

**OFFICES OF THE
STATE AUDITOR OF MISSOURI
JEFFERSON CITY**

**VARIOUS MISCELLANEOUS CITY AGENCIES
AND QUASI-GOVERNMENTAL ENTITIES**

CITY OF ST. LOUIS, MISSOURI

YEAR ENDED JUNE 30, 1988

MARGARET KELLY, CPA



Report No. 90-59
June 20, 1990

VARIOUS MISCELLANEOUS CITY AGENCIES
AND QUASI-GOVERNMENTAL ENTITIES
CITY OF ST. LOUIS, MISSOURI

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STATE AUDITOR OF MISSOURI

JEFFERSON CITY, MISSOURI 65102

MARGARET KELLY, CPA
STATE AUDITOR

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Honorable Vincent C. Schoemehl Jr., Mayor
City of St. Louis

The State Auditor was petitioned under Section 29.230, RSMo 1986, to perform an audit of the city of St. Louis, Missouri. Accordingly, we have conducted a review of the various miscellaneous city agencies and quasi-governmental entities of the city of St. Louis, as identified in the History and Organization section of this report, for the year ended June 30, 1988. The purposes of our review were to:

1. Study each of the agencies and entities listed in the History and Organization to determine their relationship and extent of financial interdependency with the city of St. Louis.
2. Study and evaluate various general controls of the agencies and entities.
3. Perform a limited review of certain management practices to determine the efficiency and effectiveness of those practices.
4. Review probable compliance with certain constitutional provisions, statutes, administrative rules, attorney general's opinion, and city ordinances as we deemed necessary or appropriate.
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. As deemed appropriate, we inspected relevant records and reports maintained by the various miscellaneous city agencies and quasi-governmental entities and held discussions with their personnel.

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

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

A handwritten signature in cursive script, reading "Margaret Kelly". The signature is written in black ink and is positioned above the printed name and title.

Margaret Kelly, CPA
State Auditor

December 18, 1989

HISTORY AND ORGANIZATION

VARIOUS MISCELLANEOUS CITY AGENCIES
AND QUASI-GOVERNMENTAL ENTITIES
CITY OF ST. LOUIS, MISSOURI
HISTORY AND ORGANIZATION

The city of St. Louis has either established, utilizes, or cooperates with various miscellaneous city agencies, commissions, and quasi-governmental entities to provide programs and services to its citizens. As part of our review of the city of St. Louis, we reviewed these city agencies, commissions, and quasi-governmental entities to determine whether they were active or inactive, and their relationship with, and financial interdependency on, the city. Following is a list of entities which we identified and studied during this review:

City Emergency Management Agency: This city agency is established under City Code, Chapter 3.40 and Chapter 44, RSMo. It is assigned the task of developing, implementing, and coordinating overall plans of action to deal with various crisis and disaster situations. Its activities are funded through a combination of city appropriations and federal grants.

Civil Rights Enforcement Agency: This city agency is established under City Code, Chapter 3.44. It is responsible for monitoring compliance with, and enforcing, various parts of the Civil Rights Act of 1964. This includes monitoring for instances of employment and housing discrimination. Its activities are funded through a combination of city appropriations and federal grants.

Commission on Crime and Law Enforcement: This commission is established under City Code, Chapter 3.66. It is responsible for identifying overall city crime problems and coordinating the efforts of various departments and agencies to deal with these problems. Its activities are funded through a combination of city appropriations and federal grants.

Research and Information Center: This city agency works with other city agencies to develop and design computer specifications and to help evaluate computer vendor proposals to determine if the agency is purchasing the equipment it needs. Its activities are funded through city appropriations.

Soldier's Memorial Building: This city agency is established under City Code, Chapter 3.56. It is a war memorial and museum with various office spaces, meeting rooms, and auditoriums which are rented to individuals and organizations. Its activities are funded through a combination of city appropriations and self-generated revenues.

Convention and Tourism Bureau: This three-member commission is established under City Code, Chapter 3.64. It is charged with supporting promotional activities which set forth the advantages of St. Louis as a vacation, tourism, and convention city. These activities are funded through the city's portion of the convention and tourism tax.

Operation Brightside: This not-for-profit corporation is established to organize and promote various beautification projects within the city. Its activities are funded through a combination of fund-raising projects, federal grants (through the Community Development Agency) and self-generated revenues.

Operation Safestreet: This not-for-profit corporation is established primarily to help victims of crime and to increase citizen awareness of crime prevention measures. Its activities are funded through a combination of federal grants (through the Community Development Agency) and self-generated revenues.

Operation Impact: This not-for-profit corporation is established to identify and acquire run down or abandoned properties for future development and reutilization. Its activities are funded through a combination of Community Development Agency grant funds and revolving loan funds from the Missouri Housing Development Commission.

Business Assistance Center: This agency acts as a liaison between the business community and various city agencies and departments. They help coordinate the application for licenses and permits, among other things. Its activities are funded by a federal grant through the Community Development Agency.

