OFFICES OF THE
STATE AUDITOR OF MISSOURI
JEFFERSON CITY

LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT

CITY OF ST. LOUIS, MISSOURI

YEAR ENDED JUNE 30, 1988

MARGARET KELLY, CPA

Report No. 89-112
December 6, 1989

LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT
CITY OF ST. LOUIS, MISSOURI

TABLE OF CONTENTS

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JEFFERSON CITY, MISSOURI 65102

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Honorable Vincent C. Schoemehl Jr., Mayor
City of St. Louis
and
Donald Bennett, Director
Lambert-St. Louis International Airport
City of St. Louis, Missouri 63101

The State Auditor was petitioned under Section 29.230, RSMo Supp. 1987, to perform an audit the city of St. Louis, Missouri. Accordingly, we have conducted a review of the Lambert-St. Louis International Airport, city of St. Louis. Our review included but was not necessarily limited to the city's fiscal year ended June 30, 1988. The purposes of our review were to:

1. Study and evaluate the airport's system of internal controls.

2. Perform a limited review of certain management practices to determine the efficiency and effectiveness of those practices.

3. Review probable compliance with certain constitutional provisions, statutes, administrative rules, attorney general's opinions, and city ordinances as we deemed necessary or appropriate.

4. Perform a limited review of the integrity and completeness of the airport's financial reporting system.

5. Perform procedures necessary to evaluate petitioner concerns.

Our review was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. The Lambert-St. Louis International Airport had engaged Price Waterhouse and Company, Certified Public Accountants, to perform an audit of the airport. In order to minimize any duplication of effort, we utilized the work of this firm. We also inspected relevant records and reports maintained by the airport and held discussions with airport personnel. The data presented in the appendices were examined by other auditors. The auditors report for the years ended June 30, 1988, and March 31, 1987, dated October 7, 1988, expressed an unqualified opinion.

The accompanying History and Organization is presented for informational purposes. This background information was obtained from the office management and was not subjected to the auditing procedures applied by us in our review.

Our comments on management practices and related areas are presented in the accompanying Management Advisory Report.

Margaret Kelly

Margaret Kelly, CPA
State Auditor

February 9, 1989

HISTORY AND ORGANIZATION

LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT
CITY OF ST. LOUIS, MISSOURI
HISTORY AND ORGANIZATION

The St. Louis airport authority was created in 1968 by an ordinance adopted by the St. Louis Board of Aldermen. It oversees the operations of Lambert-St. Louis International Airport, the seventh busiest airport in the country. The airport authority is made up of the Airport Commission, the airport director and staff required to fulfill the task of operating the airport. Although a similar operating authority had existed prior to 1968, the ordinance permitted the airport to exercise greater control over its own operations and planning. Donald W. Bennett, appointed in 1987, currently serves as the Director.

The airport authority has a personnel complement of 402 full-time employees.

The following will describe briefly the organizational structure of the airport authority and responsibilities of the Director's office:

St. Louis Airport Commission

The airport commission is made up of nine members appointed by the mayor. The airport Director, Donald W. Bennett, serves as the Chairman.

Director's Office

The Director's office is responsible for coordinating and directing all aviation activities as well as promoting and developing all aviation facilities at Lambert-St. Louis International Airport. In addition, the director guides the community programs pertaining to noise abatement and mitigation.

Division of Finance and Accounting

The Accounting and Finance Section of the airport is responsible for the accountability of airport funds, and the administration of all leases, permits, and agreements involving airport owned property. This section is also responsible for providing financial sources, i.e., federal grants and revenue bonds, to support the capital needs and operational costs of the airport.

Division of Planning and Engineering

The airport planning and engineering staff has several different responsibilities at the airport. The first is short and middle range planning for landside and airside activities. Another responsibility is to work with the consultants to ensure that the airport's goals are met, and that the resultant project is sound from an operations and construction standpoint. The third primary responsibility is to provide construction administration during that phase of the project, which includes quality control, coordination with other airport groups and contact point with the designers. The last responsibility is to provide technical assistance to the other airport departments, including but not limited to properties and maintenance.

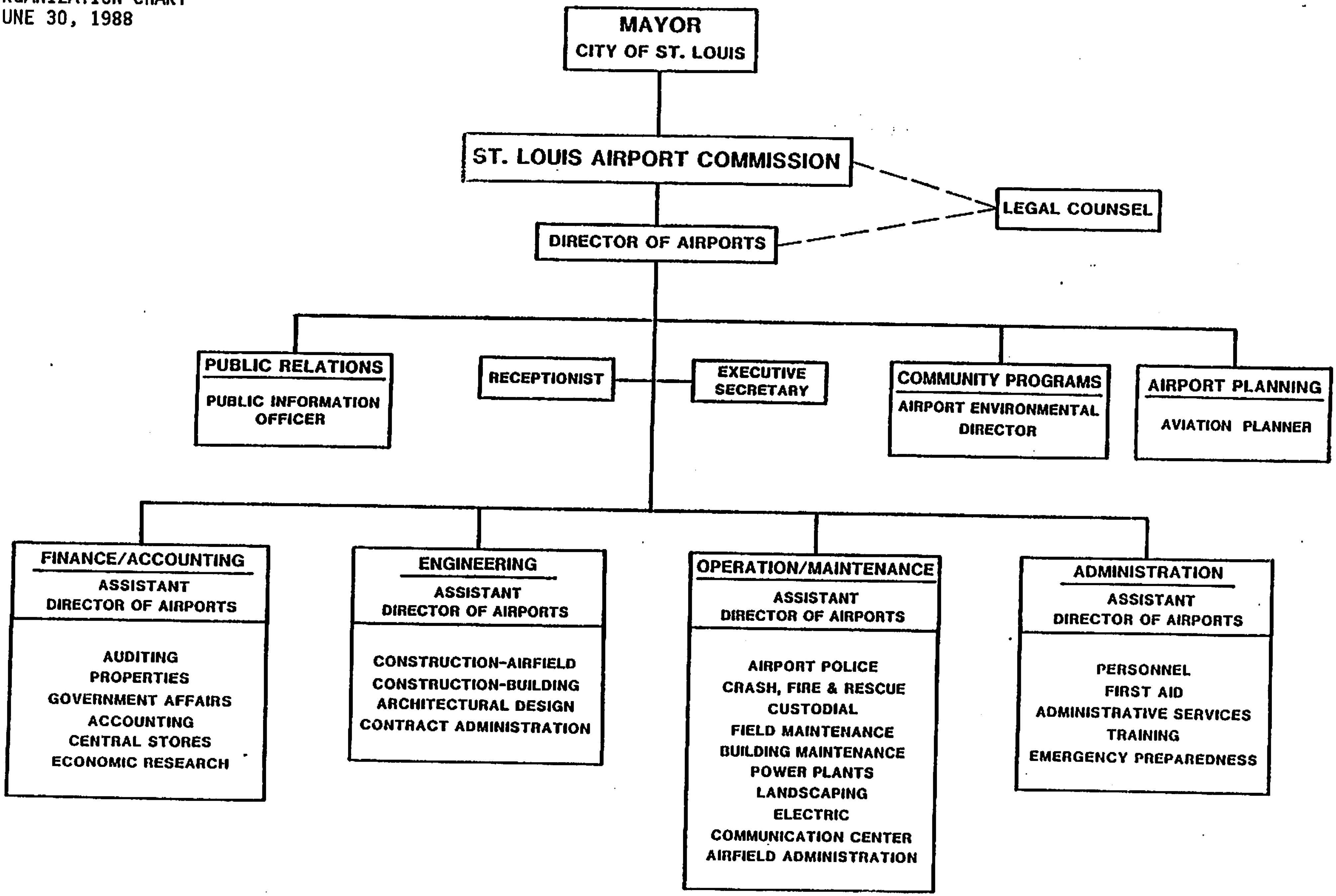
Division of Operation and Maintenance

The airport's Operations and Maintenance Department is responsible for assisting the airport Director in administering all activities concerning police and fire protection; building and airfield maintenance on a day-to-day basis. This department administers airport authority policy concerning the operations and maintenance of the airport's facilities in order to meet all federal, state, and local regulations.

Division of Administration

The Division of Administration directs, supervises, and coordinates departmental personnel activities including employee programs, office automation, and communication systems management. This section is responsible for development and publication of airport policies and procedures in coordination with other departments. It is responsible for preparation and development of emergency preparedness programs including first aid for the traveling public. This section directs affirmative action activities including coordination of equal employment opportunities and disadvantaged business enterprise programs.

LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT
CITY OF ST. LOUIS, MISSOURI
ORGANIZATION CHART
JUNE 30, 1988



MANAGEMENT ADVISORY REPORT

LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT
CITY OF ST. LOUIS, MISSOURI
SUMMARY OF FINDINGS

1. Air Cargo Complex (pages 13-15)

   A. The airport did not fully consider other alternatives for establishing air cargo facilities prior to entering the arrangement with St. Louis Air Cargo Services for a new cargo facility.

   B. The airport did not seek other proposals for the development of the air cargo facilities.

2. Lease Amendments (pages 15-19)

   A. The airport unnecessarily renegotiated lease terms rather than exercising its rights under existing lease terms when buying out and moving hangar facilities. This increased the costs of the move by approximately $5.2 million.

   B. The renegotiated lease terms did not allow the airport to retain adequate control over the costs of the move or the facilities which were rebuilt.

3. Tenant Employee Parking Lot Controls (pages 19-21)

   The computerized access system and accounting procedures that have been established by the airport have not been adequately utilized, performed, or supervised, increasing the risk of loss, theft, or misuse of funds.

4. Parking Lot Accounting Controls (pages 21-24)

   A. Monthly billings for company paid employee parking are not prepared in a timely manner and the airport does not reconcile the number of control cards issued to the number of control cards billed and paid by the company.

   B. Various employees who did not pay for parking privileges continued to have access to the lot.

   C. Parking receipts are not always recorded when received.

   D. Receipt slips are not prenumbered and receipts are not deposited in a timely manner.

   E. The functions of cash handling, record keeping, and issuing of cards is not adequately segregated.

5. Physical Controls over Parking Cards (pages 24-27)

   A. Unissued parking cards are not adequately safeguarded against loss or theft.

B. The parking card inventory listing is not current, accurate, or complete.

C. The airport does not perform a physical inventory count of parking cards on a periodic basis.

D. The lack of accountability and control over parking cards, caused by lack of supervision, renumbering and reissuance of previously invalid and nonsystem cards, and the extended bypass of the system controls, resulted in possible improper access to the parking lot and a possible loss of revenue.

6. <u>Cash Accounting Controls and Procedures</u> (pages 27-32)

A. Receipts are not deposited on a timely basis. We noted individual checks for several thousands of dollars were held for six to thirteen weeks before being deposited.

B. The airport is paying unnecessary fees for changing monies to a cashier's check prior to deposit with the city treasurer. This procedure also creates a delay in the deposit of monies.

C. The airport does not adequately maintain records detailing parking card deposits collected, refunded, and forfeited by the customers.

D. Prenumbered receipt slips are not used for monies received at the cashier window.

E. The airport does not perform periodic reconciliations between the control ledger and the various subsidiary ledgers.

F. The record-keeping and collection procedures over locker monies are not adequately segregated and/or supervised.

G. The airport does not record, restrictively endorse, or deposit security deposits collected for loaned keys.

7. <u>Accounts Receivable Controls and Collection</u> (pages 32-35)

A. The airport has not been assessing late payment fees (interest) on overdue accounts as stipulated in the tenant contracts. Over $23,000 of interest should have been assessed on June 30, 1988, overdue accounts, alone.

