



Metropolitan St. Louis Sewer District

Review of Project Accounting

August, 2014

This report is intended solely for the use of The Metropolitan St. Louis Sewer District (“MSD”) and is not intended to be and should not be used by any other parties without the prior written consent of MSD.

The St. Louis Metropolitan Sewer District Review of the Project Accounting Process

August, 2014

Table of Contents

Introduction	1
Scope, Objectives & Methodology.....	2
Overall Conclusion and Results	3
Acknowledgements	4

This report is intended solely for the use of The Metropolitan St. Louis Sewer District (“MSD”) and is not intended to be and should not be used by any other parties without the prior written consent of MSD.

INTRODUCTION

The District is responsible for wastewater collection and treatment as well as storm water management for St. Louis City (62 square miles) and ninety percent of St. Louis County (approximately 462 square miles.).

Infrastructure improvements and upgrades for the collection systems are required by on-going regulatory requirements and the Consent Decree that was issued April 27, 2012. As such, the District has been in the process of planning for and performing major construction over the past several years as part of the Capital Improvement and Replacement Program (CIRP). There are numerous projects and contracts in various stages of completion. District expenditures in this area are significant.

The District has budgeted approximately \$919 million in project costs to the CIRP over the past four fiscal years. The District Board-approved budgets for the CIRP are as follow:

- FY '12: \$153 million (68 projects)
- FY '13: \$234 million (162 projects)
- FY '14: \$248 million (167 projects)
- FY '15: \$284 million (193 projects)

The last review of project accounting was performed approximately five years ago. Since that engagement, new financial and project systems and system upgrades have been implemented. The accuracy and timeliness of project accounting materially affects the District's financial statements and other financial reports, which are utilized by Management in making business decisions.

SCOPE, OBJECTIVES, & METHODOLOGY

Scope

The scope of this engagement consisted of a review of the project accounting and documentation processes utilized by the Finance and Engineering departments. The scope period encompassed projects completed during the period of January 1, 2013 through March 31, 2014.

Objectives

The overall objectives of this engagement were to ensure that the District is capturing and recording the costs of projects in a complete, accurate, and timely manner. Internal Audit (IA) performed procedures to:

- Ensure processes and controls are effectively designed and implemented.
- The capital budget and District assets are properly safeguarded.
- Ensure project costs are properly authorized and supported.
- Ensure all project-related costs are accumulated, captured, and accurately and properly processed.
- Ensure communication and coordination procedures utilized between the Engineering and Finance departments are designed and operating effectively.

Approach & Methodology

To accomplish the above objectives, Internal Audit (IA):

- Performed walkthrough procedures with District personnel to gain an understanding of the procedures and processes utilized by the District for:
 - The District's project review and approval process
 - Establishing the funding and budget for each project
 - The overall flow of information and transactions through the various systems and/or modules
 - The accumulation and recording of costs by Engineering for each project
 - Processing payment applications
 - Communicating and transferring data and information from Engineering to Finance
 - The capturing and recording of project costs on the District's general ledger by Finance
- Made a selection of thirty projects for review and testing (\$126 million in total project costs selected). For each project IA reviewed and tested:
 - Engineering project file
 - Finance project file
 - General Ledger

This report is intended solely for the use of The Metropolitan St. Louis Sewer District ("MSD") and is not intended to be and should not be used by any other parties without the prior written consent of MSD.

OVERALL CONCLUSION AND RESULTS

In the opinion of IA, in all significant respects, the controls and procedures utilized to perform the project accounting function complied with established policies and are effectively designed and implemented and are sufficient to satisfy internal control objectives while minimizing undue business risk.

Initial Inherent Business Process Risk: Moderate Risk #
Overall Assessment of Engagement Results: Satisfactory**

** Engagement results are evaluated as satisfactory, generally satisfactory or unsatisfactory.

- **Satisfactory** (*clean opinion*) – No significant engagement findings or material weaknesses were noted.
- **Generally Satisfactory** (*qualified opinion, i.e. “except for”*) – Results contain significant engagement findings. No material weaknesses were noted.
- **Unsatisfactory** (*adverse opinion, immediate Management attention required*) – Significant engagement findings and/or material weaknesses were noted.

^ DEFINITIONS

Engagement Finding (#Low Risk): An engagement finding is a condition that could adversely affect the organization but is less severe than a significant engagement finding or significant deficiency. Classification includes process or control deficiencies that are not significant deficiencies as well as includes other low risk or low impact conditions.

Significant Engagement Finding (# Moderate to High Risk): A significant engagement finding is a condition that could adversely affect the organization. Definition includes all types of findings, such as irregularities, waste, ineffectiveness, conflicts of interest, illegal acts, errors, and significant deficiencies in internal control over financial reporting as well as other significant internal control weaknesses. A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Material Weakness (# High Risk): A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected in a timely basis. For internal audit purposes, the definition also includes material and/or severe irregularities, waste, ineffectiveness, conflicts of interest, illegal acts, errors, and other material control weaknesses, etc.

(The term “material weakness” should be thought of as a serious category of significant engagement findings and/or significant deficiencies. However, not all significant engagement findings and significant deficiencies are material weaknesses.)

[^] - Definitions are based on guidance from the IIA Standards, GAAS, and the PCAOB.

[#] - Risk is assessed at the District (Entity) Level. (Risk to the District as a whole)

This report is intended solely for the use of The Metropolitan St. Louis Sewer District (“MSD”) and is not intended to be and should not be used by any other parties without the prior written consent of MSD.

ACKNOWLEDGEMENTS

Internal Audit Engagement Team:

MSD Internal Audit:

Todd Loretta

Brown Smith Wallace:

Ron Steinkamp

Adam Rouse

Davis and Associates:

Judy Dooley

We would like to thank District personnel for their excellent cooperation and assistance during this engagement.

Specifically, we would like to express our gratitude to the following:

Rich Unverferth – Director of Engineering

Marie Collins – Assistant Director of Engineering

Allen Muehlher - Program Manager

Mark Dietiker – Division Inspector

Jim Roth – Construction Inspector

Bonnie Hubert – Program Manager

Angela Noble – Administrative Support Supervisor, Engineering

Jean Ferguson – Accountant III

Mike Levison – Accountant II

Phyllis Heller – Accounts Payable Lead

Marla Hart – Treasury Associate