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OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



DARLENE GREEN
Comptroller

Internal Audit Section

Carnahan Courthouse Building
1114 Market St., Room 642
St. Louis, Missouri 63101
(314) 622-4723
Fax: (314) 613-3004

DR. KENNETH M. STONE, CPA
Internal Audit Executive

November 15, 2010

Jim Garavaglia, Asset Manager
Gateway Transportation Center
430 South 15th Street
St. Louis, MO 63103

RE: Gateway Transportation Center (Project #2010-09)

Dear Mr. Garavaglia:

Enclosed is the Internal Audit Section's process review report of the Comptroller's Office, Gateway Transportation Center (GTC) for the period July 1, 2008 through December 31, 2009. A description of the scope of our work is included in the report.

Fieldwork was completed on July 29, 2010. Management's responses to the observations and recommendations noted in the report were received on November 2, 2010, 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 (314) 622-4723.

Respectfully,

A handwritten signature in black ink that reads "Kenneth M. Stone".

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

Cc: Robin S. Jones, Manager, Gateway Transportation Center
Ivy Neyland-Pinkston, Deputy Comptroller – Finance & Development



CITY OF ST. LOUIS

COMPTROLLER'S OFFICE

GATEWAY TRANSPORTATION CENTER

PROCESS REVIEW

JULY 1, 2008 THROUGH DECEMBER 31, 2009

PROJECT #2010-09

DATE ISSUED: NOVEMBER 15, 2010

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
COMPTROLLER'S OFFICE
GATEWAY TRANSPORTATION CENTER
PROCESS REVIEW
JULY 1, 2008 THROUGH DECEMBER 31, 2009**

EXECUTIVE SUMMARY

Purpose

The Internal Audit Section (IAS) has completed a review of the Gateway Transportation Center (GTC). The purpose was to determine if the GTC effectively and efficiently manages risks to ensure the:

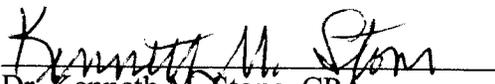
- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- Economic and efficient use of resources

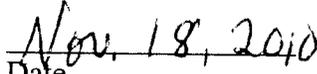
Conclusion

The opportunity exists for GTC to improve the internal controls over operational and fiscal activities. The following are observations resulting from the review:

1. Opportunity to document capital expenditures (\$22,500 questionable depreciation)
2. Inadequate tracking of year-to-date sales
3. Failure to review insurance requirements
4. Opportunity to improve internal controls over lease revenue
5. Opportunity to improve internal controls over payroll records

Each of these observations is discussed in more details in the *Detailed Observations, Recommendations and Management's Responses* section of this report.


Dr. Kenneth M. Stone, CPA
Internal Audit Executive


Date

**CITY OF ST. LOUIS
COMPTROLLER'S OFFICE
GATEWAY TRANSPORTATION CENTER
PROCESS REVIEW
JULY 1, 2008 THROUGH DECEMBER 31, 2009**

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INTRODUCTION

Background

The Gateway Transportation Center (GTC) is owned by the City of St. Louis and operated by the Comptroller's Office. GTC was funded by a variety of federal, state and local sources, and opened in August 2008. GTC is the City's state-of-the art transportation hub providing services such as Armtrak passenger train, Greyhound bus, and Metro light rail and bus services converge.

Purpose

The purpose was to determine if GTC effectively and efficiently manages risks to ensure:

- The accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies and procedures
- The safeguarding of assets
- The reliability and integrity of financial and operational information
- The economic and efficient use of resources

Scope and Methodology

The review was confined to evaluating internal controls over the operational and fiscal activities of GTC. The audit procedures included inquiries of management and staff, observation of relevant processes, and reviews for compliance with policies and procedures, as well as applicable laws and regulations. Limited tests of controls and other procedures as considered necessary were performed.

Exit Conference

An exit conference was conducted at GTC on October 7, 2010. Robin S. Jones, Gateway Transportation Center Supervisor represented GTC. Mohammad Adil, Audit Manager; Dorothy Middleton, Auditor II; and Christopher Whitmore, Auditor-in-Charge represented the Internal Audit Section.