Economic Development Corporation: This is a not-for-profit corporation which provides administrative services to the Business Assistance Center, Land Clearance for Redevelopment Authority, Land Reutilization Authority, Industrial Development Authority, and the Port Authority. The entity was designed to provide centralized administrative services, thereby reducing duplication of effort, and to coordinate the interrelated activities of these organizations. The entity is funded through Community Development Agency grants and costs billed to the various member agencies listed above.

St. Louis Local Development Company: This not-for-profit corporation acts as a liaison between the business community and the Small Business Administration. Its activities are funded through a combination of Community Development Agency grant funds and charges for services.

Community Development Agency: This city agency is established under City Code, Chapter 3.40. It is designated as the official development planning agency for the city and is responsible for developing and implementing an overall development plan and overseeing the activities of various other quasi-governmental entities. Its activities are funded through a combination of direct city appropriations and administrative portions of federal pass-through monies.

Land Clearance for Redevelopment Authority: This quasi-governmental entity is established under the authority of Chapter 99, RSMo. This entity is responsible for acquiring blighted and insanitary areas and property and to sell, lease, develop, or rehabilitate these areas for return to public use. They are empowered to issue bonds to encourage development. Its activities are funded through a combination of Community Development Agency grant funds and self-generated revenues.

Land Reutilization Authority: This quasi-governmental entity is established under the authority of Chapter 92, RSMo. This entity is responsible for taking control of tax delinquent properties which fail to be sold at land tax sales. They either manage, sell, transfer, or otherwise dispose of these properties to return them to a tax-generating status. Its activities are funded through a combination of Community Development Agency grant funds and self-generated revenues.

Planned Industrial Expansion Authority: This quasi-governmental entity is established under the authority of Chapter 100, RSMo, and City Code, Chapter 3.84. This entity is charged with acquiring land and developing, or encouraging development, of the property for industrial uses. The entity is empowered to issue industrial revenue bonds to encourage developments. Its activities are funded through a combination of Community Development Agency grants and self-generated revenues.

Port Authority: This quasi-governmental entity is established under the authority of Chapter 68, RSMo. This entity is responsible for managing and leasing the city-owned riverfront property, including dock and mooring space and parking lots. Its activities are funded through a combination of state and federal grants and self-generated revenues.

Industrial Development Authority: This quasi-governmental entity is established under the authority of Chapter 349, RSMo. This entity is responsible for issuing tax-exempt revenue bonds to encourage industrial, commercial, and manufacturing developments. Its activities are funded through self-generated revenues.

MANAGEMENT ADVISORY REPORT

VARIOUS MISCELLANEOUS CITY AGENCIES
AND QUASI-GOVERNMENTAL ENTITIES
CITY OF ST. LOUIS, MISSOURI
SUMMARY OF FINDINGS

COMMUNITY DEVELOPMENT AGENCY

1. Cash Controls (pages 13-14)

- A. Prenumbered receipt slips were not issued, nor were they reconciled to cash collected and deposited.
- B. Monies received were not reconciled with deposits on a timely basis.
- C. The duties of receiving and handling receipts were not adequately segregated from record-keeping responsibilities.

2. Contract Monitoring (pages 14-16)

There were conflicts of interest between the duties of some city and Community Development Agency officials and these individuals' duties as members of entities receiving federal redevelopment grant funds.

3. Monitoring of Community Development Block Grant Program (pages 16-17)

No log was maintained of all fiscal monitoring reports received or of the action taken based on findings of noncompliance in the reports.

PORT AUTHORITY

4. Parking Lot Lease Agreement (pages 19-20)

- A. The Port Authority did not adequately monitor or verify parking lot revenues reported by its independent contractor.
- B. The contract with the independent parking contractor did not specify a record retention policy.

5. Property Lease Agreements (pages 20-22)

- A. Interest was not assessed on delinquent lease payments as allowed by the lease terms.
- B. The Port Authority did not require various lessees to provide proof of liability insurance, as required by lease terms.
- C. The Port Authority entered into an oral agreement to lease a portion of the city terminal to a private company. Because the terms of this agreement were not in writing, the Port Authority experienced difficulties getting the company to vacate the premises and remove their structures.

LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY

6. Mortgage Notes Receivable (page 24)

The Land Clearance for Redevelopment Authority (LCRA) has not actively pursued the collection of delinquent mortgage notes receivable.

7. Arena Lease Agreement (pages 24-25)

The LCRA did not adequately monitor lease terms. As a result, a lessee did not submit proof of insurance as required in the lease agreement.

LAND REUTILIZATION AUTHORITY

8. Land Reutilization Authority Annual Audit Reports (pages 27-28)

A. The LRA has not obtained an annual audit as required by statute.

B. Ernst & Young has issued a management letter which includes eight recommendations for internal control improvement.

9. Transactions with Private Organizations (pages 29-30)

A. The LRA provided office space and personnel at no charge to LRA Real Estate, Inc., which may represent a granting of public funds in violation of the Missouri Constitution.

