, and any additional findings and recommendations will be included in subsequent reports.



Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF ST. LOUIS
BOARD OF PUBLIC SERVICE
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.

City Vehicle Policies

The city's revised code for motor vehicle policies is outdated, and a new ordinance is needed to clarify which official, board, or department should have overall rulemaking and policy enforcement authority. The city's Vehicle Policy Manual requires preparation of an annual vehicle assignment report, but this report is no longer prepared. New vehicles purchased for two newly-elected officials in 2007 contained options that appear to be luxuries or unnecessary, and the city does not have a policy requiring mileage logs for city vehicles.

A. St. Louis City Revised Code Section 3.54.060 gives the city's Comptroller the authority to establish rules for motor vehicles; however, the Comptroller no longer establishes rules under this code. The city's Vehicle Policy Manual, which is intended to be binding to all city departments and elected officials, is signed by the Board of Estimate and Apportionment which is made up of the Mayor, the Comptroller, and the President of the Board of Aldermen; however, the policy manual does not state that the Board of Estimate and Apportionment has the authority to ensure that the applicable policies are followed. The Equipment Services Division (ESD) was established and placed under the President of the Board of Public Service (BPS). While the ESD does not establish policy, it has been given the majority of the responsibilities outlined in the Vehicle Policy Manual.

The city should determine which official, board, or department should have overall authority to establish and enforce rules and policies related to the city's motor vehicles, and revise the city code as necessary. Consideration should be given to establishing penalties or disciplinary action for departments that do not follow the established rules. As noted in Part B below, some city departments have chosen to not follow a policy currently in the Vehicle Policy Manual.

B. The ESD has not been able to complete annual vehicle assignment reports because most city departments were not providing the required information. The Vehicle Policy Manual, Section 3.1, states the Commissioner of the ESD shall provide an annual vehicle assignment report to the Board of Estimate and Apportionment by April 1. This report is to include information on all city vehicles by department, as well as cost, mileage, vehicle assignments, commuting justification, and verification of valid operators' licenses. The report should also include a comparison of the cost of operating city vehicles to the cost of mileage reimbursement to employees for driving their own vehicles (including monthly personal vehicle allowances paid to various employees) to determine the most cost effective method.

Per ESD personnel, after the policy went into effect the report was completed only one time, which resulted in the 2001-2002 Commuting Survey Results Report. The next year, the ESD did not receive the requested information from many city departments and elected officials, and no report was issued. According to the ESD personnel, after another year of unresponsiveness, the Mayor's office informed the ESD that this annual report was no longer necessary and the ESD no longer attempts to obtain the information required to complete this report.

The vehicle assignment report, when properly and accurately prepared, appears to be a valuable tool in planning for and managing of the city's vehicle fleet. Without this report the city may not have the necessary information to make informed decisions concerning vehicle purchasing and determining the size of the city's fleet; who is to be assigned a city vehicle for commuting purposes; and whether the city's current vehicle costs are reasonable or whether the city should investigate more affordable alternatives. The BPS should work with the Board of Estimate and Apportionment to ensure city departments and elected officials provide the necessary information, and the vehicle assignment report is completed annually as required by the Vehicle Policy Manual.

- C. The Vehicle Policy Manual allows for the purchase of new full-sized sedans for newly-elected city officials but does not address restrictions on how the new vehicles may be equipped. In April 2007, two newly-elected officials took office and the city purchased new vehicles for these officials. The President of the Board of Aldermen received a sedan that cost \$25,567, with options that included a heated leather steering wheel, heated front driver and passenger seats, a luxury package, and a comfort and convenience package. The Recorder of Deeds also received a sedan with similar options at a similar price.

While the invoices for these purchases did not list the price for these options separately, many of these options appear unnecessary and would add to the price of the vehicle. To help ensure city vehicle purchase costs are reasonable, the city should consider amending the Vehicle Policy Manual to prohibit or limit options on new vehicles that are considered a luxury or unnecessary.

- D. The city has not established a policy requiring vehicle mileage logs for all city vehicles. The Vehicle Policy Manual states that city vehicles may not be used for personal business, and mileage logs would aid in assuring city vehicles are only driven for city business. Mileage logs should include the purpose and destination of each trip and the beginning and ending odometer readings. Approximately 40 vehicles are assigned to the BPS, and no mileage logs are required by the BPS for any of these vehicles. According to the ESD personnel, few, if any, city departments prepare mileage logs.

Complete and detailed mileage records for all city-owned vehicles should be maintained, and a review of these records should be periodically performed to ensure all city owned vehicles are used efficiently.