B. Procedures for the collection of overdue accounts are inadequate.

C. The airport does not properly review tenant listings to ensure that all fees are being properly billed and collected.

D. Reconciliations between the manual receipts log, the automated billings and adjustments reports, and the aged trial balance are not being performed.

8. <u>Relocation Assistance Program Rent Collection Procedures</u> (pages 35-37)

   A. The airport is not properly maintaining rental agreements as required by federal guidelines.

   B. The parcel files did not contain documentation indicating rent was to be assessed and that notice of the impending rent was sent to the occupants.

   C. Proper rental fees have not been fully collected.

   D. Delinquent notices for overdue rental fees are not sent out on a timely basis.

9. <u>Parking Management Services</u> (pages 37-39)

   A. The operator submits invoices to the Airport Audit Section, and these invoices are reviewed. The current structure of the contract results in the payment of sales tax and possibly unnecessarily high costs for supply items.

   B. The airport does not monitor the usage of free and "VIP" parking cards nor do they evaluate the cost versus the benefits derived from the use of these cards.

10. <u>Review of Field Usage Reports</u> (pages 39-41)

   A. Airport Terminal Services, Inc., has improperly exempted fuel sales to military customers when collecting and remitting fuel flowage fees to the airport. The airport failed to receive approximately $48,500 in fees as a result of this practice.

   B. The airport is not adequately reviewing monthly field usage reports.

11. <u>Contract Changes</u> (pages 41-42)

   The airport does not adequately evaluate contract change orders to construction contracts to determine if bidding is necessary.

12. <u>Data Processing Controls</u> (pages 42-43)

   A. There is no independent review of adjustments made to accounts receivable. In addition, sufficient supporting documentation indicating proper authorization, reasons for adjustments, or who made the adjustments is not maintained.

   B. Several people use the same password and the passwords are not unique and meaningless.

13. <u>Bad Check Policy</u> (pages 43-44)

   The airport does not have a formal policy to pursue collection of nonsufficient funds checks returned to them.

14. Petty Cash (page 44)

The balance of the imprest petty cash fund is unnecessarily high, increasing the risk of loss, theft, or misuse of funds.

15. Operating Expenditures (pages 45-46)

A. The airport does not have a written policy establishing which types of entertainment expenditures are necessary and reasonable for the operation of the airport.

B. The airport has unnecessarily been paying sales tax on some of their purchases.

16. Inventory Controls (pages 46-48)

A. The airport does not maintain a formal listing of those items purchased for under $10,000; thus, these items are more susceptible to loss or theft.

B. The airport does not have a formal written policy regarding the capitalization of property.

C.1. Property items are not numbered and tagged as a means of identifying the property.

2. A periodic inventory of all airport property is not conducted.

3. The date and means of property dispositions are not recorded on the property control listing and independent, written authorization is not obtained for all property disposals.

17. Supplies Inventory (page 48)

The airport does not have perpetual inventory records of general supplies nor do they perform periodic physical inventory counts.

LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT
CITY OF ST. LOUIS, MISSOURI
MANAGEMENT ADVISORY REPORT

As part of our review of the Lambert-St. Louis International Airport (SLIA), city of St. Louis, for the year ended June 30, 1988, we studied and evaluated the internal accounting control system to the extent needed to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we classified the significant internal accounting controls as cash, payroll, revenues, and expenditures. Our study included each of these control categories. Since the purpose of our study and evaluation was to determine the nature, timing, and extent of our audit procedures, it was more limited than would be needed to express an opinion on the internal accounting control system taken as a whole.

It is management's responsibility to establish and maintain the internal control system. In so doing, management assesses and weighs the expected benefits and related costs of control procedures. The system should provide reasonable, but not absolute, assurance that assets are safeguarded against loss, and that transactions are carried out as authorized by management and are recorded in a manner that will permit the subsequent preparation of reliable and proper financial reports.

Because of the inherent limitations in any internal control system, errors or irregularities may still occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and, thus, might not disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the internal accounting control system of the airport taken as a whole. However, our study and evaluation disclosed certain conditions that we believe are material weaknesses and these findings are presented in this report.

We reviewed probable compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate. This review was not intended to provide assurance of full compliance with all regulatory provisions and, thus, did not include all regulatory provisions which may apply. However, our review disclosed certain conditions that may represent noncompliance and these findings are presented in this report.

During our review we identified certain management practices which we believe could be improved. Our review was not designed or intended to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in this report should not be considered as all inclusive of areas where improvements may be needed.

The State Auditor was petitioned under Section 29.230, RSMo 1987, to audit the SLIA, city of St. Louis. We included those procedures necessary in our judgment to evaluate the petitioner concerns and those concerns requiring corrective action are addressed in this report.

The period of review for the purposes stated above included, but was not limited to, the period covered by the financial statements for the year ended June 30, 1988.

1. Air Cargo Complex

On April 1, 1987, the city of St. Louis, through the Airport Commission, entered into a thirty-year ground lease and agreement with St. Louis Air Cargo Services, Inc., (SLACS), a subsidiary of Haith and Company, Inc. Through the arrangement, the airport leased land to SLACS upon which SLACS was to develop a 100,000 square foot cargo facility, 561,750 square feet of airplane apron, and a connecting taxiway. In return, the airport was to receive monthly rental payments of $20,453, renegotiable every five years through an escalation clause. The monthly rentals were to be abated through rent credits on a dollar for dollar basis until SLACS had recovered the cost of constructing the connecting taxiway. In addition, title to the facility and improvements reverts to the airport at the end of the lease term. Our review of this agreement and related circumstances revealed the following concerns:

A. The airport did not fully consider other alternatives for establishing air cargo facilities prior to entering this arrangement. Haith and Company, Inc., acting through its subsidiary, SLACS, approached the airport during June 1986 with the above proposal to lease land from the airport on which to develop a new air cargo facility at SLACS' expense. Minutes of commission meetings at which the proposal was discussed included comments indicating that air cargo services are essential to the airport and that the airport had been contemplating developing new cargo facilities for nine years. They also noted that the existing facilities and related ramp areas were rapidly deteriorating and would require extensive renovation for continued use.

While it appears the airport was previously aware of the need for new air cargo facilities, there was no documentation that they had developed any plans or taken any steps to meet this need. They had not reviewed any alternatives to developing the facilities, such as the type of arrangement entered above, possibly building and operating the facilities themselves, or constructing the facilities and contracting for the management of them, etc. Instead, Haith and Company, Inc., approached the airport with the above proposal and they accepted it without documenting the review of any other alternatives.

By failing to plan in advance and review alternatives for the development of an air cargo facility, the airport cannot be assured that it has obtained air cargo facilities and services in the most economical manner.

B. The airport did not seek other proposals for the development of the air cargo facilities. As noted above, the airport accepted the initial proposal made by Haith and Company, Inc. According to the terms of the agreement, the airport receives a fixed monthly rental of

$20,453 which may be renegotiated every five years. The airport does not receive any percentage of gross revenues, as it does from many of its other vendors.

In the Airport Commission meeting minutes at which the proposal was discussed, the prior commission Chairman stated that he knew of no other firms who did these types of developments. The commission apparently approved the proposal, in part, due to these comments, without attempting to determine if, in fact, there were other firms available. Correspondence from two other firms, received soon after the approval of the lease agreement, indicates that there were actually other firms interested in, and possibly capable of, developing an air cargo facility. Documentation indicates that some airports at which Haith and Company, Inc., had developed cargo facilities were contacted; however, the airport apparently made no attempt to contact other airports to determine if other developers were available.

By not seeking other proposals for the leasing of the land and development of the air cargo facilities, the airport cannot be assured that it has maximized its revenue potential from the arrangement. Although the airport is not required to bid this type of contract, the use of competitive bids would have increased their assurance that they were undertaking the best alternative.

<u>WE RECOMMEND</u> the SLIA:

A. Fully review all alternatives and develop plans of action prior to obligating themselves to long-term agreements.

B. Whenever possible, seek competitive bids on all leases.

<u>AUDITEE'S RESPONSE</u>

A number of alternatives for establishing air cargo facilities were considered at various times going back as far as the early 1980s. At one time the airport considered making improvements to the old cargo facilities and leaving the operation at that location. In 1985, the airport contracted with Brown and Associates to conduct a study of the St. Louis Airport Air Cargo facilities. The size, (already determined to be undersized in previous studies), condition (badly deteriorating) and the location of the old air cargo facilities site (in the approach to Runway 12L) were analyzed. The study recommended abandoning the plans to make improvements to the old facilities. Instead, the study recommended a new location for cargo activities and estimated the cost to build the new facilities at approximately $8.6 million. However, because of the urgent need to rebuild the badly deteriorating airport runways, taxiways, and terminal apron, the funding for this air cargo project was never available and we were forced to continue operating out of the old facilities.

In March 1986 the Federal Aviation Administration (FAA) offered the airport an opportunity to install additional instrumentation on the approach to runaway 12L which would materially improve airfield capacity. The airport agreed, however, the instrumentation overlapped into the cargo facility. Since it was already undersized, this forced the airport to quickly develop a plan to remedy this situation.

Approximately three months later, Haith and Company, Inc. made an unsolicited proposal to the airport which had many excellent features. The proposer had private financing, a commitment from a number of freight forwarders, was willing to immediately start construction of a facility sized to meet present and future needs and in the location designated in the airport study. The proposer willingly accepted the limitation to accommodate only the cargo needs of the metropolitan area and forgo the opportunity to develop a cargo "hub" operation. This allowed the airport to avoid the environmental problems of increased nighttime noise (since that is when cargo landings and takeoffs occur). Haith and Company agreed to the ground rental rates established by the airport and agreed to build an airport connecting taxiway with their funds on the condition that rent credits be used for reimbursement of this taxiway construction cost.

Since there was no legal requirement to bid a contract to lease land, the airport had to make a business decision. The airport made the good management decision to accept an excellent proposal, presented at exactly the right time, and expedite the construction of the new facilities without cost to the airport. Based on the terms and conditions offered by Haith and Company, Inc., the airport determined at that time these advantageous terms and conditions were justified as a sole source to provide this type of cargo facility to the airport. This proposal fulfilled a critical need for the replacement of an aging and inadequate cargo facility and was significantly better than any other previously proposed cargo facility received by the airport. This action was approved by the Airport Commission, Board of Estimate and Apportionment, and the Board of Aldermen.

AUDITOR'S COMMENT

We saw no documentation of any plan developed to remedy this situation. Although it may be true that Haith and Company Inc. proposal came at an opportune time, that does not relieve the SLIA of thoroughly evaluating all potential means of undertaking the expansion. While there are no legal requirements to bid this type of contract, the use of some type of competitive request for proposals would have helped to ensure the SLIA received the best proposal at the best price.

2. Lease Amendments

The city of St. Louis entered into a lease agreement with Young Aviation Corporation, now Midcoast Aviation, Inc., (Midcoast) on December 26, 1956, for the construction and operation of apron space and hangar facilities from which to provide aircraft servicing for general aviation aircraft. Title to these facilities and improvements reverts to the airport upon termination of the lease. The original lease would have expired in February 1982, but was amended six times between 1956 and 1985. During the late 1970s and early 1980s the airport determined that to provide for future expansion, Midcoast facilities would have to be moved. In 1985, the airport felt it was necessary to move the hangar facilities from their current location so that apron space for remotely parked aircraft could be expanded. Through the sixth amendment to the original lease, in June 1985, the airport accomplished this relocation at a cost of approximately $9,350,000. During our review of the original lease, its amendments, and the related move, we noted the following problems concerning the airport's failure to exercise its contractual rights and to properly monitor and control the costs of the move.