Management's Responses

Management's responses to the observations and recommendations noted in this report were received from the GTC on November 2, 2010. The responses have been incorporated into this report.

OBSERVATIONS

Status of Prior Observations

This process review was the first audit performed on GTC.

Summary of Current Observations

The opportunity exists for the Comptroller's Office to improve internal controls over the GTC's activities. The following are major observations resulting from the review:

1. Opportunity to document capital expenditures (\$22,500 questionable depreciation)
2. Inadequate tracking of year-to-date sales
3. Failure to review insurance requirements
4. Opportunity to improve internal controls over lease revenue
5. Opportunity to improve internal controls over payroll records

Each of these observations is 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 Document Capital Expenditures (\$22,500 Questionable Depreciation)

GTC allowed Arch City Deli, LLC (Concessionaire) to amortize the full depreciation on capital expenditures of \$1,250.00 per month beginning July 2008. However, GTC was unable to provide any documentation to verify that the Concessionaire spent \$500,000 in capital expenditures.

The lease agreement stated that if the vendor spends \$500,000 in capital expenditures, the Concessionaire will be allowed to amortize the expenditures at a rate of \$1,250.00 a month during the first ten years and \$833.33 for the remaining 30 years.

GTC stated that the capital expenditures were verified but the Department was unable to produce the documentation. During the first 18 months of the lease, the total reduced lease payments to the City were \$22,500.

Recommendations

It is recommended that management obtain documentation of the capital expenditures from the Concessionaire or collect the capital expenditures depreciation allowed from the beginning of the lease, totaling \$22,500.

Management's Responses

Documentation of capital expenditures has been requested both verbally and in writing. The Internal Audit Section was copied on the written correspondence sent via email. The documentation was never provided by the manager for Arch City Deli or the parent company, OHM. We will continue to request this information from OHM.

2. Inadequate Tracking Of Year-To-Date Sales

The Internal Audit Section (IAS) sampled the Concessionaire's gross receipts reports (invoices) for the months of May, June, and December 2009. IAS found that:

- The year-to-date sales reported on the invoices were inaccurate. The Concessionaire only included the current and previous months' sales in the year-to-date section of the invoice.
- The Concessionaire did not include any supporting documentation, such as receipts with the invoices

Upon inquiry, IAS learned that GTC was tracking the year-to-date monthly lease payments made by the Concessionaire; however, GTC was not tracking year-to-date gross sales. Therefore, neither party was adequately tracking sales. In addition, GTC was unable to provide any proof that periodic reviews of the receipts were performed.

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

2. Continued... ..

Section 5.1.1 of the lease agreement required that monthly lease payments made to GTC be based on a percentage of sales. Additionally, this percentage is tiered, based on year-to-date sales. When inadequate sales tracking methods are used, lease revenues generated from a tiered based percentage of sales may not be fully paid resulting in lost revenues

The GTC supervisor thought that the Comptroller's Office was reviewing the accuracy of the Concessionaire's lease payments. During an interview with the Clerk II who handles all incoming checks, it was stated that his or her only responsibilities were to log, deposit, and send a copy of the check to the appropriate department.

Recommendations

It is recommended that:

- GTC track the vendor's year-to-date gross sales in order to verify the appropriate tiered percentage is used to calculate the monthly lease payments
- The accuracy of the invoices are verified through the sampling of receipts or other supporting sales documentation

Management's Responses

Per the lease, Arch City Deli records are subject audit. Internal Audit has the right to perform an audit to determine the accuracy of the information in question, as this is an audit issue.

Auditor's Comment

It is GTC management's responsibility to track Arch City Deli's year to date gross sales in order to verify the appropriate tiered percentage is used to the monthly lease payment.

