



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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Comptroller

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October 18, 2010

Rosemary Bonds-Douglas, Director of Operation
West End Mount Carmel Community Outreach Service
5935 Horton Place
St. Louis, MO 63112

RE: Community Development Block Grant (CDBG) (Project #2010-CDA30)

Dear Ms. Bonds-Douglas:

Enclosed is a report of our fiscal monitoring review of West End Mount Carmel Community Outreach Service, a not-for-profit organization, CDBG Program, for the period of January 1, 2009 through December 31, 2009. The scope of a fiscal monitoring review is less than an audit, and as such, we do not express an opinion on the financial operations of the Agency. Fieldwork was completed on February 1, 2010.

This review was made under the authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and through an agreement with the City of St. Louis Community Development Administration (CDA) to provide fiscal monitoring to all federal grant sub-recipients.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Sincerely,

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: Lorna Alexander, Special Assistant for Development, CDA
Jill Claybour, Acting Executive Director, CDA



CITY OF ST. LOUIS

**COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)**

**WEST END MOUNT CARMEL
COMMUNITY OUTREACH SERVICE
CONTRACT #09-10-94
CFDA #14.218**

FISCAL MONITORING REVIEW

JANUARY 1, 2009 THROUGH DECEMBER 31, 2009

PROJECT #2010-CDA30

DATE ISSUED: OCTOBER 18, 2010

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
WEST END MOUNT CARMEL COMMUNITY OUTREACH SERVICE
FISCAL MONITORING REVIEW
JANUARY 1, 2009 THROUGH DECEMBER 31, 2009**

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INTRODUCTION

Background

Contract Name: Make a Difference Afterschool Program

Contract Number: 09-10-94

CFDA Number: 14.218

Contract Period: January 1, 2009 through December 31, 2009

Contract Amount: \$104,894.00

The contract provided Community Development Block Grant (CDBG) funds to West End Mount Carmel Community Outreach Service (Agency) to operate the Make-A-Difference After-school Program.

Purpose

The purpose of our review was to determine the Agency's compliance with federal, state and local Community Development Administration (CDA) requirements for the period January 1, 2009, through December 31, 2009, and make recommendations for improvements, as considered necessary.

Scope and Methodology

Inquiries were made regarding the Agency's internal controls relating to the grants administered by CDA. Evidence was tested supporting the reports the Agency submitted to CDA, and other procedures were performed, as considered necessary. Fieldwork was completed on February 1, 2010.

Exit Conference

The Agency was offered the opportunity for an exit conference on September 17, 2010, but the Agency declined.

Management's Responses

The management's responses to the observations and recommendations identified in the draft report were received from the Agency on September 29, 2010. These responses have been incorporated into this report.

SUMMARY OF OBSERVATIONS

Conclusion

The Agency did not fully comply with federal, state and local CDA requirements.

Status of Prior Observations

The Agency's previous fiscal monitoring report, Project #2009-CDA18, dated August 13, 2009, contained the following observation:

- Going concern / unpaid payroll tax for 2008 and board oversight (**Repeated**)

A-133 Status

According to a letter received from the Agency, dated January 21, 2010, it did not expend \$500,000 or more in federal funds in its fiscal year ended December 31, 2009, and was not required to have an A-133 audit report.

Summary of Current Observations

A recommendation was made for the following observation which, if implemented, could assist the Agency in fully complying with federal, state and local CDA requirements.

- Opportunity to address going concern issues

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

Opportunity To Address Going Concern Issues

Going concern refers to an entity's ability to function as a business entity. It is based on the assumption that the entity will continue operations for the foreseeable future.

There were doubts about the Agency's ability to continue as a going concern based on the analysis of its financial statements for the past two years:

Working Capital

The Agency's balance sheets for the past three years showed that the Agency consistently had a negative working capital (current liabilities exceeded current assts) as follows:

Line #	Description	*December 2007	*June 2008	December 2009
1	Current Assets	\$21,372	\$57,465	\$128,013
2	Current Liabilities	80,241	89,314	164,120
3	Working Capital (Line 1-Line2)	\$(58,869)	\$(31,848)	\$(36,107)

* Per prior report

Working capital, excess of current assets over current liabilities, is a measure of an organization's ability to realize assets, discharge liabilities in the normal course of business and generate sufficient resources to stay operational.

The Agency did not have internal controls in place to ensure that it used its resources efficiently and effectively to stay operational for the foreseeable future.

If an Agency is not generating enough revenues and current assets are not enough to offset its current liabilities, then the Agency may become insolvent and may not be able to continue providing services to its clients.

Unpaid Payroll Taxes

The Agency's current liabilities for the past two years included unpaid payroll taxes as follows:

Year Ended	Payroll taxes
December 2008	\$37,323
December 2009	\$95,821

The Agency's CDBG grant agreement requires that all expenses must be paid before their reimbursements are requested from CDA. The Agency did not provide the detail

breakdown of these taxes by grants; therefore, it could not be determined if the reimbursed payroll taxes for CDBG grant were included in the outstanding payroll taxes.

The Federal payroll taxes are required to be paid in full by the end of the 15th day of the first month of the following quarter.

The Agency did not have an effective system of internal control in place to ensure that:

- Payroll taxes are paid when due
- Reimbursement requests are made only after expenses are incurred and paid

In addition to requiring the Agency to pay penalty and interest on the outstanding taxes, the IRS may place a lien on the Agency's property, endangering its very survival. CDA may terminate its grant agreement with the Agency for not following the requirements of the grant agreement.

Board of Directors' Oversight

Review of the minutes of the Agency's monthly Board of Directors' meetings for the period of the review did not disclose any on-going discussion or concern of the Agency's financial position.

Sound management practices require the Board of Directors to oversee the financial operations of the Agency in order to prevent misconduct, violation of law and regulations, and mismanagement of the Agency's affairs.

Lack of adequate Board oversight may cause the Agency to not be fiscally responsible in complying with the requirements of the grant agreement, which may ultimately result in its termination.

Recommendation

Working Capital

It is recommended that the Agency continue to work toward attaining a positive working capital by:

- Developing and implementing budgetary controls in order to ensure expenditures do not exceed revenues
- Generating additional revenues and reducing liabilities

Unpaid Payroll Taxes

It is recommended that the Agency establish internal controls to ensure:

- Payroll taxes are paid when they are due

- Compliance with the requirements of the grant agreement, which requires that all expenditures are incurred and paid before requesting their reimbursements

Board of Directors' Oversight

It is recommended that the Agency put in place internal controls to ensure the Agency's affairs are discussed at Board meetings and corrective measures are taken, as deemed necessary by the Board

Management's Response

WEMCCOS concur with findings. WEMCCOS 2nd/3rd Quarter taxes are up-to date. WEMCCOS outsourced payroll department to ADP – ADP products benefit WEMCCOS business by completing and supporting the following departments.

- *Payroll*
- *Benefits Administration*
- *HR Services*
- *Time & Labor Management*
- *Tax and Compliance*
- *Insurance Services*

WEMCCOS Board of Director concurs with the findings of the audit. Changes the Board has already implemented to move the organization forward includes.

- *Approval of outsourcing the payroll department to ADP*
- *Increased fundraisers from the board level*
- *Working to secure sponsorships from large and small organizations and corporations in support of the words of WEMCCOS*