A. The airport unnecessarily amended the original lease. This amendment resulted in the airport paying more for the move than the original lease required. In addition, the airport has received less leasable hangar space after the move.

According to terms of the original lease, the airport was to allow Midcoast two options if the airport decided to move facilities to provide for further expansion of the airport. The first option was for the airport to pay Midcoast depreciated book value of the hangar, buildings, and other facilities and take possession of the property to move as they saw fit. The second option was for the airport to pay the full cost of moving the facilities to another site on the airport property. In addition, the airport had the authority to use the power of eminent domain to claim the property. Rather than using one of these options, the airport entered the sixth amendment to the original lease.

Under the terms of the sixth amendment, the airport gave up its rights noted above and instead obligated itself to pay the full cost of replacing Midcoast's facilities at another site at the airport. Two reasons given by the airport for entering the amended lease were that the site to which Midcoast was moved was further from their clients, thus increasing Midcoast's costs of business and that it was done to avoid a lengthy legal battle which would have been costly for both the airport and Midcoast. It is not clear that the airport's legal costs for exercising rights guaranteed under the original lease would have cost $5.25 million (the approximate excess cost paid for the move under the amended lease). In addition, the airport was under no obligation to make concessions of its rights under the original lease merely to ease Midcoast's loss. The possibilities of a move, and remedies therefore, were explicitly stated in the original lease which Midcoast, through Young Aviation Corporation, signed.

All of the land and, ultimately, all of the improvements thereon are owned by, and under the control of the airport to manage as best fits the airport's interests. The inclusion, in facility leases and contracts, of escape clauses which allow for airport expansion or reorganization are reasonable and necessary. By including these escape clauses, all parties should recognize the possibilities, related risks, and remedies allowed, prior to entering the agreements. The failure to exercise the rights allowed under contract, and instead renegotiate new terms in favor of the lessee when the occasion arises, causes the airport to incur unnecessary costs.

B. The agreed upon cost to rebuild the approximately 120,590 square feet of Midcoast facilities was determined by two architectural firms to be approximately $9,350,000. Included in this cost estimate was a construction cost inflation contingency of approximately $401,000. The amendment did not require Midcoast to replace its facilities in full nor did it require them to return any of the $9,350,000 which was not used for the new construction.

According to an airport internal memorandum, dated January 1, 1988, Midcoast actually rebuilt their terminal building, fuel farm, automobile parking, ramps, taxiway, and three hangars at a cost of approximately $4.1 million rather than the six hangar building upon which the original $9.35 million estimate was based. Airport documents indicate the new buildings have a total area of 51,338 square feet. This is less than half the area of the original facilities.

According to the terms of the amended lease, Midcoast retained the remaining $5.25 million and is required to build 80,000 square feet of facilities by 1990, or face a reduction in leased space. Since the airport did not retain adequate control over the costs or the facilities rebuilt, they paid full price but received only half of the facilities. In addition, the construction contingency, designed to cover actual construction costs in excess of the architects' estimates, was paid unnecessarily since actual costs were not even close to estimates.

In order to ensure that it gets full value for monies expended, the airport should structure all contracts and lease amendments so that it retains control over expenditures and approves all payments.

WE RECOMMEND the SLIA:

A. Fully exercise all rights guaranteed under leases and contracts rather than renegotiating those terms, unless the renegotiation is clearly in the airport's best interest.

B. Structure all lease amendments and contracts to allow the airport to maintain adequate control over the expenditure of monies, ensuring that the airport gets full value for its expenditures.

AUDITEE'S RESPONSE

The State Auditor's findings are inaccurate and misleading.

As properly stated in the report, there were two options in the terms of the lease to provide for such relocation. The first option was for the airport to pay Midcoast depreciated book value of the lessee's hangar building and other facilities and allowing the lessee to move as they saw fit. The second option was for the airport to pay the full cost of moving the facilities to another site on the airport property. The audit report goes on to indicate that in addition to these two options, the airport had the authority to use the power of eminent domain to claim the property.

The report failed to mention that the lease provides the lessee (Midcoast) with the right to accept or reject the above-mentioned options and that Midcoast had indicated that they would not accept the depreciated book value of their improvements. The second option was rejected by the airport not to save legal costs as suggested by the State Auditor but because it would have taken the airport much longer to do the construction, because of city bid procedures and budget allocation, than Midcoast. From the very outset, the whole purpose of relocating Midcoast was to allow the airport the ability to expand into this area.

With the rapid growth of Trans World Airlines operations, the airport had an urgent need to expand the terminal apron. Knowing that Midcoast was opposed to the move and was prepared for a lengthy legal battle, it was in the airport's best interest to renegotiate this matter.

The airport and Midcoast agreed to hire outside independent firms to determine the cost to rebuild the Midcoast facilities at another location on the airport. Two architectural firms agreed that the estimated cost would be $9,350,000. If the city had chosen to pursue condemnation of the property through eminent domain and the city and Midcoast could not have agreed on a price, the court would have had to appoint three condemnation commissioners to determine the value of the property. If either of the two parties were not satisfied with the condemnation commissioner's report of value, either or both of the parties could have requested a jury trial to determine the value of the property. By use of the eminent domain process, the city of St. Louis would have incurred a substantial time delay to complete this process of acquisition as well as an uncertain price for the purchase of this property. The airport agreed to a lease amendment to pay Midcoast $9,350,000 to construct the new facility, which, contrary to the audit report, represented the same cost we would have incurred had we rebuilt their facilities as required by the second option. Midcoast in turn agreed to the airport's accelerated schedule for construction and relocation, and to relocate to the St. Louis Downtown Airport certain facilities pertaining to general aviation activities that were not required at Lambert. As a result of our expediting the relocation of Midcoast, the airport was able to immediately begin the planning and engineering work to expand the airport's aircraft parking apron into this area with construction to be completed this year. We also have under construction a taxiway which could not have been constructed without Midcoast's relocation because it would have blocked aircraft access into their hangars.

Not mentioned in the State Auditor's report was the fact that the airlines approved this relocation allowing the airport to be reimbursed by them through landing fees. Thus, airport landing fees paid for the entire cost of the relocation. This approval was based on their anticipation of benefits, such as the expanded apron and taxiway mentioned above, which ultimately accrued to them. Example: The FAA estimated that this taxiway would save the airlines $18 million annually in reduced delay time.

The auditors misstated the cost and the square footage of the facility. The State Auditor erroneously based their conclusions on outdated information contained in a memorandum dated January 1, 1988, regarding both the amount of capital invested by Midcoast and the square footage developed. Actual expenditures by Midcoast at Lambert were $7,603,000 not the $4,100,000 the auditors reported. In addition, the amount expended on new facilities at all locations (Lambert and others) was $8,595,000. The area developed at Lambert is 115,600 square feet not 51,338 square feet and total of all Midcoast (Lambert and other) facilities is 133,850 square feet.

The airport's decision reached in 1985 was the correct decision and the decision that best benefited the airport.

AUDITOR'S COMMENT

The documentation available at the SLIA does not clearly indicate that this decision best benefited the airport. SLIA indicates that Midcoast has added additional facilities to the ones listed in the January 1, 1988, correspondence. These additions were done three to four years after Midcoast received the relocation payments. In addition, it is not clear why the relocation payments should be used to construct facilities at other airports. Based upon the information in SLIA's response, Midcoast still has not rebuilt all the square footage at Lambert and they have not yet spent the $9,350,000 they were paid for relocation. SLIA states Midcoast has spent $1,747,000 less on the facilities at Lambert. Even if the facilities at other airports are considered, Midcoast has received $755,000 more than they spent on construction. If the SLIA had controlled the costs of this relocation, it is possible they could have saved between $755,000 and $1,747,000 and earned interest on the principal used for construction costs over the last four years.

3. Tenant Employee Parking Lot Controls

The SLIA operates and maintains a pay parking lot solely for use by the employees of the airlines, concessionaires, and other operators that service airport facilities. The parking lot was constructed during 1986 at a cost of $1,300,000 and included a computerized access system. The system, which is operated by magnetic control cards, is intended to restrict parking access to qualified employees. The parking lot is staffed by security guards twenty-four hours a day to further control access to the lot. The monthly parking fees charged to each user were $20.50 and $17.50 for calendar years 1988 and 1987, respectively. The fees are collected by the airport and, subsequently, remitted to the city treasury.

The monthly parking fees for the majority of users are paid by their employers. Billing and payment are directly between the airport and the companies. However, approximately 250 to 300 users are required to pay their own monthly parking fees. These users are not billed, but must remit payment to the airport prior to the month for which they desire parking privileges.

Approximately six thousand parking control cards were issued between October 1986, the date the system was installed, and June 30, 1988. Total parking lot revenue from April 1987 through June 1988 was approximately $1,196,385.

The computerized access system and procedures established by the airport can provide meaningful data, a means of physical security, and assurances as to the integrity of the system if these procedures are performed, adequately reviewed, and supervised. The system utilizes an inventory listing of all cards; a receivable listing; a parking card log for posting total daily receipts; individual parking receipts; a daily activity report listing all cards used each day; and a control ledger for parking receipts. In short, the system provides the information and controls necessary to implement and maintain a system of internal controls. Because airport procedures have been circumvented, and the data system was not adequately used, the airport failed to provide a proper system of controls over these receipts.

An attempt was made to reconcile the various records of the tenant employee parking system. Some receipt slips were found, however, those employees names were not indicated as paid on the receivable listing. Likewise, receipt slips could not be found for some employees whose name had been marked paid on the receivable listing. We reviewed the activity listing and it appeared that reported unissued parking cards were being used to gain access to the lot. For example, 103 parking cards that were unissued (in the vault or void) according to the SLIA records had been used in a three-day period to gain access to the lot. The parking card log of total daily receipts could not be reconciled to either the receipt slips or the payments indicated on the receivables listing. Without proper reconciliations of these various records, the airport has no assurance that all parking cards being used are being paid for, and that all monies received are recorded and deposited.

In addition, we noted the following conditions:

A. No reconciliations of any of the records were being performed. [See Management Advisory Report (MAR) No. 4.]

B. Records are not complete, accurate, or current. (See MAR No. 4.)

C. There was not a proper segregation of duties. (See MAR No. 4.)

D. Airport personnel had unlimited access to activated parking cards. (See MAR No. 5.)

E. There were no physical inventory counts of parking cards on hand. (See MAR No. 5.)

F. The entire computerized access system had been deactivated for approximately five months. (See MAR No. 5.)

Due to the conditions noted above and the fact that we noted cards being used to gain access to the parking lot that had not been paid for (see MAR No. 5.), it could not be determined how much revenue could have been lost. The number of cards issued from 1987 to 1988 and the parking fee charged has increased. However, the parking revenue from employees who pay their own parking decreased from $42,377 in 1987 to $37,123 in 1988. The receivable listing during 1988 has shown from 250 to 300 cash paying card holders each month. At the monthly fee of $20.50, this indicates possible total monthly revenue of $5,125 to $6,150 (cash customer's only). However, during 1988 the average monthly collection was only $3,093. This disparity indicates that all parking privileges have not been paid for and/or all monies have not been recorded and deposited.

The airport was maintaining records but making no attempt to verify that these records were current, accurate, or complete. Without current, accurate, and complete records it is impossible for the airport to ensure that all monies are being collected, recorded, and deposited.

<u>**WE RECOMMEND**</u> the SLIA follow established procedures and utilize the computerized access system to maintain the integrity of the system and minimize the associated risk of lost revenues.

AUDITEE'S RESPONSE

We concur with the recommendation. We have completely revised the control card inventory system to track all transactions of the cards. This allows for the reconciliation of all cards within the system to cards issued and billed to third parties and cards issued to individuals. All prior months billings have been adjusted to reflect any omissions and duplications. All problems related to the electric supply and the air conditioning system at the parking lot have been corrected, and the access system is fully operational.

