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OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



DARLENE GREEN
Comptroller

Internal Audit Section

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February 23, 2007

Jill Claybour, Acting Executive Director
Community Development Administration
1015 Locust Street, Suite 1200
St. Louis, MO 63101-1323

RE: Fiscal Monitoring Review of Third Ward Neighborhood Council
(Project #2007-CDA14)

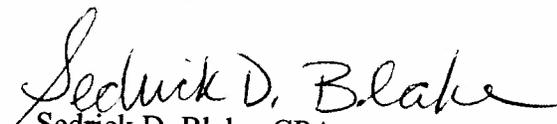
Dear Ms. Claybour:

For the period reviewed, Third Ward Neighborhood Council did not comply with CDA's policy guidelines requiring an agency to maintain adequate records for equipment and real property purchased with federal funds. Due to its non-compliance, the Agency could not locate seven equipment items with a cost of \$5,802 (see Observation #3 of the enclosed fiscal monitoring report).

We recommend the Agency locate the missing equipment or reimburse the Comptroller's Office \$5,802 by March 23, 2007. We also recommend that if the Agency does not resolve this matter by March 23, 2007, \$5,802 be deducted from their next request for reimbursement.

If you have any questions, please call Charles Schroeder at 589-6089.

Respectfully,


Sedrick D. Blake, CPA
Audit/Fiscal Executive

Enclosure

cc: John Zakibe, Deputy Comptroller
Lorna Alexander, Accounting Coordinator, CDA
Judith Holstein, Accountant II, Federal Grants Section



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February 23, 2007

Shirley Emerson, Executive Director
Third Ward Neighborhood Council
3808 West Florissant Ave.
St. Louis, MO 63106

RE: Fiscal Monitoring Report of Third Ward Neighborhood Council
(Project #2007-CDA14)

Dear Ms. Emerson:

Enclosed is a report of our fiscal monitoring review of Third Ward Neighborhood Council (Contract #06-31-51) for the period January 1, 2006 through October 31, 2006. The scope of a fiscal monitoring review is substantially less than an audit, and as such, we do not express an opinion on the financial operations of Third Ward Neighborhood Council. Our fieldwork was completed on December 7, 2006.

This review was made under 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 Professional Practice of Internal Auditing and through an agreement with the Community Development Administration (CDA) to provide fiscal monitoring to all grant sub recipients. If you have any questions, please contact Charles Schroeder (314) 589-6089.

Sincerely,


Sedrick D. Blake, CPA
Audit/Fiscal Executive

Enclosure

cc: Jill Claybour, Acting Executive Director, Community Development Administration
Lorna Alexander, Fiscal Coordinator, Community Development Administration



CITY OF ST. LOUIS

**COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
THIRD WARD NEIGHBORHOOD COUNCIL
CONTACT #06-31-51**

**FISCAL MONITORING REVIEW
JANUARY 1, 2006 THROUGH OCTOBER 31, 2006**

PROJECT #2007-CDA14

DATE ISSUED: FEBRUARY 23, 2007

**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)
THIRD WARD NEIGHBORHOOD COUNCIL
CONTRACT: #06-31-51
FISCAL MONITORING REVIEW
JANUARY 1, 2006 THROUGH OCTOBER 31, 2006**

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

Background

Contract Name: Third Ward Neighborhood Council
Contract Number: 06-31-51
Contract Period: January 1, 2006 through October 31, 2006
Contract Amount: \$215,708

Contract #06-31-51 (Document #52492) provided Community Development Block Grant (CDBG) funds to Third Ward Neighborhood Council to provide clean, safe and affordable housing and refurbish buildings in the Third Ward. The Agency's goal is to transform their neighborhoods into self-reliant and economically viable communities. To increase the number of homeowners in the area, reduce the number of decaying and abandoned properties and put decaying properties back on the tax rolls.

Purpose

The purpose of our review was to determine Third Ward Neighborhood Council's compliance with federal, state and local CDBG requirements for the periods January 1, 2006 through October 31, 2006 and make recommendations for improvements.

Scope and Methodology

We made inquiries regarding Third Ward Neighborhood Council's internal controls relating to the grant administered by the Community Development Administration (CDA), tested evidence supporting the reports the Agency submitted to CDA and performed other procedures considered necessary. Our fieldwork was completed on December 7, 2006. Management's responses were received on February 5, 2007, and have been incorporated into this report.

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CONCLUSION AND SUMMARY OF CURRENT OBSERVATIONS

Conclusion

We found evidence to suggest Third Ward Neighborhood Council did not fully comply with federal, state and local CDBG requirements.

Status of Prior Observations

The Agency's previous Fiscal Monitoring Report dated August 5, 2005 noted four observations:

1. Agency did not have an adequate accounting system (**Resolved**)
2. Agency did not maintain employee leave records (**Resolved**)
3. Agency filed IRS Form 990 late (**Resolved**)
4. Monthly financial reports were not submitted in a timely manner (**Resolved**)

A-133 Status

According to letters received from the Agency, MOKAN was not required to have an A-133 Status report for calendar year 2005 because it did not expend over \$500,000 or more in federal funds for either year.