B. The LRA employees received bonuses from LRA Real Estate, Inc. The real estate company did not provide the LRA a detailed accounting of transactions handled and revenue generated.

C. The LRA provided insurance to Operation Impact (OI) free at no charge and has advanced funds to OI for the purchase of select properties.

CONVENTION AND TOURISM BUREAU

10. Contracts for Services (pages 32-33)

A. Convention and Tourism Fund monies were not appropriated by Board of Estimate and Apportionment.

B. The Convention and Tourism Bureau did not require written agreements, outlining services and/or supplies to be furnished, prior to disbursing monies to other public and private entities.

**VARIOUS MISCELLANEOUS CITY AGENCIES
AND QUASI-GOVERNMENTAL ENTITIES
CITY OF ST. LOUIS, MISSOURI
MANAGEMENT ADVISORY REPORT**

As part of our review of the various entities identified in the History and Organization 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 have 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 city 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 1986, to audit the 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 year ended June 30, 1988.

COMMUNITY DEVELOPMENT AGENCY

1. Cash Controls

During the calendar year ended December 31, 1988, the Community Development Agency (CDA) processed approximately \$6,600 in revenues from income that did not go directly to the Federal Grants Section of the Comptroller's office. Our review indicated several areas where the division's controls and procedures relating to cash are deficient. These weaknesses include the absence of prenumbered receipt slips, lack of adequate reconciliations, and inadequate segregation of duties.

- A. Prenumbered receipt slips are not issued for receipts from program income. Without issuing prenumbered receipt slips, accounting for their numerical sequence and reconciling them to cash receipts, the division has no assurance 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.

- B. The CDA does not perform timely reconciliations of amounts received and transmitted to the Federal Grants Section of the Comptroller's office. For example, the monies received from January 1988 through December 1988 had not been reconciled to the monies transmitted to the Federal Grants Section until the first part of 1989.

To ensure remittances are properly transmitted to the Federal Grants Section and properly deposited, reconciliation should be performed on a monthly basis. Unless the reconciliation is performed timely and discrepancies investigated and documented, the CDA has less assurance remittances have been properly processed and deposited.

- C. The CDA accounting procedures create an inadequate segregation of duties by assigning the same person all the following duties:

- 1) Receiving payments,
- 2) Transmitting monies to Federal Grants Section,
- 3) Recording receipt in cash receipt log, and
- 4) Performing reconciliations.

Adequate segregation provides for timely detection of errors, helps to assure that all receipts are properly recorded, and increases safeguards against possible loss or misuse of funds. In order to obtain adequate control over cash, duties must be properly segregated by assigning the responsibility for receiving and handling receipts to someone with no record-keeping responsibilities.

WE RECOMMEND the CDA:

- A. Issue prenumbered receipt slips for all monies collected and account for their numerical sequence.
- B. On a periodic basis, reconcile amounts received with amounts transmitted to, and deposited by, the Federal Grants Section and follow up on any differences that occur.
- C. Segregate the functions of cash handling and record keeping, and assign someone independent of these functions to perform periodic reconciliations.

AUDITEE'S RESPONSE

- A. As a result of previous discussions with members of your staff, the CDA began issuing prenumbered receipts for all monies collected in April 1989.
- B. The CDA has begun reconciliation of the relatively small volumes of cash receipts with the amounts transmitted to the Federal Grants Section of the Comptroller's office. Reconciliation will take place on a monthly basis.
- C. An accountant within the CDA's Management and Budget Division has been assigned the responsibility of performing the reconciliations on a monthly basis. This accountant is not authorized to receive payments or transmit such payments to the Comptroller's office. The receipt and transmittal of program income funds are performed by other members within the Management and Budget Division who have no responsibility or involvement in the monthly reconciliation process.

2. Contract Monitoring

The CDA of the city of St. Louis administers several federal grants for the city, including the Community Development Block Grant and Rental Rehabilitation Grant. The monies from these grants are awarded to individuals and corporations (subrecipients) based on an application process. The CDA reviews the applications, awards the monies, and monitors the use of the monies.

The agreement signed by the subrecipient includes the following which is based on the requirements of Office of Management and Budget (OMB) Circular A-102:

"No persons described below in this paragraph who exercise any functions or responsibilities with respect to activities funded under the "Program" or who are in a position to participate in a decision making process or gain inside information with regard to such activities, may obtain a personal or financial interest of benefit from the activity, or have an interest in any contract, subcontract, or agreement with respect thereto, or proceeds thereunder, either for

themselves or those with whom they have family or business ties, during their tenure or for one year thereafter. This paragraph applies to any person who is an employee, agent, consultant, officer or elected official or appointed official of the city of St. Louis, or of any of its public agencies or any subrecipients who receive program funds."

During our review we noted the following situations:

- A. Rental Rehabilitation Grant monies were disbursed to a company whose president is currently a city official. At the time the monies were awarded, this individual was not a city official. However, before the monies were disbursed, the individual accepted a position as an appointed official of the city of St. Louis. While the individual did transfer his ownership interest in the company, the transfer was to his wife. This appears to be a conflict of interest as noted in the federal regulation above.