4. Parking Lot Accounting Controls

Our review of the revenues, record keeping, internal accounting controls, and overall management of the tenant employee parking facility revealed inadequate controls over billings; weaknesses over collections from cash customers; inaccurate recording and untimely deposit of receipts; no reconciliation of accounting records; and an inadequate segregation of duties.

A.1. Monthly billings for company paid employee parking are not prepared in a timely manner. The airport indicated the billings are processed near the fifteenth of the month to which they apply. However, billings for six of ten of the monthly company charges we reviewed were invoiced in the months subsequent to the service months.

Monthly billings for company paid employee parking are not automated like the rest of the airport's accounts receivable billings but are to be entered on the accounts receivable system described in MAR No. 7. Billed amounts are determined by the clerk responsible for employee parking record keeping and provided to the accounts receivable clerk for billing. The employee parking clerk does not follow up on company billings to ensure that the billings are paid. Subsequent billings, therefore, do not reflect any delinquent balances of the companies. Our review indicted a time lag between billing and receipt of payment of up to five months. Without timely billing and collection procedures the airport unnecessarily increases the risk of not collecting these monies.

2. The airport does not reconcile the number of control cards issued to the number of control cards billed and paid by companies to ensure that all monies due the airport are appropriately billed and collected. Without proper reconciliations of the number of company paid parking cards issued with amounts billed it is impossible for the airport to ensure all parking cards issued are properly billed. Furthermore, no one independent of the record keeping and custodial function reviews billings and payments for delinquent accounts, thus, some cards continue to be used even though no payment has been recorded.

B. The tenant employees pay their own monthly parking fees on approximately 250 through 300 parking cards, according to the SLIA's inventory list of parking cards. These employees are expected to pay for their parking by the first of the applicable month. When the employee pays, either by mail or in person, airport personnel mark "paid" by their name on the receivable listing. According to airport personnel, if the employee does not pay by the fourth of the month, their parking card is deactivated from the system, thus denying admittance to the lot.

Our review of the system-generated activity listing for three days indicated that fourteen cards which were not marked paid on the receivables listing had gained entrance onto the lot. Thus, it appears that employees' parking cards are not always deactivated as airport personnel indicated. This significantly reduces the airport's control over the lot and indicates a possible loss of revenue. Without periodic reviews of the activity listing, comparing entries onto the lot with employees that have paid per the receivables listing, it is impossible for the SLIA to be assured that only those employees who have paid gain access onto the lot.

C. Parking receipts are recorded irrespective of when the fee is actually received. The airport records reflect parking fees by month for which they are used. Payments are typically received from the sixteenth of the preceding month through the fifteenth of the current month. However, any parking fees received prior to the sixteenth of the preceding month for which the fees are applicable are not recorded until the sixteenth. Likewise any parking fees received after the fifteenth of the month for which the parking fees apply are recorded in the log as being received on the fifteenth instead of the date they are actually received. For example, for July parking privileges the collection period is June 16 through July 15, so any monies collected prior to June 16, for July parking, are held and not recorded or deposited until June 16. Likewise, for any monies collected after July 15, the records (June 16 through July 15 receipt logs) are altered to reflect the receipt of the fee. This results in airport personnel holding unrecorded checks and altering records after the fact, thus, making it virtually impossible to reconcile amounts received with what has been deposited. As a result, it is impossible for the airport to assure itself that all monies received are deposited. Furthermore by not recording fees when received the airport increased the possibility of monies being lost, stolen, or misused.

D. As noted in MAR No. 6., the airport does not deposit receipts in a timely manner. Parking receipts are deposited approximately twice a month. The airport does issue receipt slips for parking fees that are paid. However, these receipt slips are not prenumbered, thus the airport has little assurance that all monies received are eventually deposited. Furthermore, the airport does not attempt to perform reconciliations between the receipts log, receipt slips, and the amount deposited. Without such a reconciliation, the SLIA has no assurance the proper fees are being collected and eventually deposited for all parking cards issued. In order to ensure proper handling and control of cash collections, reconciliations of prenumbered receipt slips issued to monies received and deposited must be performed periodically by someone without access to receipts, parking cards, and cash.

E. Employee parking collection, billing, and record-keeping functions are not adequately segregated. One employee may perform several of the following functions:

1) Physically receive money,

2) Record cash receipts,

3) Maintain physical control over parking cards,

4) Issue parking cards,

5) Maintain parking card inventory,

6) Maintain accounts receivable listing,

7) Review activity listings, and

8) Prepare company billings.

An adequate system of internal control requires proper segregation of duties. Adequate segregation provides for timely detection of errors, helps to assure that all receipts are properly recorded, all cards are properly billed, and increases safeguards against possible loss or misuse of funds. If complete segregation is not possible, the functions noted above should be segregated to the extent possible.

<u>WE RECOMMEND</u> the SLIA:

A.1. Prepare company billings for parking cards in a timely manner and follow-up on all unpaid balances.

2. Reconcile cards that are billed per the invoices to cards that are issued per the inventory listing.

B.1. Deactivate unpaid parking cards on a timely basis.

2. Ensure that on a periodic basis someone independent of the record-keeping function reviews the activity listing to determine that only those employees who have paid for their parking are gaining access to the parking lot.

C. Record receipts when they are received.

D.1. Deposit receipts daily as required by Article XV, Section 24 of the St. Louis City Charter.

2. Issue prenumbered receipt slips.

E. Segregate the functions of cash handling, record keeping, issuing of cards, and assign someone independent of these functions to perform reconciliations.

AUDITEE'S RESPONSE

A. We concur with the recommendations. Monthly billings are completed by the twenty-fifth of the month for the period ending on the fifteenth. All cards billed are reconciled with the third-party billed and with the card inventory listing.

B. We concur with the recommendation. All unpaid parking cards are deactivated within three days following the due date for the payment. An independent review of the activity listing is done by the Accounting Manager, and spot checked against the card inventory listing to determine that only valid cards are gaining access to the parking lot.

C. We concur with the recommendation. All receipts for funds received for parking cards are recorded the day they are received.

D. We concur with the recommendations. All receipts are deposited from the parking cards on a daily basis and are reconciled. We are now using prenumbered receipt slips for funds received for parking cards. All unnumbered cash receipt slips have been destroyed.

E. We concur with the recommendation. We have segregated the functions of record keeping from those of cash handling and the issuing of cards. In addition, a supervisor is performing the reconciliation functions.

5. Physical Controls over Parking Cards

The airport uses parking cards with an internal magnetic strip which activates the computerized armgate, allowing access to the tenant employee parking lot. The airport purchases the parking cards in quantity and enters the cards onto the system in quantity, activating the parking cards before issuance. The initial six thousand parking cards purchased by the airport were sequentially numbered one to six thousand and entered into the system. The numbers on the cards are an integral part of the system of physical control. A particular parking card will not activate the computer system and raise the armgate unless that card has specifically been entered into the system. When a card is entered into the system, the computer scans the magnetic strip in the card and assigns to that magnetic strip the card number entered in with the card. The card numbers are intended to allow the airport to adequately document the parking card users.

Physical controls over tenant employee parking cards are inadequate. We noted uncontrolled access to unissued parking cards, poor inventory listings, no periodic physical inventory counts, and circumvention of the computerized parking card security system.

A. Unissued cards are primarily kept in a storage vault which is accessible to any airport administrative employee. Approximately fifty unissued cards are kept in a desk drawer at the airport payment window. Usually these cards have already been entered into the system. Thus they are active cards allowing access onto the parking lot. To adequately safeguard assets, the parking cards should be accessible only to an employee independent of record-keeping functions. Without adequately controlled access these cards are susceptible to loss or theft.

B. The airport maintains an inventory listing of parking cards by card number indicating whether the card has been issued, is on hand (in the vault), or has been reported lost, stolen, or broken (void). Our review indicated that the inventory is not current, accurate, or complete.

1) We conducted two reviews of parking cards on hand approximately three months apart. The first review, in August 1988, indicated 160 parking cards on hand per airport inventory listings. A physical count indicated only 20 cards actually on hand, 17 of which were shown on the inventory listing as either issued or previously destroyed (void). Therefore, of the 160 cards on hand per the inventory listing, 157 could not be accounted for. At the monthly fee of $20.50 this represents a potential loss of revenue of $3,218.50 per month.

2) A second review, in November 1988, indicated ninety-four parking cards on hand per airport inventory listings. A physical count revealed only four of these ninety-four cards actually on hand. Twelve of the missing cards were supported by documentation as being new issues; however, their issuance was not recorded on the inventory listing. The remaining seventy-eight missing cards could not be accounted for.

At the date of the second review, the airport also had various parking cards on hand that were not reflected on the inventory listing. The cards on hand included a recently received shipment of 3,000 replacement parking cards consisting of cards numbered 6,000 through 8,000, as well as 1,000 cards without numbers. Of these replacement cards, numbers 6,100 through 7,341 had been activated by entry into the computer but had not been issued. Also on hand were 24 cards that had been borrowed from another parking system and had been arbitrarily assigned numbers, 6 which had been recently returned to the airport and were not reflected as such on the inventory listing and one which had been issued per the inventory listing.

These reviews of parking cards on hand and inventory listings indicate the airport could not account for their parking card inventory, and that airport records were neither current, accurate, nor complete. Without current, accurate, and complete inventory listings it is impossible for the airport to determine that all parking cards have been properly recorded, billed, and accounted for.

C. The airport does not perform a physical inventory count of parking cards on a periodic basis. Without periodic physical inventory counts, performed or supervised by someone independent of the record-keeping and custodial function, a significant measure of control over these active parking cards is lost and the possibility of abuse or theft is increased. These physical counts should then be reconciled to the inventory listings by someone independent of the record-keeping and custodial functions and all discrepancies thoroughly investigated.

D. The computerized parking card security system was turned off from late July through December 1988.

Electricity operating the parking lot computer was apparently lost during a storm in July 1988. When power was restored, it was determined that the computer had lost the ability to read and accept 2,000 of the 6,000 cards that had been active prior to the storm. This was because cards numbered 4,001 through 6,000 were not properly backed up when entered into the computer (the first 4,000 cards had been entered into the computer when the computer was installed and apparently had been properly backed up).

The airport did not initially recognize the magnitude of the problem and attempted to trade unissued parking cards in the series 1 through 4,000 for the unusable parking cards in the 4,001 through 6,000 series. However, they soon ran out of usable cards and the computer system was put on "bypass." This allowed the computer system to give access to any card used, whether valid or invalid. On other occasions, the airport simply raised the armgate to the lot which allowed any vehicle access.

The airport continued to exchange unissued cards for the invalid cards even though the system was not operational. When the supply of valid cards was exhausted, the airport renumbered the previously invalid cards and reissued those cards under the reassigned numbers. Additionally, the airport borrowed similar style control cards from another parking system, assigned numbers to those cards, and issued the cards for the airport system. The airport continued the practice of renumbering parking cards after a 3,000 card purchase was received in October 1988, because the airport had used many of the new numbers in renumbering the old parking cards. Consequently, the airport shattered the accountability initially possible with sequentially prenumbered parking cards.

No documentation was available to indicate that anyone other than the clerk responsible for the record-keeping and custodial function of the parking cards had approved that system being on "bypass" for approximately five months. Furthermore, the airport received the new shipment of parking cards in mid-October 1988 but did not render the system fully operational again until the middle of December.

