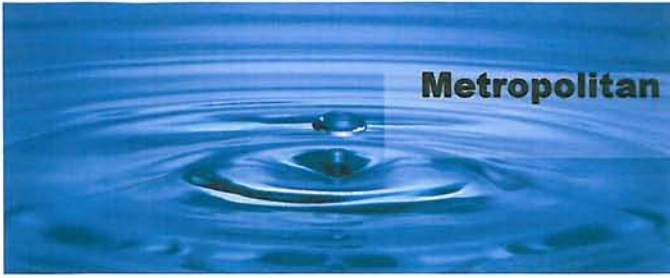


**Metropolitan
St. Louis
Sewer District**

**Miscellaneous
Revenue Review**

December 6, 2010



Metropolitan St. Louis Sewer District

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Executive Summary

Background

Miscellaneous Revenue encompasses several general ledger accounts, including rent revenue, waste hauler permits, pretreatment permits, reimbursement of District costs, other reimbursements and miscellaneous income. These accounts are used for funds that do not currently have separate accounts in the general ledger, but are accounted for in Miscellaneous Revenue.

Audit Objectives & Scope

The objectives of this engagement were to:

- Evaluate the District's accounting for miscellaneous incoming funds to determine whether these amounts are properly accounted for; and,
- Evaluate whether other accounts should be created to account for incoming funds.

This review was limited to revenue received during the periods from July 1, 2008 through June 30, 2009 and from July 1, 2009 through June 30, 2010.

Approach & Methodology

To accomplish the audit objectives, Internal Audit:

- Obtained and reviewed documentation such as trial balances, detailed general ledger account listings, policies and procedures, ordinances, and other pertinent documents.
- Conducted testing of certain accounts to determine overall compliance with accounting procedures.



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The accounts reviewed were as follows:

Account Description	Account Number	Fund	2009 Amount	2010 Amount
Rental Revenue	46300	4103	\$ 211,469.02	\$ 264,339.96
Waste Hauler Permits	43450	1101	\$1,274,743.45	\$1,460,349.38
Pre-Treatment Permits	43500	1101	\$ 103,858.15	\$ 99,375.93
Reimbursement of District Costs	44205	1101	\$ 82,268.80	\$ 8,338.69
Reimbursement of Easement, Advertising, etc	44210	1101	\$ 221,766.35	\$ 181,669.52
Sale of Scrap	44215	1101	\$ 5,413.63	\$ 1,166.06
Other Reimbursements (Immaterial - no review)	44220	1101	\$ 49.88	\$ 48.90
Miscellaneous Income	44245	1101	\$ 328,263.02	\$ 108,138.25
Sale of Fixed Assets	49100	1101	\$ 150,023.00	\$ 233,833.91

Conclusions and Summary of Observations and Recommendations

Overall, accounting for miscellaneous revenue was appropriate.

Recommendations to assist MSD in strengthening its procedures, improving its processes and meeting its overall strategic objectives were provided to Management in the following areas:

- 1.1 Miscellaneous Revenue Account used to Account for Sale of Real Estate.
- 1.2 Reimbursement of District Costs Account used to Account for Construction Loan Repayments
- 1.3 Scrap Recycler is not Compliant with Contract Terms Pertaining to Documentation



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These items are discussed in depth in the Detailed Observations and Recommendations section of this report.

Engagement Name: Miscellaneous Revenue Review

Fieldwork Completion Date: November 23, 2010

Audit Reporting Date: November 30, 2010

Initial Inherent Risk: Low

Overall Audit Rating: Satisfactory

Issue	Risk Rating	Director	Mgt Response	Action Date
A municipality is repaying a construction loan. These payments are entered into the Reimbursement of District Costs account in the general fund and then moved to a Notes Receivable account in the construction fund.	Low	Jan Zimmerman	Management agrees with the associated recommendation. The accounting method used is as currently configured in the Oracle financial system. Management will reevaluate this configuration to address this issue.	6/30/2011
The scrap recycler is not submitting the required information per contract with his checks.	Low	Jan Zimmerman	Purchasing requested this information from the scrap recycler. It was received on November 12, 2010. Management considers this issue addressed.	11/12/2010

Internal Audit gratefully acknowledges the cooperation of Accounting during this audit. Internal Audit was not restricted from access to information to complete the audit. Access to all departmental records and personnel were provided by Management as requested.