Moreover in this particular instance the company did not conform with other requirements and it was necessary for the money disbursed to them to be repaid to the federal grantor agency, the Department of Housing and Urban Development (HUD). The CDA remitted the required amount to the HUD from UDAG funds. As of June 1989, the CDA had not obtained payment from the company (subrecipient).

- B. Monies were also granted to a housing corporation of which a voting member of the CDA commission was also on the Board of Directors of the housing corporation.

It is the responsibility of the CDA to award and then monitor federal grants for compliance with applicable federal guidelines. Without proper monitoring of these subrecipients, the CDA cannot be assured that all applicable federal regulations are followed and, thus, increases the risk of losing these monies due to noncompliance.

WE RECOMMEND the CDA discontinue awarding and disbursing grant monies to subrecipients who are not in compliance with federal regulations.

AUDITEE'S RESPONSE

- A. At the exit conference, members of your staff acknowledged that the interpretation and application of the OMB requirement quoted is technically a federal responsibility. The city of St. Louis does routinely monitor grant activities for programmatic, fiscal, and contract compliance requirements. From time to time, apparent conflicts of interest are discovered as part of the monitoring process but it is not always possible to uncover every potential conflict of interest. However, any apparent conflict which is discovered is referred to the City Counselor's office for review. For the past year, housing activities have been closely monitored and all potential conflicts, even those with minimal potential for

conflict, have been referred to the City Counselor's office for review. If a determination is made that a conflict of interest does indeed exist, then the Operating Agency or entity involved is directed to take appropriate action to eliminate the conflict of interest.

During 1990, greater emphasis is being placed upon educating operating agencies and individuals as to what constitutes conflicts of interest and also upon determining possible conflicts of interest as part of the contract compliance monitoring process. It is felt that these efforts will serve to minimize actual conflicts of interest in the future.

With respect to the Rental Rehabilitation Program, funds were awarded to a development company for the rehabilitation of a specific project; a principal of the company is currently a city official. At the time the funds were committed and the appropriate documentation executed, the aforementioned individual was not a city employee or official. In all respects during its administration of this project, the agency endeavored in good faith to observe all applicable laws and regulations.

- B. With respect to the CDA Commission member indicated as being on the Board of Directors of a housing corporation receiving CDBF funds, it should be noted that the individual in question no longer is a member of the commission and at all times in the past disclosed his membership on the housing corporation board (which predated his CDC position) and refrained from voting on matters pertaining to the housing corporation.

3. Monitoring of Community Development Block Grant Program

The CDA entered into an agreement with the Office of Comptroller, Internal Audit Section, for ensuring fiscal monitoring reports are performed in accordance with guidelines of the "Fiscal Monitor's Procedures Module" maintained by the Internal Audit Section. The purpose of these reports is to ensure that all state and local subrecipients will be tested for compliance with applicable federal guidelines. These requirements are tested by both the CDA and the city's internal audit department, depending on which requirement is being tested. The CDA is ultimately responsible for ensuring that subrecipients and programs are properly monitored and controlled, and appropriate corrective action is taken for noncompliance.

The Internal Audit Section forwards the monitoring reports to the CDA upon completion so that corrective action, if necessary, can be taken. One person at the CDA is responsible for tracking these reports and seeing that corrective action is taken. However, the CDA does not maintain a log of all reports received to track the reports' status, nor are the reports always placed in the subrecipients file. In some cases, there was no documentation to indicate that the problem had even been dealt with. Thus, it was impossible to determine if the proper corrective action had been taken and that the subrecipient was in compliance with federal regulations.

To ensure that all reports are properly followed up and appropriate corrective action is taken, a log of reports received and documentation of corrective action must be maintained. Without assurance that appropriate action has been taken, the city is in jeopardy that federal funds will be withdrawn due to noncompliance with regulations and guidelines.

WE RECOMMEND the CDA maintain a listing of all reports received and the corrective action that has been taken.

AUDITEE'S RESPONSE

One of the responsibilities of the Accounting Manager hired in December 1989, was to track and resolve fiscal monitoring issues brought forth as a result of monitoring efforts undertaken by the Internal Audit Section of the Comptroller's office. Toward this end, the Accounting Manager has been maintaining a log of all monitoring efforts conducted by the Comptroller's office and also has been tracking the progress made in resolving difficulties cited as a result of the monitoring visits. Appropriate documentation is maintained in the files regarding the resolution of monitoring difficulties.

PORT AUTHORITY

4. Parking Lot Lease Agreement

The city of St. Louis Port Authority leases two parking lots along the St. Louis riverfront from the Missouri Highway and Transportation Commission. The lots, in turn, are subleased to the St. Louis Parking Company (operator), who manages the lots and collects and deposits all receipts. The Port Authority receives a percentage of the gross receipts, less any parking taxes, from the parking lots. A review of the lease agreement with the St. Louis Parking Company revealed the following deficiencies:

- A. All receipt and revenue records for the parking lots are maintained and retained by the operator. Each month the operator submits a statement of revenues along with the lease payment to the Port Authority. The statement of revenues discloses gross parking receipts for both lots and the port's share of the parking receipts as defined in the agreement.