The airport experienced a lack of accountability and control over cards caused by a lack of supervision, renumbering and reissuing previously invalid cards and nonsystem parking cards, and the extended bypass of the system controls. This resulted in possible improper access to the parking lot and a possible loss of revenue. To ensure full accountability and control over cards issued and used, and to reduce the possibility of lost revenues due to the use of invalid cards, the airport should establish policies for closer supervision of the system. These policies should address proper advance planning for card purchases. In addition the airport should discontinue renumbering invalid parking cards, and issuing off-system cards; and require documentation of supervisory approval prior to bypassing established system controls.

WE RECOMMEND the SLIA:

A. Limit access to the parking cards on hand to only necessary personnel who are independent of the record-keeping function.

B. Maintain current, complete, and accurate parking card inventory listings.

C. Perform periodic independent physical inventory counts and investigate any discrepancies.

D. Implement policies and procedures for the appropriate supervision over the parking card system.

AUDITEE'S RESPONSE

A. We concur with the recommendation. All unissued cards are kept in a locked safe, under the control of the chief cashier, who does not have any responsibilities in the parking card record-keeping function.

B. We concur with the recommendation. A current, complete and accurate parking card inventory listing is now being maintained. It is updated daily with additions and deletions. A log is also kept for all cards in the vault, with a record of all additions to and distributions out of the vault.

C. We concur with the recommendation. Periodic inventory is taken by the Accounting Manager and all discrepancies are reconciled immediately.

D. We concur with the recommendation. Policies and procedures for the supervision of the parking card system have been written and distributed to all personnel assigned to the system.

6. **Cash Accounting Controls and Procedures**

According to financial statements prepared by independent auditors, the SLIA deposited $68,198,207 with the St. Louis City Treasurer during the fifteen months ended June 30, 1988. Our review indicated several areas where SLIA's controls and procedures related to processing cash collections are severely deficient. These weaknesses include untimely deposits, unnecessary service charges, inadequate parking card deposit records, lack of reconciliations, lack of prenumbered receipt slips, and inadequate segregation of duties.

A. Receipts are not deposited on a timely basis. This includes checks received in the mail and cash received at the window. Our review indicated a time lag between the date a check is received in the mail and the date it is deposited of up to three months. Moreover, cash window receipts are recorded in a ledger then held for up to one month before deposit.

This time lag applied to receipts, regardless of the amount, and checks for large amounts may not be deposited for several weeks.

The following are a few examples:

Date Check Received	Check Amount	Date of Deposit	Time Lag (In days)
July 6, 1988	$ 28,500	August 18, 1988	43
September 26, 1988	10,000	November 23, 1988	58
October 5, 1988	12,555	November 23, 1988	49
October 16, 1987	14,562	January 21, 1988	97

Article XV, Section 24 of the city charter requires that all monies be deposited daily. In addition to noncompliance, untimely deposits increase the risk of loss, theft, or misuse of funds and result in lost interest revenue.

B. The airport sends all cash receipts to a bank by courier to be exchanged for a cashier's check. The cashier's check, in turn, is sent to the city treasurer along with the checks received by mail. The cashier's check is provided by the same bank that serves as the city's depositary, and the airport pays a service charge to the bank for exchanging the cash for a cashier's check. The following are some examples of monthly charges:

Month and Year	Amount
December 1987	$ 76.18
January 1988	80.27
February 1988	86.61
March 1988	96.61
April 1988	91.76
May 1988	91.70
June 1988	61.78

The bank charges the fees in the following manner:

Loose coin	$ 2.50 per bag
Return check charge	15.00 per item
Cashier's check	3.00
Loose currency	.018 per bill

Airport personnel stated this practice had been used for several years, but they could not explain the reason for using this method of making deposits.

Because the airport has to pay these fees, they only deposit approximately once a month. Furthermore, it takes up to seven days to receive the cashier's check, thus increasing the deposit time lag. In addition to paying an unnecessary fee, the airport also loses interest earnings.

We could not determine if the bank would assess the coin charges for simply depositing the coin in the city's account. Since the currency and coin is processed by a city depositary, it is likely this fee could be substantially reduced. At a minimum the SLIA could avoid the charge for a cashier's check. It is also possible any increased fee would be offset by increased interest earnings.

C. The airport does not adequately maintain records detailing parking card deposits collected, refunded, and forfeited by the customers.

Every user receiving a parking card for the parking lot is required to also pay a $5 security deposit. This amount covers the potential replacement cost of the card. If the parking card is subsequently returned to the airport in usable condition, the deposit is returned to the depositor.

Prior to the beginning of our audit work, approximately $3,000 of such deposit monies were being kept on hand in cash by the airport to make refunds. These monies were turned over to the city treasury shortly after audit work began. All other parking card deposits had been remitted to the city treasury with the monthly user fees as normal operating revenues. The airport has not maintained a detailed record documenting the liability associated with holding the deposit monies for all of the parking card holders. Airport inventory records indicated that at July 12, 1988, 4,535 parking cards were active. However, as outlined in MAR No. 2., the airport inventory records are neither current, accurate, nor complete.

Based on the number of active parking cards, as of July 12, 1988, approximately $22,675 should have been reserved for this liability. Due to commingling of funds and the absence of proper records, it is impossible to determine the actual amount of liability. To ensure sufficient funds are maintained to cover parking card liabilities, refundable deposits should be fully accounted for in a separate reserve fund.

D. Receipt slips are not issued for some types of cash received. In addition, receipt slips that are issued are not prenumbered and are not reconciled to cash deposits or recorded revenues.

The airport collects monies from the sale of security badges, conference room rentals, parking cards, copies, badge clips, police reports, locker rentals, and various other sources. Without issuing prenumbered receipt slips, accounting for their numerical sequence, and reconciling them to cash receipts deposited and recorded, the airport has no assurance that cash receipts are properly handled and accounted for. In order to ensure proper handling and control of cash collections, reconciliations of prenumbered receipt slips issued to monies collected and deposited should be performed periodically by someone without access to receipt slips and cash, or responsibility for record keeping.

E. As monies are received in the mail they are recorded in a receipts control ledger. The remittance forms are passed on to the appropriate accounting personnel to record in either the ordinance ledger or the accounts receivable ledger. However, the airport does not perform periodic reconciliations between the control ledger and the various subsidiary ledgers. This weakness is enhanced because the SLIA does not record these receipts in the appropriate ledger until they are deposited. As noted in part A. above, this may result in checks not being recorded for several weeks or months. This time lag significantly hampers any attempts to reconcile the remittance advices to the ordinance and accounts receivable ledgers.

Without such reconciliations the airport has no assurance that all receipts collected are eventually deposited and properly recorded.

F. The airport provides lockers for airline passengers to rent throughout the terminal. An individual in the airport's Accounting Section empties the lockers of the money and records the number on the mechanical counter once or twice a week. The same individual counts the money and performs reconciliations of the amount received to the number on the counters. A review of these reconciliations indicated several overages and shortages ranging from $282 over to $161 short. Many of these overages and shortages were due to mathematical errors. The airport does not document any investigation of unusual differences. Without independent review and investigation of all unusual differences the airport cannot be assured that all monies collected are deposited.

G. The airport loans out facility keys to companies that are performing work on the facilities, and requires a security deposit for these keys. The deposit is returned to the company when the key is returned. The airport accounting office keeps the key deposit checks in the vault in an envelope. However, the airport does not record these checks anywhere nor are they restrictively endorsed. We conducted a cash count on October 18, 1988, which revealed the following checks on hand:

Date of Check	Amount
October 13, 1987	$ 300
November 13, 1987	400
August 15, 1988	150
August 15, 1988	150
Total	$ 1,000

The two oldest checks may not be valid since they have "Not Valid After 90 Days" printed on the front of the checks. Thus, they may be of no use to the airport and cannot be used to pay for lost keys.

Without proper documentation it is impossible for the airport to have assurance that they have key deposits on all keys loaned to companies. Article XV, Section 24 of the city charter requires that all monies be deposited daily. In addition to noncompliance, untimely deposits and unrecorded receipts increase the risk of loss, theft, or misuse of funds.

<u>WE RECOMMEND</u> the SLIA:

A. Deposit all monies daily as required by Article XV, Section 24 of the St. Louis City Charter.

B. Discontinue the practice of exchanging cash receipts for a cashier's check. Deposit all monies on a daily basis.

C. Establish procedures to maintain records accounting for the parking cards deposits and establish a reserve fund for deposit of the monies.

D. Issue prenumbered receipt slips and perform periodic reconciliations of receipt slips to monies collected and deposited.

E. Perform periodic reconciliations between the control ledger and the subsidiary ledgers.

F. Require someone independent of the record-keeping and custodial functions to review the reconciliations performed on locker monies collected and investigate any material discrepancies.

G. Record, restrictively endorse, and deposit all checks for key deposits when received.

<u>AUDITEE'S RESPONSE</u>

A. We concur with the recommendation. All monies are now deposited daily. Coins are collected one day, counted, bagged, and deposited the next day.

B. We concur with the recommendation to deposit all monies on a daily basis. We deliver all cash receipts on a daily basis to the bank within the airport; however, the City Treasurer's office will not approve the deposit of the monies at the airport location. We are continuing to purchase a cashier's check at the airport bank and depositing it with the City Treasurer on a daily basis, as directed by the City Treasurer.

C. We concur with the recommendation. Procedures have been developed to maintain accounting records for the parking card deposits. A reserve fund has been established for the deposit of the monies, and it is adjusted on a periodic basis to reflect the card deposits.

D. We concur with the recommendation. We are now issuing prenumbered receipt slips and all receipt slips are controlled and periodic reconciliations are made of receipt slips to monies collected and deposited.

E. We concur with the recommendation. Under the direction of the Accounting Manager, periodic reconciliations are being made between the control ledger and the subsidiary ledgers.

F. We concur with the recommendation. An Accounting Manager reviews the reconciliation of locker monies and investigates any material differences. Building maintenance is contacted to checkout locker counters that continue to indicate large over and under differences. A supervisor is assigned the task of preparing the locker reports.

G. We concur with the recommendation. All checks received for key deposits are recorded, restrictively endorsed, and deposited daily. Deposit funds are refunded at the end of the project using the voucher system.

7. **Accounts Receivable Controls and Collection**

Our review of the SLIA's collection procedures and delinquent accounts indicated the following areas where improvements are needed:

A. The airport has included a late payment fee (interest) of 1.5 percent per month in all tenant contracts. However, discussions with airport personnel and a review of airport records revealed interest is not assessed on overdue accounts. As of June 30, 1988, the balance of the current and delinquent accounts receivable per airport records was $1,394,162. Delinquent accounts receivable (those items over thirty days overdue) are broken down as follows:

Amounts Due Over	Amount Due	Interest
30 days	$ 149,224	2,238
60 days	27,240	817
90 days	20,339	915
120 days	329,248	19,755
Total		$ 23,725

As shown above, interest of $23,725 should have been assessed on accounts receivable delinquent at June 30, 1988, alone. A lack of records of activity throughout the year precluded us from calculating the cumulative amount of interest that should have been assessed on these accounts and on accounts that were either written off or were delinquent at some point during the year but were collected as of June 30. Given that many accounts are delinquent for some period of time, but are eventually collected, it is apparent that interest voluntarily forgiven by the airport is significant.

To be in compliance with contract terms the airport should begin assessing interest on all overdue accounts. Furthermore, assessment of interest may encourage the tenant to remit their payment on time and thus the airport will reduce its risk of losing revenue from overdue accounts and interest amounts becoming uncollectable.

B. Procedures for the collection of overdue accounts are inadequate. The Accounting Section bills tenants, including airlines and concessionaires, on a monthly basis. However, it does not send out delinquent notices on overdue accounts. The next month's invoice simply reflects the current amount due and the past amount due. Airport personnel indicated that when the amount becomes ninety days overdue the account is forwarded to the Properties Management Section for collection; however, this action is not always documented.