DETAILED OBSERVATIONS AND RECOMMENDATIONS

1.1 Reimbursement of District Costs Account used to Account for Construction Loan Repayments

Observation/Finding:

A municipality is repaying a loan for the construction of a tunnel and part of a plant in Arnold, MO. The loan payments are made quarterly in the amount of \$275,124.72. These amounts are entered into the Reimbursement of District Costs general ledger account 44025, general fund 1101. The loan payments are then moved to a notes receivable account in the construction fund, according to the Accountant One in the Accounting Department. According to information received from the Accounting Department, the ECIS system will not create an audit trail if these payments are applied directly to the construction fund. Therefore, the payments are taken in through the general fund, Reimbursement of District Costs Account, and then moved to a Notes Receivable account in the construction fund. Applying the Notes Receivable payments from the City of Arnold in the Reimbursement of District Costs Account overstates that account. Without journal entries and account adjustment it is not possible to see what has actually been reimbursed to the District for advanced costs.

Risk Rating / Exposure: Low

Recommendation:

We recommend that the District create an account specifically for notes receivable payments in the general fund that can be used to create the audit trail for these amounts. With a separate account, the Accounting Department can have a clearer audit trail in the Reimbursement of District Costs account.

Manager/Response with implementation date:

Management agrees with the associated recommendation. The accounting method used is as currently configured in the Oracle financial system. Management will reevaluate this configuration to address this issue.

Tentative implementation date: 6/30/2011



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1.2 Reimbursement of District Costs Account used to Account for Construction Loan Repayments

Observation/Finding:

Account 44215, Fund 1101, is used for the sale of scrap. Shapiro Metals has the current contract for recycling scrap collected at various sites throughout the District's service area. When a dumpster is filled, the facility will call Shapiro Metals to come out and switch out the dumpster with an empty one. Shapiro then takes the dumpster to its facility, sorts and weighs the metals and then pays the District according to the index in the AMMI publication for that week.

When Shapiro Metals submits their check to the District through the cashier, they are required by contract to include date of collection, check number for payment, description of the materials collected, copies of the dated weight tickets, a photocopy of the pricing page from the AMMI publication for that week, price per gross ton, total amount of payment and the location from which the material was picked up. A second copy of the packet is to be sent to Purchasing.

It was noted that the checks from Shapiro Metals do not include the required information. In fact, from the beginning of the contract with Shapiro Metals, they have not included this information with any of their payments to the District. Additionally, the contract with Shapiro Metals was extended even though they have not been in compliance with the original contract. When notified of this deficiency, the Purchasing Agent immediately contacted Shapiro Metals and requested the required information going back to the beginning of the contract in FY09. Shapiro Metals responded that they would comply.

Without the required information being forwarded to the appropriate parties, the District has no way of knowing what they are being paid for, how much scrap is being collected, what type of scrap is being collected and from where the scrap is collected. It is not possible for the District to do any analyses of scrap, such as which facility produces the most scrap, what types of scrap is being collected, or where the scrap is coming from (i.e., special projects, normal scrap, etc.).

Recommendation:



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We recommend the Purchasing Agent continue in her efforts to collect the required information from the scrap recycler. We further recommend that the Purchasing Agent monitor contract compliance to ensure that contracts are adhered to.

Manager/Response with implementation date:

Purchasing requested this information from the scrap recycler. It was received on November 12, 2010. Management considers this issue addressed as of 11/12/2010.



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Management Acknowledgement

I have reviewed the report including management responses. I agree with the observations and recommendations, unless otherwise indicated, and will take the appropriate measures and responsibility for implementing the corrective actions with the specified timeframes.

Process owner's signature _____
Jan Zimmerman, Director of Accounting



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Appendix A –

Contents of the Observations & Recommendations

The following is an overview of the content for the observations and recommendations contained in this report.

- **Observation:** Presentation of key operational and/or service issue.
- **Exposure & Risk Rating:** Assessment of the issue implications and value assignment of likelihood and impact of the identified issue / risk: The three categories are as follows:
 - High:** Observations that pose a significant risk to the District
 - Moderate:** Observations that pose a moderate risk to the District
 - Low:** Observations that pose a minor risk to the District
- **Recommendation:** Suggestions to assist management in formulating an action plan to address the issue / risk.
- **Management Response:** To be submitted to Internal Audit Services within 10 business days of receipt of final draft report by assigned stakeholders. Internal Audit will present this information to the District's Audit Committee until the issue / risk is resolved or sufficiently mitigated.