WE RECOMMEND the Board of Public Service work with the Board of Estimate and Apportionment to:

- A. Revise the city code to clarify and establish clear authority over policymaking and policy enforcement for city vehicles.
- B. Ensure the vehicle assignment report is completed annually as required by the Vehicle Policy Manual.
- C. Amend the Vehicle Policy Manual to prohibit or limit options on new vehicle purchases considered a luxury or unnecessary.
- D. Amend the Vehicle Policy Manual to establish a policy requiring complete and detailed mileage logs be maintained for all city-owned vehicles.

AUDITEE'S RESPONSE

- A. *Agree – The outdated ordinance reflecting the Comptroller as having responsibility for vehicle policy should be replaced with one granting that authority to the Mayor or Board of Estimate and Apportionment. Alternatively, ESD as the technical experts and primary service providers should be transferred to the Comptroller to make the current ordinance accurate.*
- B. *Agree – This will require cooperation in providing maintenance, repair, and fuel data from ESD, Police Fleet Services, and Airport, as well as driver and operational information from all departments. ESD does not have the authority to compel any of these other entities to comply.*
- C. *Disagree – The City Vehicle Policy Manual (paragraph 2.2.1.1) provides guidance on option package levels for all but elected officials. It is silent on this topic specifically because the policy does not apply to elected officials other than the members of the Board of Estimate and Apportionment (E&A) and they approve the policy. Therefore, E&A members decide for themselves what vehicle they will drive and how it will be equipped and are answerable only to the electorate for the decisions they make as are the other elected officials.*
- D. *Disagree – While mileage logs would appear to accomplish those goals specified in the report, in reality, they are a control procedure that can only be monitored by immediate supervisors who will neglect to do so sufficiently to catch any unauthorized use of vehicles. The result would be time wasted by supervisors and employees doing nothing wrong and those violating the use policy succeeding anyway by falsifying their logs. Installation of GPS-enable telematics devices is the only effective manner in which to*

monitor driver abuse. A better means to implement the intent of this recommendation would be to mandate that all new vehicles acquired by the city have a passive telematics device installed and programmed for monitoring electronically by exception rules. At current contract prices, this would add \$780 per vehicle and require the installation of data download stations at additional city facilities costing approximately \$30,000. It is highly unlikely that the amount of abuse occurring is worth this investment in all segments of the city fleet. ESD will be installing these devices on its own service vehicles and 160 more in the Streets Department in 2008 as a follow-up to a successful test of 5 units this past year.

AUDITOR'S COMMENT

- D. A properly designed vehicle log system, with an emphasis on timely supervisory reviews, would help prevent unauthorized use of city vehicles.

2. Equipment Services Division's Accounting System

The ESD provides services to most other city departments but is not accounted for as an internal service fund (ISF) on the city's financial statements. The ESD's internal pricing structure, which reflects amounts billed to other city departments, has not been updated since 2003.

The ESD is responsible for four city garages which service and maintain approximately 2,200 vehicles primarily for the Street, Refuse, Parks, and Fire Departments. The ESD is also responsible for the purchase and dispensing of gasoline and diesel fuel for most city vehicles. The ESD incurred total expenditures of approximately \$12 million for the year ended June 30, 2007.

- A. The ESD provides fuel and vehicle maintenance services to most other city departments but is not accounted for as an ISF. In an ISF, related costs are paid from the ISF, the goods and services provided are billed to the applicable departments, and billed receipts are deposited into the ISF to offset the costs. According to ESD personnel, the ESD was accounted for as an ISF from its inception in May 1983, but this practice was discontinued within approximately one year because the billing software at that time did not produce sufficiently detailed billings.

Currently, the majority of ESD's expenditures are budgeted and incurred in the city's General Fund, with a small portion incurred in the St. Louis Works Fund. The ESD already maintains most of the accounting systems and information necessary for an ISF. For example, fuel, parts, and labor costs are tracked in the ESD's accounting system, and monthly billings for fuel, repair, and maintenance services are sent to every city department. However, most departments are not required to pay for these services, and fuel and vehicle maintenance and repair costs are not included in most city department's budgets. Six departments do

remit payments because these departments are funded by sources other than the General Fund and the St. Louis Works Fund. Per ESD personnel, the departments which do not remit payments are encouraged to use the billing for informational and management purposes.

For the years ended June 30, 2007, 2006, and 2005, actual ESD expenditures in the General Fund exceeded budgeted expenditures by \$651,000, \$1,000,000, and \$370,000, respectively (actual did not exceed budget in the St. Louis Works Fund). Increased fuel prices appear to have caused some of this overspending; however, because these funds are budgeted to the ESD and most of these costs are incurred by other city departments, the ESD has limited control over this spending. ISF accounting would require fuel and vehicle repair and maintenance costs to be budgeted by the departments that incur these costs, making these departments responsible for ensuring these costs are reasonable and necessary. This accountability would help ensure that each city department is striving to operate as efficiently as possible.