Section 5 of the parking lot lease agreement states that the Port Authority has the right to inspect all parking lot receipt records to verify amounts received from the parking company. However, the Port Authority has not inspected these records since they began leasing the lots in 1986. Since an inspection has not been done, the Port Authority cannot be assured it received the correct amount of revenue, that revenues have been fully reported, or that the operator is even maintaining records in accordance with the contract.

Verification of these amounts through review of the records is necessary to ensure that parking lot receipts are accurately reported and payments have been correctly calculated.

- B. The lease agreement does not specify a length of time the operator must retain parking lot receipt records.

Currently, the parking lot tickets, used by the parking company to verify the number of motorists using the lots, are destroyed approximately one week after their use. Other receipt records, including daily receipt summaries and deposit slips, are retained for about one year.

These receipt records should be retained to allow the Port Authority to verify total receipts from the lots. Without a record retention requirement, the possibility exists that these records may be destroyed before the Port Authority is able to inspect them to verify the amount of lease payments required.

WE RECOMMEND the Port Authority:

- A. Verify, on a periodic basis, that the lease payments have been computed correctly and that all receipts are being properly reported in compliance with the agreement.
- B. Include, in future agreements, a record retention clause.

AUDITEE'S RESPONSE

- A. The EDC has contracted for an audit of St. Louis Parking Company with Coopers and Lybrand. The audit was accomplished during the week of March 19, 1990, and the report is being completed by the audit firm for submission to the Port Authority Commission at their April 1990, meeting. In the future this will be a part of the year-end audit of the EDC.
- B. We have instituted the policy recommended above in 1989, and for all subsequent years.

5. Property Lease Agreements

The city of St. Louis owns numerous parcels of land along 19.3 miles of Mississippi River riverfront. Much of this land is available for lease. Fifty-eight companies currently lease property along the riverfront from the city of St. Louis. The Port Authority, along with the Board of Public Service, determines if proposed leases are feasible and forwards the requests to the Board of Aldermen for approval. The amount of the lease payment is determined by the linear footage to be leased. Our review of lease agreements and procedures revealed the following weaknesses:

- A. All lease payments are to be paid in advance to the Comptroller of the city of St. Louis either monthly, quarterly, or annually as provided in the lease agreement. The Comptroller's office is to monitor the payments for compliance with contract terms. According to the terms of the contract, any delinquent payment should bear interest from the due date at prime rate plus 2 percent.

Our review indicated that for three leases with delinquent payments, interest was not assessed by either the Comptroller's office or the Port Authority. The Port Authority and/or Comptroller's office should begin assessing interest on all delinquent lease payments, both to enforce contract terms and to encourage the lessee to remit payment timely, thus reducing the risk of lost revenues due to nonpayment and foregone interest.

- B. For eight of the ten lease agreements tested, neither the Port Authority nor the Comptroller's office had proof of liability insurance in the file. The lease agreement requires the lessee to obtain and maintain public liability and property damage insurance at the lessee's cost. This insurance should be issued in the name of the lessee and should include the city of St. Louis and Port Authority as additional named insured parties. Without obtaining proof of this insurance the Port Authority cannot be assured the insurance exists. The lack of insurance constitutes contractual noncompliance and places the city and Port Authority at increased risk.
- C. The Port Authority entered into an oral agreement with a company for the lease of a portion of the city terminal, which is a dock and warehouse complex. This company previously had a written agreement with the city, but beginning in October 1977 the Port Authority approved a month-to-month permit for the leased space;

however, nothing was in writing. In July 1988, the Port Authority leased the entire city terminal to another company, including the area covered under the month-to-month permit.

The Port Authority notified the permit holder that due to the new lease, they would have to vacate the premises and remove all of their structures. However, the company did not vacate the property at the prescribed time and did not make further lease payments. The company was notified several more times, but still failed to vacate and remove their structures. After four months, the Port Authority solicited bids for the removal of the structures and accepted the low bid of \$20,000. In addition, since the new tenant was not able to fully inhabit the terminal, their lease payments were decreased in proportion to the amount of space occupied by the permit holder. The lease payment credit amounted to \$4,131 per month for the four-month period.

Therefore, the Port Authority not only lost \$16,524 in lease payment revenue, but also had to pay \$20,000 for the removal of the structures.

Without a written agreement the Port Authority had little or no recourse against the permit holder. A written agreement would have given the Port Authority the ability to force the company to vacate the site at the time specified, thus, decreasing the amount of lost revenues. Moreover, Section 432.070, RSMo 1987, requires that all contracts entered into by a city shall be in writing.

