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OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



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Comptroller

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July 26, 2006

John Rataj, Acting Director  
Community Development Administration  
1015 Locust, Suite 1100  
St. Louis, MO 63101

RE: Fiscal Monitoring Report of Union West Community Corporation (Project #2006-CDA32)

Dear Mr. Rataj:

Enclosed is a report of our review of Union West Community Corporation for the period April 3, 2005 through June 28, 2006, including our follow-up of IAS Project #2005-CDA22 issued April 12, 2005. The objective of this review was to determine if the risks were effectively and efficiently managed to provide reasonable assurance of the following:

- The Accomplishment of Established Goals
- Compliance with Applicable Laws, Regulations, Policies and Procedures
- The Safeguarding of Assets
- The Reliability and Integrity of Financial Information
- The Economic and Efficient Use of Resources

Our fieldwork was substantially completed on June 28, 2006.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised. This review has been conducted in accordance with the International Standards for Professional Practice of Internal Auditing.

If you have any questions, please let me know.

Respectfully,

  
Sedrick D. Blake, CPA  
Internal Audit Executive

Enclosure

cc: Honorable Darlene Green, Comptroller  
Lorna Alexander, Fiscal Coordinator, CDA



# CITY OF ST. LOUIS

*UNION WEST COMMUNITY CORPORATION*

*FISCAL MONITORING REVIEW*

*APRIL 3, 2005 THROUGH JUNE 28, 2006*

*PROJECT #2006-CDA32*

*DATE ISSUED: JULY 26, 2006*

*Prepared by:  
The Internal Audit Section*



# OFFICE OF THE COMPTROLLER

**HONORABLE DARLENE GREEN, COMPTROLLER**

CITY OF ST. LOUIS  
UNION WEST COMMUNITY CORPORATION  
FISCAL MONITORING REVIEW  
APRIL 3, 2005 THROUGH JUNE 28, 2006

EXECUTIVE SUMMARY

Purpose

We have completed a Fiscal Monitoring review of Union West Community Corporation (Agency). The purpose of this review was to determine if the risks were effectively and efficiently managed to provide reasonable assurance of the following:

- The Accomplishment of Established Goals
- Compliance with Applicable Laws, Regulations, Policies and Procedures
- The Safeguarding of Assets
- The Reliability and Integrity of Financial Information
- The Economic and Efficient Use of Resources

Conclusion

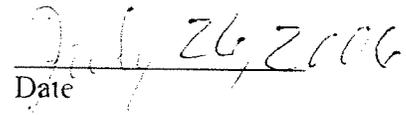
We noted not all prior observations had been rectified and several opportunities for improvement remain within the Agency's operations. We found the Agency failed in some degree to accomplish all of the above objectives. The following observations resulted from our review:

1. Agency has going concern issues.
2. The Agency did not maintain all necessary accounting records (repeated).
3. Failure to properly authorize expenses.
4. Disbursement checks were not always signed by two duly authorized officers (repeated).
5. Failure to follow CDA procurement guidelines.
6. Conflict of interest (repeated).
7. Lack of Board's oversight.

Each of these observations is discussed in more detail in the *Detailed Observations & Recommendations* section of this report.

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.

  
Sedrick D. Blake, CPA  
Internal Audit Executive

  
Date

**CITY OF ST. LOUIS  
UNION WEST COMMUNITY CORPORATION  
FISCAL MONITORING REVIEW  
APRIL 3, 2005 THROUGH JUNE 28, 2006**

**TABLE OF CONTENTS**

<b><u>Description</u></b>	<b><u>Page(s)</u></b>
<b>INTRODUCTION</b>	
Background	1
Purpose	1
Agency History	1-2
Scope and Methodology	2
<b>OBSERVATIONS</b>	
Status of Prior Observations	3
Summary of Current Observations	3
<b>DETAILED OBSERVATIONS, RECOMMENDATIONS</b>	4-8

**CITY OF ST. LOUIS  
UNION WEST COMMUNITY CORPORATION  
FISCAL MONITORING REVIEW  
APRIL 3, 2005 THROUGH JUNE 28, 2006**

**INTRODUCTION**

**Background**

On April 3, 2006, we received a request from CDA to perform a follow-up review of Union West CBDO and MAP work programs. Our prior report on the Agency, IAS Project 2005-CDA22, was issued on April 12, 2005. That report noted six (6) observations which are as follows:

1. There was a conflict of interest.
2. A former executive director had allowed relatives to live in rental units for free or at less than fair market rental value.
3. The Agency did not maintain all necessary accounting records, including canceled checks.
4. Disbursement checks were not always signed by two duly authorized officers.
5. Signed lease agreements were not current.
6. Real property inventory report was inaccurate.

Current regulations promulgated by HUD allow receipts from rental properties and sales of properties originally purchased or rehabilitated with CDBG funds to not be considered program income. Normally, the City of St Louis requires program income to be reported and/or returned to CDA.