- B. The ESD is using an internal pricing system that has not been updated since it was approved in 2003. The internal pricing system includes rates for labor and parts which are billed to other city departments as described in Part A above. As a result, the ESD may not be adequately recouping actual costs for the goods and services that are paid by other departments. Periodic reviews and updates to the internal pricing system are necessary to ensure other city departments are billed the proper amounts.

WE RECOMMEND the Board of Public Service:

- A. Work with applicable city officials to establish the ESD as an internal service fund on the city's financial statements in which all applicable costs are billed to and paid by the various city departments.
- B. Ensure the ESD reviews and updates the internal pricing system on a regular basis to ensure it reflects actual costs of goods and services provided to other city departments.

AUDITEE'S RESPONSE

- A. *Agree – This action was previously requested as an industry best practice and cost containment strategy but it was denied by the Comptroller and Budget Division. It could be implemented by the Budget Division for FY2010 if a decision to proceed is made prior to budget guidance being disseminated in late 2008.*
- B. *Agree – Rates have been stagnant since 2002 and should be reviewed and updated annually. The authority to do this will be added to the revised City Vehicle Policy Manual. ESD will update its rates in November of each year starting in 2008 so that city customers can budget accordingly for the following fiscal year.*

3.**Equipment Services Division's Controls and Procedures**

The ESD does not reconcile diesel fuel purchased to fuel used, and security and inventory controls over automotive liquids and lubricants need to be improved.

- A. The ESD does not reconcile diesel fuel purchased to fuel used. The division purchases diesel fuel for 4 bulk tanks, 14 smaller tanks, and 2 tanker refueling trucks. The majority of the fuel is received into the four bulk tanks which have a special fuel system to record fuel usage. These tanks are located at the ESD's four garages and used mainly by the Street, Refuse, Fire, Parks, and Forestry Departments. The smaller tanks, mostly located in city parks and used by the Parks Department, are not metered and do not have this special fuel system. The tanker trucks are metered and the fuel usage from these tanks is recorded. The tanker trucks are used mainly to refuel Street Department equipment and Fire Department apparatus.

The ESD has procedures to monitor that the amount of fuel purchased is delivered in the proper quantity; however, the ESD does not reconcile the amount purchased to usage because of anticipated discrepancies. According to ESD personnel, fuel quantities pumped through fuel gauges and the amount of fuel stored in tanks vary as outside temperatures change. As a result, ESD personnel indicated that such reconciliations would not be meaningful. In addition, there are times when, due to the computer system being down, the bulk tanks' fuel system must be put on manual controls. During these times, fuel usage is not tracked.

Prior knowledge that a difference will occur does not appear to be a valid reason for not performing reconciliations. The ESD should perform the reconciliations, and use past experience or industry standards to analyze the data to understand if temperature changes or other known factors are the reasons for discrepancies, and then follow up on unanticipated discrepancies.

Reconciliation of diesel fuel purchased to fuel usage will help ensure that fuel is accounted for properly and help detect and prevent loss, theft, or misuse. This is especially important because of recent significant increases in fuel prices. Diesel fuel expenditures increased from \$1.97 million to \$2.93 million to \$3.38 million for the years ended June 30, 2005, 2006, and 2007, respectively.

- B. The ESD does not have adequate controls over the usage and inventory of automotive lubricants and liquids. The ESD oversees the operation of four maintenance garages for city vehicles. At these maintenance garages, the ESD maintains separate inventories of parts (such as hoses and tires) and liquids (such as motor oil and antifreeze). The liquid inventory is referred to as the PM rack inventory. Inventory counts were performed either monthly or annually prior to May 2008 and compared to the perpetual inventory records. Monthly inventory counts are now performed at all four garages.

Unlike the parts inventories, the PM racks are not secured from unauthorized use, and some authorized use is not recorded. When a service technician performs an oil change on a city vehicle, the amount of oil used is recorded on a work order and entered into the inventory system. However, other authorized users can obtain inventory items without knowledge of garage personnel. For example, a representative from the Parks Department will fill a 50-gallon drum with oil for use in park vehicles, and this usage is not monitored or tracked in the inventory system. Because the PM racks are not monitored by garage personnel, the risk of unauthorized use or theft of motor oil or lubricants is greatly increased.