WE RECOMMEND the Port Authority:

- A. In cooperation with the Comptroller's office begin assessing interest on all delinquent payments in accordance with the lease agreement.
- B. And/or the Comptroller's office maintain proof of insurance from the lessee's file.
- C. Utilize written lease agreements for all properties they manage and lease to other entities.

AUDITEE'S RESPONSE

- A. We agree with this finding and the process is already in place.
- B. The Comptroller's office will request a certificate of insurance from all lessees whose lease agreement require them to obtain and maintain public liability and property damage insurance.
- C. The Port Authority agrees that written agreements should be utilized on all properties they manage and lease. The Port Authority had a long-term lease for the subject property which expired in October 1977. At that time, substantial improvements were being made to property adjacent in preparation for a twenty-five year lease which included the subject property. The Port Authority decided to allow the lessee to continue to operate on a month-to-month tenancy, as allowed under the terms of the lease, until the improvements were completed.

Concerning the lost revenues and the cost of removing improvements, the Port Authority, in consultation with the City Counselor's office, determines that the debts were not collectable from the former lessee. In addition, it would not have been cost effective for the Port Authority to pursue payment due to the legal expenses that would have been incurred.

LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY

6. Mortgage Notes Receivable

The Land Clearance for Redevelopment Authority (LCRA) acquired properties from the West End project area which consist primarily of side yards or other unsalable property. The LCRA has adopted a lenient note payment policy with adjacent landowners to purchase these properties. An installment purchase agreement is executed which fits each individual's budget.

During our review of mortgage notes receivable, we noted five of LCRA's ten outstanding notes were delinquent as of April 30, 1989. Payments in arrears totaled \$1,328 and were delinquent from one to five months. Management indicated they do not actively pursue the collection of these notes because once the individual agrees to purchase the property, the LCRA no longer is responsible for the maintenance and upkeep, resulting in a cost savings to them. However, outstanding balances on the five delinquent notes account for \$15,772 of the total \$47,250 due, representing a substantial loss of revenue. To maximize receipts, the LCRA should actively pursue the collection of all notes receivable.

WE RECOMMEND the LCRA establish a policy to actively pursue the collection of delinquent notes receivable, and write-off any accounts it considers not worth pursuing.

AUDITEE'S RESPONSE

As noted in the exit conference, some of the notes referred to are plainly uncollectable. The authority will write off all the accounts that appear uncollectable, but will retain the right to collect the amounts owed through its lien on the deed of trust, if and when the affected property is sold. Your recommendation of active pursuit of collectable, delinquent notes will be implemented.

7. Arena Lease Agreement

The LCRA has entered into a long-term lease with a not-for-profit (NFP) organization regarding the arena property. The NFP is essentially lease-purchasing the property from the LCRA, as the lease payments are sufficient to pay the mortgage note payments. Our review noted the NFP was not required to provide proof of insurance as outlined in the lease agreement.

To ensure the LCRA is adequately protected from loss or liability, the lease requires the NFP to maintain specific insurance coverage throughout the agreement term. In the case of accident or loss, the LCRA could be held accountable as property owners and exposed to greater liability resulting from the NFP's, or their subcontractor's, actions. The LCRA should ensure current insurance is adequate and documented on file at all time.

WE RECOMMEND the LCRA require proof of insurance to be documented on file.

AUDITEE'S RESPONSE

The authority has requested and received certificates of insurance from the arena.

LAND REUTILIZATION AUTHORITY

8. Land Reutilization Authority Annual Audit Reports

- A. Section 92.900(5), RSMo 1986, requires an annual audit of the LRA by a certified public accountant as of December 31 of each year. It also states certified copies of this audit shall be available for public inspection. During our initial review of LRA operations, the most recent audit report available for inspection covered the year ended December 31, 1984. Management indicated audit work had been performed for the four subsequent year audits; however, the reports had not been issued pending legal representation being provided to the accountants.

The audit report for the years ended December 31, 1986 and 1985, was dated September 15, 1989. To comply with Missouri statutes, annual audit reports should be obtained on a timely basis.

- B. The independent audit of the LRA for the years ended December 31, 1988 and 1987, has been performed by Ernst & Young. We have reviewed the working papers supporting the report dated October 25, 1989. The report includes a management letter with eight comments in the following areas:

- 1) Cash Receipts and Reconciliation - A general lack of controls in handling cash receipts resulted in instances of untimely deposits and misplacement of deposits. Furthermore, reconciliations were not performed between the LRA records and depository records. Prenumbered documents should be used and accounted for, deposits of all cash receipts made immediately, and timely reconciliation of LRA's cash account with the city's general ledger should be performed and reviewed by the Executive Director.
- 2) General Ledger - A monthly general ledger was not consistently maintained. Monthly updating of the general ledger is recommended.
- 3) Deposits Outstanding - The deposit listing reviewed by the Executive Director was not reconciled to the general ledger. A quarterly reconciliation of the deposit listing to the general ledger should be performed.
- 4) Property Sales - The disposition of all board resolutions was not formally tracked on a timely basis making it difficult to determine the disposition of deposits, the authorization of sales activity, and the resolution of options. Use of a control log to track transactions from the resolution to closing is recommended.
- 5) Computer Access - Passwords were not used to inhibit employees from accessing all electronic data processing files and changing data. The implementation of passwords for access to computer data is encouraged.