We made recommendations to the Agency's Board in our prior report and responses from the Agency appeared to be adequate; however, in a letter addressed to the Agency dated June 16, 2005, CDA indicated failure to correct problems could result in loss of funds. We learned the former Executive Director had been replaced and this replacement had recently been terminated for unauthorized purchases of equipment for the individual's home office and issuing an unauthorized pay raise for herself (billed to and reimbursed by CDA). This has caused IAS to question costs of \$2,463. This, coupled with recent concerns reported to CDA, prompted our current review.

Under normal circumstances, our reports are issued to the Agency for responses with copies sent to CDA. In this instance, we determined, because of the unusual circumstances surrounding this Agency, it was imperative to issue the report to CDA, who will then request a response from Union West.

**Agency History**

Union West Community Corporation was incorporated under the laws of the State of Missouri as a Nonprofit Corporation in November 1987 with four (4) directors. It was filed under the name, Hamilton Heights Housing Corporation. In 1993, the Agency filed with the Missouri Secretary of State's office to change its name to Union West

**CITY OF ST. LOUIS  
UNION WEST COMMUNITY CORPORATION  
FISCAL MONITORING REVIEW  
APRIL 3, 2005 THROUGH JUNE 28, 2006**

**INTRODUCTION**

Community Corporation. The Agency is considered a Community Development Based Organization (CBDO) which has certain advantages in spending federal funds, particularly, Community Development Block Grants (CDBG). The Agency has received such funds which have been passed through the City of St. Louis for a number of years since incorporation.

**Scope and Methodology**

As part of our review, we requested and tested various transactions, including the Agency's bank statements, the inventory report to CDA, lease agreements, personnel records and Board minutes. We tested the contract billings and performed several interviews with staff of the CBDO and MAP programs and Board members. We reviewed the Agency's documents filed with the Secretary of State, including articles of incorporation and various annual filings.

**CITY OF ST. LOUIS  
UNION WEST COMMUNITY CORPORATION  
FISCAL MONITORING REVIEW  
APRIL 3, 2005 THROUGH JUNE 28, 2006**

**OBSERVATIONS**

**Status of Prior Observations**

Our previous report, IAS project 2005-CDA22, was issued on April 12, 2005. We found the following six (6) observations and made recommendations for each:

1. It appears the agency's former director was involved in a conflict of interest and nepotism.
2. The former director's relatives paid less than fair market value for the rental units.
3. The Agency did not maintain all necessary accounting records, including canceled checks.
4. Disbursement checks were not always signed by two duly authorized officers
5. Signed lease agreements were not current.
6. Real property inventory report included property not purchased with CDA funds.

Based on our current review, we believe Observations 1, 3 and 4 have not been corrected.

**Summary of Current Observations**

We noted the following observations:

1. Agency has going concern issues.
2. The Agency did not maintain all necessary accounting records (repeated).
3. Failure to properly authorize expenses.
4. Disbursement checks were not always signed by two duly authorized officers (repeated).
5. Failure to follow CDA procurement guidelines.
6. Conflict of interest (repeated).
7. Lack of Board's oversight.

Each of these observations is discussed in more detail in the *Detailed Observations & Recommendations* section of this report.

**CITY OF ST. LOUIS  
UNION WEST COMMUNITY CORPORATION  
FISCAL MONITORING REVIEW  
APRIL 3, 2005 THROUGH JUNE 28, 2006**

**DETAILED OBSERVATIONS, RECOMMENDATIONS**

**1. Agency has going concern issues**

According to the Forms 990 for calendar years 2002, 2003 and 2004, the Agency's expenses exceeded its revenues. The Agency had a beginning fund balance of \$119,010 in 2002; however, a consistent excess of expenses over income resulted in a negative fund balance of \$1,356 in calendar year 2003 which increased to \$ 9,110 in calendar year 2004.

Description	Calendar Year 2004	Calendar Year 2003	Calendar Year 2002
<b>Total revenue</b>	\$206,971	\$130,844	\$171,620
<b>Total expenses</b>	\$214,725	\$176,996	\$245,834
<b>Excess of Expenses Over Income</b>	\$(7,754)	\$(46,152)	\$(74,214)
<b>Beginning Fund Balance</b>	\$(1,356)	\$44,796	\$119,010
<b>Ending Fund Balance</b>	\$(9,110)	\$(1,356)	\$44,796

The Agency has filed an extension of its Form 990 for the calendar year 2005. We could not determine the actual revenues and expenses for the calendar years of 2005 and 2006 because the Agency did not provide the financial statements for these years.

**2. The Agency did not maintain all necessary accounting records (repeated)**

During the calendar years 2004, 2005 and 2006, the Agency received grants from CDA through two (2) contracts. It received \$71,000 for the CBDO program and \$200,000 for the Targeted Management Assistance Program (TMAP). The TMAP program began in calendar year 2004 and received funding from both CDBG and the Affordable Housing Commission. Through inquiries and review of the records, we learned that the reimbursements and deposits under both programs were co-mingled into one bank account. The lack of separate bank accounts places these funds at risk of misappropriation. Separate bank accounts would also facilitate the reconciliation of the fund balances.