During our review of accounts receivable balances, it came to our attention that there were several overdue accounts that were currently in Chapter 11 bankruptcy proceedings. Upon closer review of these accounts, it appeared the tenant had been several months delinquent, but there was no documentation of any collection efforts in the file. For example, one tenant became delinquent beginning with July 1984 invoices and continued being billed until January 1985, when the airport was notified of a voluntary filing for protection under Chapter 11. The airport had to eventually write off approximately $125,000 as uncollectable from this account.

As of June 30, 1988, the airport's account receivable balance was $1,394,162, of which only $868,111 was current. One account had outstanding amounts due as far back as December 1987 with no indication in the file that collection efforts had been made. Without complete and timely collection efforts, including sending delinquent notices, following up on the notices, and documenting and following up on any turnover for collection to the Properties Management Section or the City Counselor's office, the airport risks losing revenues because of uncollectable accounts. With more timely collection efforts the airport could minimize the amount of lost revenue caused by uncollectable accounts.

C. The airport does not thoroughly review its tenant and cash customer listings to ensure the listings are complete and include all appropriate clients. This lack of review has possibly resulted in some fees not being fully billed and/or collected. For example, the airport has entered into an agreement with a vendor for the operation of the east terminal. Included in this agreement is the requirement that the vendor is to collect certain fees, including landing fees, aircraft parking fees, remain overnight fees, etc. These fees are to be collected only from all aircraft operators who are not currently listed on the tenant listing as having an agreement with the city for use of the airport and from operators which the city has designated in writing to be on a cash basis.

Our review indicated that the airport had improperly included one of its cash customers on the tenant listing instead of the cash listing. As a result, the operator did not collect landing fees from this customer; nor did the airport bill this customer since they did not have a contract and, thus, no billing instructions. This situation continued undetected for several months until brought to the airport's attention through a notice that the airport was listed as a creditor in the company's bankruptcy petition. At this time the airport billed the company for the current amount, deleted the name from the tenant listing, and added the name to the cash listing.

Without proper review of the tenant and cash listings, it is impossible for the airport to assure itself that all landing fees, aircraft parking fees, and other fees are being properly billed and/or collected.

D. In August 1987, the airport replaced a manual system with a automated system to maintain billing, receipts journal, adjustment journal, accounts receivable, and aged trial balance records. Upon implementation of the automated system, the only portion of the manual system retained was the manual receipts ledger. Duplicate manual records were not maintained during the automated system's start-up period to backup and ensure the validity of the automated records. In addition, monthly reconciliations between the manual subsidiary and control ledgers were discontinued. No similar reconciliations of the automated records have been performed. Reconciliations between the manual receipts log and the automated billings and adjustments, and the aged trial balance are necessary to ensure all payments received, and all billings and adjustments made, have been properly posted and that the accounts receivable balance presented is accurate.

WE RECOMMEND the SLIA:

A. Assess late fees on all late payments in accordance with contract terms.

B. Implement procedures for more timely follow-up on overdue accounts and the documentation thereof.

C. Ensure that all fees are being appropriately billed and/or collected by periodically reviewing tenant and cash listings.

D. Perform periodic reconciliations between cash receipts, billings, adjustments, and accounts receivable records.

AUDITEE'S RESPONSE

A. We do not concur with the recommendation. Administrative policy does not support the use of this option of the contract except under extreme circumstances of late payments.

B. We concur with the recommendation. Computer generated statements are sent to all overdue accounts on a periodic basis. Procedures have been established to document the files for all telephone and direct mail contacts.

C. We concur with the recommendation. This function is performed by an Account Clerk prior to printing the invoices, it is reviewed by the Accounting Manager prior to posting the revenue and on a periodic basis by review of the master listing of tenants and the revenue history files. Periodic review is also done by the Chief Cost Accountant in the analysis of rates and charges.

D. We concur with the recommendation. Periodic reconciliations are done under the direction of an Accounting Manager, between cash receipts, billings, adjustments to revenue, and the accounts receivable records.

8. <u>Relocation Assistance Program Rent Collection Procedures</u>

The SLIA offers a Relocation Assistance Program to all individuals, families, owners of businesses, farm operators, and not-for-profit organizations who are either partially or totally displaced by an airport acquisition project. The airport acquisition project is 80 percent funded by federal grants and, thus, the airport must follow rules and regulations set forth by the federal government. The projects involve buying out surrounding properties affected by aircraft noise. When the airport acquires the property, they can rent the property to the former owner or tenant for a period of time, subject to termination on short notice. According to federal guidelines the airport must:

Establish fair rental for the property on the basis of a uniformly applied rental policy.

Prepare rental agreements. When preparing the agreement the sponsor is encouraged to grant a free rent period of ninety days.

Supervise property and rental collections throughout the term of the lease.

During our review of properties acquired through the Acquisition and Relocation Program and, subsequently, rented by the displaced occupants, we noted several weaknesses involving rent assessment notification, rental agreements, and rent collection procedures.

A. The former owners and tenants of the acquired property are normally given ninety days from the closing date to vacate the premises. If the tenant does not vacate on or before the designated date, it is the airport's responsibility to assess and collect rent from the occupants. The federal guidelines, as outlined above, require that a formal rent agreement be entered into by the occupant and the airport. Fourteen out of sixteen parcel files tested, where the occupant had not vacated by the appropriate time, did not contain rental agreements. Without written agreements, the airport is not adequately prepared to enforce standard rental practices including assessment and collection of rents.

B. Twelve of thirty-one parcel files we tested did not contain documentation indicating rent was to be assessed on the properties and that notice of the impending rent was sent to the occupants. Without notifying the occupant that they will be obligated to pay rent ninety days after notice to vacate, the airport's ability to effectively and efficiently collect rents decreases. In addition, without being assessed rents, the occupants have no incentive to vacate quickly. This inhibits the airport's ability to redevelop and reutilize the property in a timely manner.

C. Proper rental fees have not been fully collected. A limited review of nine acquired properties temporarily occupied by former owners or tenants showed five properties on which the correct amount of rent had not been fully collected. The amount of lost rents on these five properties amounted to approximately $9,330, and was due primarily to the lack of adequate follow-up on delinquent payments.

The airport Accounting Section sends out monthly notices of rent due; however, a delinquent notice is not sent until the rent is ninety days past due. The airport can withhold past due rents from relocation payments, but only to the extent that it will not effect the occupants ability to relocate. However, since the occupants remain in the property temporarily and the airport does not send out delinquent notices on a timely basis, most relocation payments are made to the occupant before the disbursing agent is notified of the delinquent rent. This results in lost revenue. As of August 1988, the airport records indicated $16,441 in delinquent rents. Furthermore, this total does not include any rent checks that have been dishonored by the bank and not collected. (See MAR No. 13.)

WE RECOMMEND the SLIA:

A. Ensure that rental agreements are used in accordance with federal guidelines.

B. Ensure that occupants are notified in writing of rental obligations at the start of the ninety day vacate period and that documentation of this notification is maintained in the file.

C. Ensure that rents are collected in a timely manner to avoid the accumulation of late and lost rents. In the event of delinquent rents, ensure that delinquent notices are sent out in a timely manner, and unpaid rents are withheld from the occupants final relocation payment, if applicable.

AUDITEE'S RESPONSE

A. We concur with the recommendation. FAA guidelines (not regulations) do discuss the appropriateness of a written rental agreement, but the guidelines do not determine reimbursement eligibility. FAA regulations determine eligibility, therefore, there is no risk of loss of federal reimbursement since we are in full compliance with FAA regulations.

B. We concur. However, with the new computer automation of land acquisition files, at the end of the 90-day period airport accounting is automatically notified by the Land Use Manager to begin billing tenants for the monthly rents. It should also be noted that a rental agreement form is sent with the notice to vacate letter, telling the resident what the rent amount will be if they stay past the 90-day period and if they plan on entering the rental option they should sign the rental agreement and send it back for our files. Some people fail to return the rental form, but we still notify accounting to begin billing after 90 days.

C. We concur with the recommendation. A change in the federal regulations dated February 27, 1986, permits the distribution of unpaid rents from relocation benefits. This, coupled with our new data automation system, has been effective in collecting unpaid rents lately. However, the legal collection enforcement rests with the City Counselor's office not the airport. We presently send delinquent rent notices after rent is ninety days past due, but effective immediately, notices will be sent after sixty days past due.

9. **Parking Management Services**

The city of St. Louis has entered into a management agreement with Diamond Parking, Inc., (operator) for the operation of public parking facilities at the SLIA. The agreement covers three years beginning May 1, 1987, with options for two, one-year extensions. During our review of this agreement we found the following problems concerning expenditures by the operator, bond coverage, and complimentary parking cards:

A. According to section 405 of the contract "Operator shall procure and pay for all supplies and equipment approved in the annual operating budget. The costs of such supplies and equipment shall be reimbursed to the Operator by the City. . . ."

Monthly, the operator submits invoices to the airport Audit Section, and these invoices are reviewed. A scan of the invoices revealed the following:

1) Sales tax was paid on several of the invoices. Our review of a four-month period showed the following taxes paid:

Month and Year	Sales Tax Paid Per Invoice
December 1987	$ 1,124
January 1988	2,357
February 1988	1,952
March 1988	1,295

The city reimbursed an average of $1,682 per month in sales tax during this four-month period. The city is exempt from paying sales tax but the operator, as a private enterprise, is not. Thus the contract terms which require the operator to make the initial purchases, and the city to reimburse them, results in the unnecessary payment of sales tax.

2) In addition to sales tax, the current contract arrangement results in SLIA paying more than is necessary for supply items.

The operator purchased several items that could have been purchased through city contract for significantly less. The following are several examples:

Product	City Contract Price	Amount Paid
Pine-Oil disinfectant	$ 2.30/gal.	9.00/gal.
Mophandle	2.43 each	5.15 each
D cell batteries	.19	.25
Rubber bands	1.32/1 lb. box	3.15/1 lb. box
Stapler full strip	3.76 each	10.46 each
Brute mop wringer	24.19 each	68.35 each

3) Furthermore the contract states:

"Operator shall pay all costs and expenses connected with its operations hereunder when due. Operator shall submit to City an itemized statement of all approved expenses incurred and paid in the operation of the Facilities on or before the 15th day of each month for the previous month of operation. Said statement shall be accompanied by such proof of disbursements as City may from time to time require."

A review of invoices submitted for reimbursement revealed that many invoices were not detailed enough to ensure the expense was for operation of airport facilities. For example, an invoice for car maintenance did not indicate for which car the repairs were performed. Also, one invoice indicated the operator had purchased a three year supply of paper clips at 5 cents per clip. Without proper review the airport cannot ensure that reimbursed expenses are necessary and/or reasonable.

By amending the contract to have the airport purchase all items and have the operator requisition items as needed from the airport, those problems noted above could be alleviated, and the airport could experience significant cost savings.

B. Upon employment, airport employees are given a card that allows free access to the bottom floor of the parking garage. The airport has issued similar parking cards to people other than airport employees at no charge. In addition, the airport issues "VIP" cards that allow the card holder to park anywhere in the garage and have their ticket validated, thus avoiding a parking charge. The SLIA personnel stated the assignment of these cards was made at the direction of the Mayor's office and was not subject to their control.

As of August 1988, the airport had 202 "VIP" cards issued to nonemployees for which no fees were charged. In contrast, the operator issued approximately 13 "VIP" cards to corporations and charged $65 per card. Several instances were noted where people had been assigned both parking spaces and one or more "VIP" cards.