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

3. Failure To Review Insurance Requirements

The minimum insurance and bonding requirements, according to Section 7.3, of the lease agreement were compared to the actual coverage for Arch City Deli. Arch City Deli displayed the following coverage and deficiencies:

Arch City Deli CLI Coverage

Type of Coverage	Required Coverage	Actual Coverage	Amount of Deficiency
Worker's Compensation	Statutory	Statutory	\$ 0
Employer's Liability (EL) - each occurrence	\$ 1,000,000	\$ 500,000	\$ 500,000
EL- disease policy	\$ 1,000,000	\$ 500,000	\$ 500,000
EL- each employee	\$ 1,000,000	\$ 500,000	\$ 500,000
Commercial Auto Liability- each occurrence	\$ 1,000,000	\$ 0	\$1,000,000
Commercial General Liability- each occurrence general aggregate	\$ 1,000,000	\$ 1,000,000	\$ 0

It appears that GTC management did not compare the lease insurance requirements to the declaration pages of Arch City Deli's insurance policy. Vendors providing services on City property without adequate insurance coverage leaves the City vulnerable to a lawsuit, should an accident occur that is not fully covered by the vendor's insurance.

Recommendations

It is recommended that management review the insurance and bonding coverage requirements of the lease. The requirements should be compared to the declarations pages of the lease for all lessees and vendors to ensure compliance.

Management's Responses

The amounts in the contract may not have been changed in error due to a prior lease/contract of the same nature for a similar service that required more insurance than is necessary for the operation that exists at the GTC.

Employer's Liability- \$1,500,000 actual vs. \$3,000,000 required - This will be brought to the owner's attention and I will request that they increase the amount of the actual to the required.

Commercial Auto Liability- \$0 actual vs. \$1,000,000 required - There is no direct requirement involving the City that requires ARCH City Deli to use any form of transportation therefore the lease can be amended to exclude that in the future.

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

3. Continued... ..

Other than delivery trucks (not belonging to Arch City Deli), no commercial vehicles belonging to the company are driven on the property. The amount and requirements may be error in the lease.

4. Opportunity To Improve Internal Controls Over Lease Revenue

The lease payments are not received at one place. IAS noted that one of the three lessees sends monthly lease payments directly to GTC. The other lessees send payments to the Comptroller's Office where they are logged for tracking purposes. GTC does not keep a log of incoming checks.

Sound management practices require incoming lease payments be received in one centralized location and logged to track the payments. Also, when checks are sent to more than one location it is difficult to ensure that the checks are properly safeguarded. If checks are lost or missing, it is difficult to determine which employee last handled the checks without an incoming check log.

Recommendations

It is recommended that all checks are sent to the Comptroller's office and recorded in the incoming check log.

Management's Responses

As of November 2010, all lease payments will be sent directly to Comptroller's Office for the monthly payments.

5. Opportunity To Improve Internal Controls Over Payroll Records

The timesheets for the Global SSI, provider of security services at GTC, were sampled for months of May and November 2009. The GTC supervisor's initials and/or signature were not present on any of the sampled daily timesheets.

Section I of the Agreement for Security Services states that the Contractors' employees shall sign in on a daily basis. The agreement also requires the City's onsite supervisor verify their presence by initialing the sign-in sheet prior to submittal.

GTC supervisor was unable to verify the work hours for all of the security guards that work in the transportation center since it is open 24 hours a day and, therefore, did not sign off on the time sheets. GTC may not be able to properly verify the accuracy of the daily time sheets by reviewing them on a monthly basis.

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

5. Continued... ..

Recommendations

It is recommended that GTC onsite supervisor verifies the daily presence of the security guards by initialing or signing the time sheets on a daily basis as required by the security services contract.

Management's Responses

Although Section I of the contract states that the on-site supervisor shall verify security officer's presence by initialing the sign-in sheet prior to submittal, this is standard contract language used from a prior security contract in an operation that is not 7/24/365. It is impossible for the on-site supervisor to verify the presence of security personnel who are arriving/departing for duty in an around the clock operation. To place my initials for verification of an officer's presence would be misleading and dishonest since I am not on-site and present for all three shifts, including weekends and holidays. The supervising Sergeant is responsible for verifying and signing the timesheet attesting that all officers were present per the time records for SSI Global. We will amend the contract to exclude this requirement.