- 6) Petty Cash - Cash deposits were used to reimburse the petty cash funds resulting in understatement of recorded revenue. All cash received should be deposited and a voucher written for reimbursement.
- 7) Purchase Orders - The purchasing function did not include the use of purchase requisitions and prenumbered purchase orders. Prenumbered purchase orders should be utilized and accounted for and a purchase requisition form should be instituted.
- 8) Parcel Verification and Reconciliation - The inventory listing has not been reconciled to the parcel files nor have control totals been maintained. Reconciliation of all parcel files to the inventory listing and maintenance of control total should be established and used in the reconciliation process.

Ernst & Young has made recommendations to improve the internal accounting and administrative controls of the LRA in the areas noted above. We recommend implementation of these recommendations.

WE RECOMMEND the LRA:

- A. Pursue the timely preparation, completion, and issuance of annual audit reports.
- B. Initiate procedures to implement the recommendations of Ernst & Young.

AUDITEE'S RESPONSE

The LRA recognizes its responsibilities in this regard and regrets lapses which might have occurred. We accept your recommendations and have already implemented five of the Ernst & Young suggestions. We are also taking steps to implement the remaining three suggestions.

9. Transactions with Private Organizations

The management of the LRA formed a for-profit real estate company, LRA Real Estate, Inc., in 1986 to provide a means to list and better promote the sale of properties within the city of St. Louis. The real estate company also markets properties of Operation Impact (OI), a not-for-profit corporation. Our review of transactions with the LRA Real Estate, Inc., and the OI revealed the following concerns:

- A. The office of the LRA Real Estate, Inc., was located within the LRA offices with the same employees serving both entities. The LRA employees provided services to the real estate company as real estate agents, brokers, bookkeepers, and maintenance workers. The LRA does not charge the real estate company an administrative fee for its services, nor is any office rent charged. Since providing office space and personnel represents a cost to the city, this arrangement may be a granting of public funds.

Various Missouri Attorney General's opinions conclude that public monies should not be granted to private organizations. The Attorney General cited Article VI, Section 23 and 25 of the Missouri Constitution as the basis for these opinions.

- B. The LRA Real Estate, Inc., received commission income from the sale of nonauthority properties which, according to management, is split between the employees and the LRA. Our review of the LRA records did not note the receipt of any monies from the real estate company as of December 31, 1988. However, the LRA employees received approximately \$38,840 in bonus compensation from the LRA Real Estate, Inc., for work performed.

The executive director of the LRA indicated employees often worked nights and weekends marketing properties and did not receive a salary from the real estate company, but were compensated by receiving a portion of the profits. The executive director further stated a commission is not charged on the LRA properties. However, the LRA Real Estate, Inc., is not required to provide a detailed accounting of property transactions handled and revenues generated.

Section 92.920, RSMo 1986, states that no member or any salaried employee of the LRA shall receive any compensation or other profit directly or indirectly from the disposition of any land held by the LRA. Without documentation outlining the transactions of the LRA Real Estate, Inc., the LRA has little assurance that the transactions do not involve properties of the LRA. If they do, this results in a conflict of interest under the statute cited above.

- C. The OI quit claimed properties to the LRA for the purposes of providing maintenance and insurance. Our analysis of the master inventory listing at March 20, 1989, indicated approximately 120 parcels were being held by the LRA on behalf of the OI.

The costs to maintain the OI's properties are provided on a reimbursement basis through a grant from the city of St. Louis Community Development Agency. However, the LRA does not receive any funds for providing insurance and other miscellaneous administrative services. In addition, the LRA has advanced funds to the OI to purchase select properties. The advancement of funds has resulted in an accounts receivable of approximately \$20,400 at December 31, 1988, being presented on the LRA's balance sheet. Since the collectability of this receivable has been deemed doubtful by the authority's independent auditors, it represents a potential loss to the city.

The LRA funds are restricted by state statutes. They are to be used for the management of the LRA with any excess to be distributed to taxing authorities. Therefore, the LRA has no statutory authority to advance funds to any organization. To the extent that the services provided, such as insurance, represent additional costs to the city, the arrangement between the LRA and the OI results in the lending and granting of public monies to a private organization in violation of the Missouri Constitution.

The economic benefit to the city from the relationship between the LRA, the LRA Real Estate, Inc., and the OI was not clearly documented through a written contract with the entities. Documentation of the economic benefit to the city should be maintained to ensure the city's resources are being used effectively. The LRA was created to manage and dispose of delinquent tax lands acquired by foreclosure of the lien for delinquent real estate taxes. To the extent the LRA's relationship with these entities has resulted in lost revenue and the granting of public funds, the LRA is not operating within their statutory purpose.