The operator has attempted to track the amount of possible lost revenue. Per our review of these records, the estimated average monthly revenue lost during the sixteen-month period ended July 31, 1988, from the use of cards issued to nonemployees was $8,546. This estimate appears to be conservative.

While there may be intangible benefits to assigning parking spaces and issuing "VIP" cards to nonemployees, economic benefits were not quantifiable. The airport should monitor and quantify the costs related to providing these services. This information should be made available to, and used by, the decision-making authority to ensure that any benefits derived from cards' issuance outweigh the related amount of lost revenues.

<u>WE RECOMMEND</u> the SLIA:

A. Consider changing future contracts to have the airport personnel purchase all supplies and at a minimum review all invoices for unnecessary purchases.

B. Begin monitoring the usage of free and "VIP" parking cards, evaluate the cost versus the benefits, and take appropriate action.

<u>AUDITEE'S RESPONSE</u>

A. Although we concur with the recommendation, the present contract does not allow such change unless the operator is in agreement. We will attempt to implement this modification in future agreements. The airport's internal audit staff has for years been reviewing invoices for unnecessary purchases.

B. The airport does monitor the usage of "VIP" cards and on several occasions has invalidated such cards because of abuse. The usage and issuance of "VIP" cards was an item of discussion before this audit. The policy has been reviewed and the airport has discontinued the practice of issuing "VIP" parking cards.

10. <u>Review of Field Usage Reports</u>

A. Airport Terminal Services (ATS) provides terminal and cargo aircraft fueling, maintenance, and other services to the SLIA. The ATS is a wholly owned subsidiary of Midcoast, which provides similar services to general aviation aircraft. It appears the ATS has improperly exempted fuel sales to military customers when collecting and remitting fuel flowage fees to the airport.

Based on Section 312 of the lease agreement (cargo area), and Section 306 of the operating agreement (East Terminal), the ATS is to collect and pay to the city a specified fuel flowage fee for each gallon of aviation gasoline and fuel delivered to the ATS or its premises. The ATS may exempt each gallon of aviation gasoline and fuel subsequently sold to aircraft operators who have an airport use agreement with the city. They may also exempt a 3 percent shrinkage factor. To comply with these sections of the agreements, the ATS sends the airport a monthly field usage report. The monthly field usage report details how the fuel flowage fee is calculated for that particular month.

During our review of the monthly field usage reports, it was discovered that ATS was exempting fuel sales to military customers from its monthly fuel purchases. This resulted in the proper fuel flowage fee not being collected from the military even though the airport did not list the military as an exempt customer. While the ATS had an agreement with the federal government to exempt military fuel sales, this agreement was not approved or endorsed by the Airport Commission.

The improper exclusion of military fuel sales by the ATS resulted in uncollected fuel flowage fees, for the period of March 1986 to November 1988, of approximately $48,501.

B. Invoices are not reviewed for accuracy or compliance before credit is given. In addition to the improper exemption of military fuel sales noted above, during the review, we also noted that exempted military fuel sales reported by the ATS included amounts from both the ATS and Midcoast. Midcoast did not separately report its military sales, even though the ATS and Midcoast each maintain separate contracts with the airport. Airport personnel were unaware of the improper exemption and the combined reporting until we brought it to their attention.

To ensure the airport is receiving all appropriate revenues, all invoices should be fully reviewed for accuracy and contractual compliance.

<u>WE RECOMMEND</u> the SLIA:

A.1. Either obtain an agreement with the federal government to exempt military fuel sales and amend the exempt customer listing, or ensure that the ATS begins collecting the proper fuel flowage fee.

2. Seek payment from military customers or ATS for previous fuel sales fees which were improperly exempted.

B. Review monthly field usage reports and invoices for accuracy and completeness. In addition, either amend the contracts with the ATS and Midcoast so that they can combine the reporting of military fuel sales, or disallow the reporting practice.

<u>AUDITEE'S RESPONSE</u>

A.1. We concur with the recommendation. The military was not given an exemption by the airport authority, and all those with an exemption are on a list given to ATS. We have subsequently written to ATS and the fixed base operators advising them that the federal government is not exempt from paying the fuel flowage fees. The military is now paying the fees, through ATS.

2. We concur with the recommendation and we are pursuing the collecting of these fees.

B. Monthly field usage reports are currently reviewed for accuracy and completeness. After reviewing our records we failed to find instances wherein ATS reports included military fuel sales pertaining to Midcoast. They have historically reported their sales on separate reports.

11. Contract Changes

Our review of various construction contracts revealed that the SLIA does not evaluate contract modifications (change orders) for proper bidding procedures. According to airport personnel, at the time the airport determines a project needs to be done, they will ask the contractors currently doing construction work on airport facilities, to submit estimates on the work proposed to be done. The estimates are then reviewed by the Engineering and Planning Section, to determine if the estimates are reasonable. Reasonableness was determined by using national statistics and industry standards. If the Engineering and Planning Section does not have the experience or technical expertise, the estimates are reviewed by a construction estimator, for reasonableness. If the work is determined to be fairly priced, a change order is then brought to the Airport Commission for approval. The Airport Commission then reviews and debates the change order. After the change order is reviewed and debated, the commission either approves or disapproves the change order.

During our limited review of construction contracts we noted instances of several change orders and modification being made to contracts. Seven contracts were reviewed and six of the seven contracts had change orders added to the contract. The number of change orders ranged from one to thirty-six per contract and dollar changes ranged from $41,760 to $3,649,074 per contract. In most instances these changes were documented as a change in contract scope.

Documentation was not available to determine the cost effectiveness of issuing a change order versus soliciting proposals for the proposed project. Without the utilization of competitive procedures or noting the reason for deviating from these procedures, it is impossible for the airport to determine if they have paid the lowest price for the project. In addition, Article XXII, Section 4 of the City Charter requires all public works projects to be competitively awarded by the Board of Public Service. To the extent any of these change orders constitute new contracts, the airport has violated this requirement.

WE RECOMMEND the SLIA evaluate and document each prospective construction project (change order) and request Board of Public Service approval for all significant change orders.

AUDITEE'S RESPONSE

We concur with the recommendation. The Airport Commission and the Board of Public Service presently approve all change orders which are countersigned by the City Comptroller. It should also be added that we have historically reviewed needed construction to determine whether it should be accomplished through the change order process or by competitive bid. We did not have a written procedure to document this analysis. Such a procedure has now been implemented. In addition, in the "Reason for Work" section on change orders, we now include such explanation.

12. Data Processing Controls

The SLIA began utilizing a computer system in August 1987 for billings, receipts, adjustments to accounts receivable and the generation of aged trial balances. The airport contracts with an outside firm for software and software changes that are necessary; however, all entries and adjustments are made by the airport's Accounting Section. Our review of the established controls revealed the following deficiencies:

A. There is no independent review of adjustments made to the accounts receivable. In addition, sufficient supporting documentation indicating proper authorization, reasons for adjustments, or who made the adjustments is not maintained. Airport personnel stated only two individuals are authorized to make these adjustments to the accounts. However, as noted below, there is unlimited access to the computer for anyone in the office to make adjustments to the accounts. Without limited access and/or independent review of adjustments made, it is impossible to ensure only necessary and reasonable adjustments are made and that account balances are accurate.

B. Our review of the user passwords revealed that several people use the same password and that these passwords were not unique and meaningless. Passwords should be unique and known only to the persons who are specifically authorized to access the particular program or system and also meaningless in that it should not be easy for nonauthorized persons to guess the password. User identifications (IDs) and passwords are a key element in the security and integrity of an application system. These IDs and passwords not only limit access to systems, they establish accountability by providing the ability to trace input transactions back to specific individuals. For sensitive transactions it is essential that the system provide a means to establish accountability. The lack of standards for password development leads to poor passwords which weakens system security. As noted above, one of the primary controls provided by the use of user passwords is the ability to assign specific responsibility. Multiple users with the same password defeats this control.

WE RECOMMEND the SLIA:

A.1. Limit access to the system to make adjustments and assign someone independent to review adjustments made for propriety.

2. Require written approval before making adjustments and retain adequate supporting documentation.

B.1. Establish and enforce standards for password development which require passwords to be unique and meaningless.

2. Discontinue the use of group passwords.

AUDITEE'S RESPONSE

A.1. We concur with the recommendation. An Accounting Manager I is the only individual with access to the accounts receivable system with rights to adjust accounts. All adjustments to accounts receivable are documented automatically by the accounting system. The Accounting Manager II approves all adjustments to accounts receivable. The Assistant Director of Finance approves all bad debt write offs and contractual adjustments and/or credits.

2. We concur with the recommendation. Written approval is obtained for all adjustments and the records are retained in the accounts receivable files.

B.1. We concur with the recommendation. Unique passwords are set by individuals for all files with limited access. To reduce the possibility of other personnel learning passwords, the system has been programmed to require a change in passwords every thirty days.

2. We concur with the recommendation. Group passwords have been discontinued for all files with limited access. Group passwords are used for the sharing of nonsensitive data files.

13. Bad Check Policy

The airport does not have a formal policy to pursue collection of nonsufficient funds (NSF) checks returned to them. The Accounting Section verbally notifies the appropriate program that a check received for their particular program has been dishonored and it is up to them to pursue collection. However, there is no documentation to indicate if notification was given, who gave it, or when. As of July 13, 1988, the total amount of NSF checks on hand was:

Year Check was Dishonored	No.	Amount
1981	1	$ 1,240
1985	4	337
1986	11	1,243
1987	10	1,780
1988	7	673
Indeterminable	1	10
Total	34	$ 5284

Six of the thirty-four NSF checks relate to monthly parking customers. Five of those six still have active parking cards and it appears that the airport has made no attempt to collect this money from the individual since they are still accepting payment for current fees and not requiring payment for the NSF check. (See MAR No. 4.)

Eleven of the thirty-four NSF checks relate to rent payments in the Noise Abatement Program. (See MAR No. 8.) Four of these eleven checks were from the same person. If the Noise Abatement Program is informed in a timely manner they could deduct the amount of the NSF checks from the final payment that the resident is entitled to under the program.

Moreover, the airport does not maintain an overall list of NSF checks, thus we could not determine the full extent of NSF checks. Without proper documentation of NSF checks, the airport cannot determine the full extent of the problem nor can they monitor the collection of these amounts in a timely manner.

The airport should develop a policy to ensure that the collection of NSF checks is fully pursued. This policy should include who is responsible for maintaining lists of NSF checks and documenting all actions taken. The policy should also include a timetable for the various steps of collection including when to notify the appropriate program personnel, when to send notices to the individual, and when to turn collection over to the City Counselor's office. In addition, it should establish what documentation is required for each of these steps.

WE RECOMMEND the SLIA establish policies and procedures regarding the collection of NSF checks, including turning uncollected checks over to the City Counselor's office in a timely manner.

AUDITEE'S RESPONSE

We concur with the recommendation. We have established policies and procedures on the processing of NSF. Procedures require the notification of the appropriate sections to ensure all transactions with the issuer of the NSF check will cease, pending replacement of the funds. All NSF checks not covered within thirty days are turned over to the City Counselor.

14. Petty Cash

The SLIA maintains an imprest petty cash fund balance of $1,570. Typically, these monies are expended for low dollar emergency purchases. All expenditures in excess of $5 must be approved by the fiscal officer. Petty cash expenditures from April 1986 through May 1988 totaled $7,412 and ranged from a low of $58 in May 1988 to a high of $539 in June 1986.

Expenditures from the fund averaged $285 per month and during only six of the twenty-six months reviewed did the expenditures exceed $325. Thus, it appears the balance of the imprest petty cash fund is unnecessarily high. Although our review noted no unreasonable expenditures, and cash on hand plus vouchers reconciled to the imprest balance, maintaining unnecessarily high cash balances increases the risk of loss, theft, or misuse of funds.