The following table shows the inventory percentage variances computed by the ESD for the fiscal years (FY) ended June 30, 2006 and 2007, for the PM racks in each of the four garages, and the total inventory overages and shortages for FY 2007. Overages and shortages are computed as the difference between the inventory counts and the balances that should be on hand according to the perpetual inventory records. The percentage variance is a cumulative total of both the overages and shortages compared to the total ending perpetual inventory balance.

Garage Location	Variance		FY 2007	FY 2007
	FY 2006	FY 2007	Overages	Shortages
Hampton	15.04%	72.73%	\$28,730	\$23,658
North Refuse	3.88%	17.01%	\$1,257	\$4,836
South Refuse	80.20%	117.52%	\$14,239	\$1,551
Fire	0.40%	10.26%	\$12,192	\$1,113
Totals			\$56,418	\$31,158

ESD personnel indicated concern over these inventory variances and implemented monthly inventory counts at all locations in May 2008 to better monitor and control the variances.

While shortages of inventory items indicate the potential for theft or misuse, overages also indicate a lack of proper inventory controls. The ESD needs to enhance security measures and maintain more accurate inventory records for the PM rack inventory items to help ensure the inventory is properly tracked, and to help prevent and detect loss, theft, or misuse of inventory items.

WE RECOMMEND the Equipment Services Division of the Board of Public Service:

- A. Reconcile diesel fuel purchased to fuel used, and perform and document follow-up procedures on significant differences.
- B. Implement better security over PM rack inventory items in the maintenance garages and maintain accurate inventory records for these items. The division

should continue to monitor inventory variances and take necessary steps to minimize the variances.

AUDITEE'S RESPONSE

- A. *Agree – ESD will begin reconciliations comparing the gallons of fuel received, fuel inventory, and fuel dispensed in ESD’s large, computer controlled tanks and the tankers operated by the Street and Fire Departments. This will be implemented by September 2008 when the new tank monitoring hardware becomes centrally controlled as part of a contracted upgrade already under way.*
- B. *Agree – We have been aware of this problem and attempted to better control it for several years. There are multiple problems to overcome which contribute to the apparent variances.*
- *Some fluid dispensers have no measuring device and those that do require the operator to manually reset it between uses. Guesses at amounts dispensed must be manually recorded and then manually entered into the database used to track inventory level.*
 - *Fluids are dispensed by both ESD personnel and drivers. Staffing cuts over the last decade make it impossible for ESD to provide an employee to top-off customer vehicles so drivers do these themselves in some facilities. This creates an opportunity for city employees to access the fluids but not record amounts dispensed.*

HISTORY AND ORGANIZATION

CITY OF ST. LOUIS
BOARD OF PUBLIC SERVICE
HISTORY AND ORGANIZATION

The Board of Public Service (BPS) was established under the provisions of Article XIII of the St. Louis City Charter. The BPS is made up of the Board President, as well as the Directors of Public Utilities, Streets, Human Services, Parks, Health, and Public Safety. The Charter specifies that the board meet once a week at City Hall, with the duties of the board to include approving permits for use of public places, approving permits for private businesses, and accepting or rejecting grants or dedications of highways, streets, and subdivisions. If an ordinance is for a public work it must be first proposed by the board.

The Office of the President of the BPS is to control and conduct any and all engineering, construction, and reconstruction work undertaken by the city and to supervise all such work in which the city is interested. All plans and specifications for such work shall be prepared under the direction of the BPS and be subject to its approval. To carry out these assignments, the department is divided into planning and programming, design services, construction, and administration.

The Office of the President is also responsible for the following three divisions:

1. The Equipment Services Division, responsible for the repair and maintenance of city vehicles and equipment, was formed in 1983. There are 4 garages and 18 refueling sites under the direct control of this division.
2. The Facilities Management Division, formerly known as Construction Maintenance Division, was formed in 1984, when building trades functions were transferred to the BPS. This division maintains approximately 200 buildings citywide. There are five trades which function in this division: painters, plumbers, electricians, carpenters, and HVAC technicians. Custodians for the City Hall building are also part of this division.
3. Soldier's Memorial Military Museum was dedicated as a memorial for veterans and as a museum for preserving a historic collection of military artifacts. Pursuant to City Ordinance number 64561, the Superintendent position for Soldier's Memorial Military Museum was converted to a civil service position in January 1999. Previously, this position was filled by Mayoral appointment and reported directly to the Mayor. The ordinance converted the position from an exempted one to a civil service position and gives appointing authority to the President of the BPS.

At June 30, 2007, the department employed approximately 175 full-time employees. The Board President is appointed by the Mayor of St. Louis. The current Board President, Marjorie L. Melton, P.E., was appointed on June 1, 2004.