Summary of Current Observations

We made recommendations for the following observations, which if implemented, could assist the Third Ward Neighborhood Council in fully complying with federal, state and local CDBG requirements:

1. There appears to be a potential going concern issue
2. Inadequate segregation of duties
3. Failure to properly inventory equipment

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

1. There appears to be a Potential Going Concern Issue

There is a presumption that agencies receiving federal funds will provide grant specified services to its customers on a continual basis and will have the financial stability to accomplish the same. Working capital is a measure of an organization's ability to realize assets and satisfy liabilities in the normal course of business.

The Agency's Balance Sheet dated October 31, 2006, showed a negative working capital of \$57,040.20. Based upon this fact, it appears the Agency may not be able to continue to provide services in the normal course of business.

Recommendation

We recommend the Agency make concerted efforts to address its financial instability and inform CDA of the steps it will take to be able to continue as a going concern in the foreseeable future.

Management's Response

The Neighborhood Council does concur with the objective.

The Agency will notify CDA of the going concern issue. Currently the agency is developing an overall plan for addressing its financial instability. The plan will include aggressively seeking other avenues of funding, e.g. grants, contributions, property development, etc. The agency is committed to reducing the deficit and achieving financial solvency as quickly as possible.

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**DETAILED OBSERVATIONS, RECOMMENDATIONS, AND
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2. Inadequate Segregation of Duties

Segregation of duties is a basic key internal control factor, established to prevent or detect errors or irregularities in a timely manner by employees in the normal course of business. At the most basic level, no one person should have control over two or more phases of a transaction or operation.

Internal Audit noted the same individual at the Agency was responsible for the functions of authorization, custody, record keeping and reconciliation.

Recommendation

We recommend the Agency ensure that the authorization, custody, record keeping and reconciliation functions are segregated. In those instances where duties cannot be segregated, mitigating and compensating controls must be established. Such mitigating or compensating controls are additional procedures designed to reduce the risk of errors or irregularities. For instance, if the record keeper also performs a reconciliation process, a supervisor could perform and document a detailed review of the reconciliation to provide additional control over the assignment of incompatible functions.

Management's Response

The Neighborhood does concur with the objective.

The agency recognizes the importance of segregating duties. With the huge and increasing volume of work that the staff is responsible for, it is impossible to have more than one person working on financial related functions. However, the agency is preparing to hire an additional employee, who will be responsible for performing some of the financial/accounting functions, thus, allowing for greater separation of duties.

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**DETAILED OBSERVATIONS, RECOMMENDATIONS, AND
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3. Failure to Properly Inventory Equipment

CDA policies require an Agency to maintain adequate records for equipment and real property purchased with federal funds. Such records should include contract number, description, acquisition cost, acquisition date, model/serial numbers, location and condition for each item of the equipment and the real property. Before a federally funded inventory item is disposed off or scrapped, the Agency must first obtain permission from and report any receipts from the disposition to CDA.

The Agency could not locate the following eight (8) items of equipment from its inventory listing:

#	Description	Serial #	Condition	Cost
1.	Compaq Desk Pro Computer	SM0612578B	Good	\$2,922.00
2.	Compaq S710 Color Monitor	940CG43HC028	Good	Part of #1 above
3.	EPA Syrum Computer Software	S17975	Good	Part of #1 above
4.	Set of Two (2) Speakers		Good	Part of #1 above
5.	HP DeskJet Printer 960c	MX021W02K	Good	\$256.00
6.	HP Photo Smart C200 Camera*	MYA9CAEX13	Good	\$307.00
7.	OC Back-Up Pro 500	NB9921151263	Good	\$197.00
8.	GEM Computer	431403523	Good	\$2,120.00
	Total Cost			\$5,802.00

* Kept at an employee's home

Recommendation

We recommend the Agency:

1. Maintain adequate records for equipment and real property purchased with federal funds.

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

3. Continued...

2. Obtain written permission from CDA before eliminating stolen or obsolete property from its records.
3. Must not allow a CDA property be taken out of the business premises without the approval of Agency's management. Such approval should be in writing.
4. Locate the missing equipment or reimburse CDA \$5,802 for the missing CDA inventory item by March 21, 2007. A check for \$5,802 should be submitted to the Comptroller's Office /Federal Grants Section, 1114 Market Street, room #648, St. Louis, MO 63101. The check should reference Fund #1163 and Center #1422351. A copy of the check should be furnished to the Internal Audit Section to the attention of Charles Schroeder, at the same address. If the Comptroller's Office does not receive the reimbursement by March 21, 2007, we recommend this amount be taken from the Agency's next request for reimbursement.

Management's Response

The Neighborhood does concur with the objective.

The agency will make sure that all equipment will be accurately documented and properly inventoried. The HP Photo Smart C200 Camera #MYA9CAEX13 is in the office and shall remain, except during times when photographs are being taken outside of the building. A letter (see attached copy) has been forwarded to CDA seeking to dispose of the remaining items of concern. [Letter omitted from this report.]