WE RECOMMEND the SLIA review the balance and requirements of the petty cash fund and establish a more reasonable imprest balance.

AUDITEE'S RESPONSE

We concur with the recommendation. A review of the petty cash fund was made and the amount reduced by $570.

15. Operating Expenditures

A. The airport does not have a written policy establishing what types of entertainment expenditures are necessary and reasonable for the operation of the airport. The Airport Commission has various functions catered by the otherwise contracted food service concessionaire. Invoices dated May 1987 through June 1988 for this particular vendor total approximately $9,200. Of that total, approximately $800 appears to be for alcoholic beverages. One invoice, in particular, amounted to $2,553 and did not indicate the function served. The invoice did indicate that $480 was for alcoholic beverages and $250 was for an ice carving. Airport personnel stated this particular invoice was for the Christmas party for the airport commissioners. Several other invoices were noted that did not indicate the purpose of the expenditure; thus, it was not possible to determine if the expenditure was incurred for the benefit of the airport. According to the fiscal officer, all invoices for food services (catering) are given to the Director of the airport for his approval and are not reviewed by any other airport personnel. To ensure that only expenditures which are reasonable and directly necessary for the operation of the airport are made, the airport needs to establish guidelines for determining whether items are reasonable and necessary. In addition, the purpose, reason, and necessity of the expenditure should be noted on the invoice.

B. We noted several instances where the airport was paying sales tax on their purchases. This is an unnecessary expense since the airport, as a governmental entity, is exempt from paying sales tax.

All invoices should be reviewed for propriety, necessity, and reasonableness before payment is made. Without proper review the airport could be paying for unreasonable and unnecessary expenses.

WE RECOMMEND the SLIA:

A. Develop a policy establishing what types of entertainment expenses are necessary and reasonable for the operation of the airport and document the purpose, reason, and necessity on each invoice.

B. Thoroughly review all invoices and discontinue paying sales tax on purchases made.

AUDITEE'S RESPONSE

A. We concur with the recommendation. A policy has been developed whereby all entertainment expenses are approved by the director and are limited to expenses related to the airport commissioners or other high level meetings. The purpose and reason is noted on the invoice and approved by the Director prior to processing for payment.

B. We concur with the recommendation. We review all invoices for sales tax. When sales tax is added we do not pay the sales tax, and send the vendor a copy of our sales tax exemption letter and number, so the vendor can support the exclusion of sales tax to the state.

16. <u>Inventory Controls</u>

As an enterprise fund of the city, the SLIA does not use the city's centralized fixed asset accounting system. Our review of the airport's independently established fixed asset controls revealed the following concerns:

A. The airport maintains a property ledger which lists those items purchased for over $10,000. However, the airport does not maintain a formal listing of those items purchased under $10,000, except for a listing of all vehicles which is maintained by the Automotive Shop Foreman. In addition, an independent review of the listing to ensure that it is complete and accurate is not performed.

   The airport owns many assets which fall under the $10,000 cutoff and are thus not included on the property ledger. Examples of these include office furniture and equipment, computers and their peripheral equipment, maintenance equipment and tools, etc. These types of items are generally more portable than items costing over $10,000 and are more susceptible to loss or theft.

   Property ledgers are kept not only to establish financial information regarding fixed assets but also to establish a control record of assets owned. This control record should be verified by periodic independent physical counts to ensure that it is complete and to identify any items which may have been lost or stolen.

B. The airport capitalizes property costing over $10,000 on a quarterly basis. However, the airport does not have a written policy regarding the capitalization of property. Without a written policy, the airport has less assurance that expenditures are properly and consistently capitalized.

C. The following problems exist concerning the physical control over assets:

   1) Property items are not numbered and tagged as a means of identifying the property. In order for similar items contained on the property ledger to be separately identifiable and verifiable, both on the ledger and during physical counts, each item should be tagged as property of the airport, sequential numbers should be assigned to each item, and these numbers should be recorded on the property ledger.

   2) A periodic inventory of all airport property is not conducted. Periodic inventories would help to identify possible misplaced or stolen assets, and to ensure the accuracy of inventory records.

   3) The date and means of property dispositions are not recorded on the property control listing and independent, written

authorization is not obtained for all property disposals. To ensure that all disposals are proper, written authorization by an appropriate official should be documented. Property ledgers should reflect the circumstances surrounding the disposal to alleviate any questions arising during subsequent physical counts.

Adequate fixed asset records, consistent capitalization methods, and verification through periodic physical counts, are necessary to ensure strong internal controls, to safeguard assets, and to provide a basis for determining proper insurance coverage.

WE RECOMMEND the SLIA:

A. Implement procedures to ensure all appropriate fixed asset purchases are properly documented in the inventory records.

B. Establish a written policy regarding capitalization of assets to ensure that capitalization is done on a uniform basis.

C.1. Properly number and tag appropriate airport property.

2. Perform periodic inventories and investigate any discrepancies.

3. Require appropriate written authorization for disposals and develop a standard format for reporting and recording asset dispositions.

AUDITEE'S RESPONSE

A. We concur with the recommendation. This is done by a complete analysis of all purchases of equipment and of all special purpose accounts to identify fixed asset acquisitions. This is done by accountants and reviewed by an Accounting Manager. The data are cross-checked with the equipment budget to follow-up on all open items.

B. We concur with the recommendation. During the 1989-90 fiscal year, we are implementing a fixed asset accounting module in our automated accounting system. During implementation, written policies and procedures will be developed and staff training done to ensure capitalization continues to be done on a uniform basis.

C.1. We concur with the recommendation to properly number and tag appropriate airport property. Property that has a unique serial number will not be tagged; however, the number will be included in the fixed asset system to ensure positive identification.

2. We concur with the recommendation. The new position of materials manager has been created by the Civil Service Commission and an individual has been certified and hired. That individual has taken a complete inventory of all supplies, materials, and motor vehicles, and periodic inventories will be taken on a regular basis. All discrepancies from the perpetual inventory will be investigated.

3. We concur with the recommendation. Under the direction of the materials manager, written authorization is obtained from the director for all requests for disposal, then they are processed per the City Charter through the City Supply Commissioner's office.

17. Supplies Inventory

The SLIA does not have perpetual inventory records of general supplies nor does it perform periodic physical inventory counts. The airport purchases approximately $1,440,000 per year in general supplies. These various office and automotive supplies are maintained as inventory by the Stores Section until requisitioned by airport employees as needed. While these supplies are kept in a supply room, any employee of the Stores Section has access to that room. This lack of physical controls emphasizes the need for perpetual records and verification of those records through periodic physical counts.

Without detailed inventory listings that include the description, quantity, and price, and periodic physical inventory counts performed or supervised by someone independent of the record-keeping and custodial functions, a significant measure of control is lost over these inventories. Without these controls it is impossible for the airport to determine whether supplies have been properly reported and accounted for. These controls are also helpful in detecting loss or theft.

WE RECOMMEND the SLIA require a perpetual inventory listing be maintained including quantity, description, and dollar amount. In addition, we recommend periodic inventory counts be performed or supervised by an individual independent of custodial and record-keeping functions.

AUDITEE'S RESPONSE

We concur with the recommendation. Under the direction of the Materials Manager a perpetual inventory has been established using the inventory module of the automated accounting system. This listing includes the quantity, description, and dollar value of the inventory. The inventory counts are supervised by the Materials Manager with assistance and direction of the Accounting Manager II.

APPENDICES

Appendix A

LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT
CITY OF ST. LOUIS, MISSOURI
BALANCE SHEET
JUNE 30, 1988, AND MARCH 31, 1987

	June 30, 1988	March 31, 1987
ASSETS		
Unrestricted assets:		
Cash and investments, at cost	$ 4,841,816	5,473,721
Accounts receivable (less $200,000 allowance for doubtful accounts)	5,594,238	5,974,513
Accrued interest receivable	2,325,535	940,706
Prepaid expenses and other assets	417,144	186,601
Total Unrestricted Assets	13,178,733	12,575,541
Restricted assets:		
Cash and investments, at cost	125,844,898	75,253,135
Government grants receivable	6,754,236	-0-
Total Restricted Assets	132,599,134	75,253,135
Property, plant, and equipment:		
Pavings	144,287,182	130,667,377
Buildings and facilities	179,639,802	174,594,939
Equipment	12,064,854	9,873,415
Total	335,991,838	315,135,731
Less accumulated depreciation	(114,966,130)	(98,041,573)
	221,025,708	217,094,158
Land	76,273,623	62,950,687
Construction-in-progress	2,863,608	2,387,518
Total	300,162,939	282,432,363
Deferred bond issue costs less accumulated amortization (1988-$2,544,824; 1987-$1,725,170)	6,654,809	6,020,827
Total Assets	$ 452,595,615	376,281,866
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Payable from unrestricted assets -		
Accounts payable and accrued expenses	$ 3,716,305	3,275,222
Due to city of St. Louis	1,237,701	1,655,074
Total	4,954,006	4,930,296
Payable from restricted assets:		
Contracts and retainage payable	2,075,843	1,947,518
Accrued interest payable	9,053,522	3,651,619
Current maturities of revenue bonds payable	6,675,000	5,035,000
Total	17,804,365	10,634,137
Long-term debt:		
Revenue bonds payable	192,705,000	147,380,000
Less unamortized discount	(2,536,028)	(2,489,924)
Total	190,168,972	144,890,076
Total Liabilities	212,927,343	160,454,509
Fund equity:		
Government grants and other aid	89,489,429	75,031,809
Capital contributions of the city of St. Louis	24,044,554	24,044,554
Retained earnings	126,134,289	116,750,994
Total Fund Equity	239,668,272	215,827,357
Total Liabilities and Fund Equity	$ 452,595,615	376,281,866

Appendix B

LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT
CITY OF ST. LOUIS, MISSOURI
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES

	Year Ended June 30, 1988*	Year Ended March 31, 1987
OPERATING REVENUES		
Aviation revenues:		
Revenues from signatory airlines -		
Airfield	$ 21,840,114	15,192,138
Terminal and concourses	15,545,428	11,736,309
Hangars and other buildings	554,483	451,618
Cargo buildings	2,598,010	2,337,230
Other aviation revenues	3,625,854	3,054,929
Concessions	22,401,275	16,805,536
Other revenues	1,633,043	1,195,228
Total Operating Revenues	68,198,207	50,772,988
OPERATING EXPENSES		
General and administrative	10,700,138	7,054,136
Maintenance	11,638,044	8,627,189
Utilities	5,301,183	3,965,259
Crash, fire, and rescue	3,166,552	2,606,804
Custodial	1,739,452	1,313,921
Security	2,543,178	1,967,845
Depreciation:		
Noncontributed assets	12,724,346	9,024,771
Contributed assets	4,200,700	3,114,785
Total Operating Expenses	52,013,593	37,674,710
Income from Operations	16,184,614	13,098,278
NONOPERATING REVENUES (EXPENSES)		
Interest income before capitalization	10,267,783	4,890,469
Interest expense before capitalization	(21,721,354)	(14,929,152)
Interest capitalization	290,222	105,076
Miscellaneous income	161,330	63,611
Total Nonoperating Revenues (Expenses)	(11,002,019)	(9,869,996)
Income before Extraordinary Gain	5,182,595	3,228,282
Extraordinary gain on early extinquishment of debt	-0-	-0-
Net Income	$ 5,182,595	3,228,282

* City of St. Louis changed their reporting period to a June 30 year ending. Therefore, for the first year of the change the Lambert-St. Louis International Airport's Statement of Revenues and Expenditures will reflect fifteen months.

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