WE RECOMMEND the LRA:

- A. Cease providing office space and administrative services free of charge to the LRA Real Estate, Inc. If management views the relationship to be cost beneficial, they should execute a written contract outlining the duties and responsibilities of each party.
- B. If the LRA continues to interact with the LRA Real Estate, Inc., a detailed accounting of transactions should be required listing properties sold, listed, etc. as well as sufficient reporting of time worked by employees.
- C. Cease advancing funds to the OI for the purchase of properties and bill the OI for all costs associated with holding their properties, including insurance and various miscellaneous costs.

AUDITEE'S RESPONSE

- A. The authority agrees that these practices are improper. The LRA ceased to provide LRA Real Estate, Inc., with office space and administrative services more than eighteen months ago. Furthermore, LRA Real Estate, Inc., is being dissolved.
- B. The LRA severed its ties with LRA Real Estate, Inc., eighteen months ago.
- C. The LRA accepts these recommendations and has acted to implement same.

CONVENTION AND TOURISM BUREAU

10. Contracts for Services

The Convention and Tourism Bureau (CTB) has been established by city ordinance to carry out promotional activities setting forth the advantages of the city of St. Louis as a vacation, tourism, and convention city. St. Louis voters approved a tax to be imposed on the gross receipts of hotels and motels, as well as restaurants, conducting business within the city to fund the operations of the CTB. The tax revenues are credited to the Convention and Tourism Fund and are earmarked for the payment of specific bond service requirements. There currently are no bond requirements, and any remaining monies may be utilized by the CTB to carry out their duties and obligations under Ordinance No. 56263.

During fiscal year 1988, approximately \$376,750 was distributed to various organizations for promotional activities. Our review of fund expenditures noted the following concerns:

- A. The monies of the Convention and Tourism Fund are not appropriated by the Board of Estimate and Apportionment with subsequent Board of Aldermen's approval. A request for funds is submitted to the CTB who then reviews the request, approves the funding, and authorizes the city comptroller to disburse the monies to the organization. Article IV, Section 25, of the City Charter provides no money is to be expended except through appropriations made by ordinance unless otherwise expressly excluded. To establish proper accountability for expenditures, monies in the fund should be subjected to the annual appropriations process.
- B. There were no written agreements with any of the organizations outlining services and/or supplies the CTB funds were to furnish. Ordinance No. 56263 authorizes the CTB to work with other organizations to encourage participation in events within the city to include contracting with any public or private entity for the furnishing of services or supplies that may assist them in carrying out their responsibilities.

Funding is generally approved for a lump sum amount and is not earmarked to pay for specific services or supplies. In the absence of a written contract and specific earmarking of funds, the CTB cannot be assured the funds are properly expended.

To ensure the CTB funds are spent as intended, a written contract should be executed with each organization which outlines the services and/or supplies to be furnished and requires a report from the organization on the funds expended.

WE RECOMMEND the CTB:

- A. Subject monies in the fund to the annual appropriations process as required by the city charter.

- B. Obtain written agreements with all private organizations outlining the specific services or supplies to be provided with the Convention and Tourism Fund monies and require a reporting on how the monies are expended.

AUDITEE'S RESPONSE

Mayor and President of the Board of Alderman

- A. The CTB and Convention and Tourism Fund ordinances have been discussed and generally upheld in Ruggeri v. City of St. Louis, 441 SW2d 361 (Mo. 1969) and Wunderlich v. City of St. Louis, 511 SW2d 753 (Mo. banc 1974). Given these decisions, and the fact of voter approval for the 1972 Convention Center bonds structure created by ordinance, which includes the Convention and Tourism Fund structure, we believe the mechanism for expenditures of the Convention and Tourism Fund by the CTB has a well-established, valid, legal foundation.

We recognize, however, that this expenditure mechanism differs from that utilized with respect to city general revenue expenditures. This year, several expenditures from the Convention and Tourism Fund have been made pursuant to specific appropriations ordinances. A board bill has been introduced which would require appropriation of the Convention and Tourism Fund as part of the budget ordinance, require contracts as to expenditures by the CTB, require aldermanic approval of major Convention and Tourism Fund expenditures, and acknowledge previous commitments by the CTB. If adopted, this bill would generally address your concerns noted in paragraph 11.A. of the draft report, and your recommendation A. In any event, the Mayor and President of the Board of Aldermen have agreed that in the future convention and tourism funds will be handled as part of the regular city appropriations process, while honoring previous commitments by the CTB.

- B. Written agreements designating the use of convention and tourism funds are recognized as desirable and will be required in the future together with expenditure reports in all instances where funds are paid to noncity entities; such contracts have been utilized in the past, though not in all cases.

The Comptroller's Office

We agree with the findings and concerns expressed in this report. In addition to requiring appropriation of CTB funds and obtaining written agreements with the reports from private organizations provided with CTB monies, we feel that these expenditures should also be subject to audit by the city's Internal Audit Section.

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