**CITY OF ST. LOUIS  
UNION WEST COMMUNITY CORPORATION  
FISCAL MONITORING REVIEW  
APRIL 3, 2005 THROUGH JUNE 28, 2006**

**DETAILED OBSERVATIONS, RECOMMENDATIONS**

**2. Continued...**

In addition, a separate bank account was not maintained for the rental activities of the Agency for the CBDO program properties. Best business practices would dictate that the rental deposits be held in an escrow account. Due to co-mingling of the funds received by the Agency and inadequate accounting records, IAS was unable to determine the extent of the liability for the rental deposits.

**3. Failure to properly authorize expenses**

According to Section XII (2) of the Agency's Articles of Incorporation, "no loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority must be confined to specific instances." Section X (3) of the Articles of Incorporation requires all checks, drafts or other orders for payment be signed by the Treasurer and countersigned by the Chairperson of the Board or the Executive Director. The Agency's expenses were incurred without the scrutiny of the Board and the past Acting Executive Director used the Agency's credit card for personal use. The Agency's Board had knowledge of these events yet did nothing to correct them. The transactions included the following:

**CDBG funds**

- \$2,463.17 for unauthorized pay increase for the Administrative/Acting Executive Director.

**Rental income**

- \$2,596.66 for personal supplies and equipment charged to the Agency's credit card by the Acting Executive Director.
- Contractors were not requested to submit social security/EIN numbers or addressees for proper tax identification.
- Three (3) contractors performed cleaning and trash services for approximately \$4,845 and were not licensed to do business in the City according to inquiries with the License Collector's Office.
- Payments were issued to vendors without invoices.
- Invoices, when received, were not properly approved and marked paid.

**CITY OF ST. LOUIS  
UNION WEST COMMUNITY CORPORATION  
FISCAL MONITORING REVIEW  
APRIL 3, 2005 THROUGH JUNE 28, 2006**

**DETAILED OBSERVATIONS, RECOMMENDATIONS**

**3. Continued...**

In October 2005, the Acting Executive Director was terminated and a request was made for her to return \$2,596.66 of supplies and equipment charged to the Agency's credit card. IAS was informed that a monitor valued at \$329.99 was returned to the Agency. The remaining \$2,266.67 in supplies was not returned.

**4. Disbursements checks were not always signed by two duly authorized officers (Repeated)**

The list of the Agency's officers who are authorized to sign checks for the entity has not been updated to correspond with the changes in personnel. Section X (2) of the Agency's Articles of Incorporation states, "All checks, drafts or other orders of payment of monies, notes or other evidence of indebtedness issued in the name of the corporation shall be signed by the Treasurer and countersigned by the Chairperson of the Board of Directors." According to the Agency's bank, the list of current authorized signers include in addition to the current Chairperson the former Chairperson who resigned in April 2005 and the former Executive Director, who was terminated in December 2004. Therefore, all checks signed after the resignation of the former Chairperson in April 2005 violated provisions of the Agency's Articles of Incorporation.

**5. Failure to follow CDA procurement guidelines**

We noted that contract bids for services over \$200 in six (6) instances were either not performed or not documented according to CDA guidelines, which require three (3) written bids. Written documentation of bids was not maintained. Generally, when documentation was kept, only the winning bidder's information was available for review. These six (6) instances were not reimbursed by CDA but were paid out of the program income.

**6. Conflict of interest (repeated)**

As reported in the previous Fiscal Monitoring report, the former Executive Director allowed free or less than fair market rental value to be charged for relatives. This particular conflict was resolved by the Executive Director's termination. We found additional conflict of interest during our current review. These included:

- The Recording/Corresponding Secretary of the Board received a verbal bid from a vendor for services valued at \$500. The check was endorsed back over to the

**CITY OF ST. LOUIS  
UNION WEST COMMUNITY CORPORATION  
FISCAL MONITORING REVIEW  
APRIL 3, 2005 THROUGH JUNE 28, 2006**

**DETAILED OBSERVATIONS, RECOMMENDATIONS**

**6. Continued...**

Recording/Corresponding Secretary to be deposited and/or cashed. IAS noted that this concern was addressed by the Finance Committee in the February 27, 2006, Board minutes.

- A contract in the amount of \$3,000 for cleaning and painting services was awarded to the Administrative/Acting Executive Director's husband. Only the Chairperson of the Board approved the contract. According to Section 24 Code of Federal Regulations (CFR) Part 85, contracts with immediate family members or partners are considered a conflict of interest.
- Two Board members (Recording/Corresponding Secretary and a retired teacher) performed day-to-day operations such as procuring vendor services rather than exercising fiduciary responsibility and providing adequate oversight.

**7. Lack of Board's oversight**

In August 2005, a Board member on the Personnel Committee made an offer of employment to the former Administrative/Acting Executive Director. The offer was not approved by a quorum of the Board before it was tendered. This conflicts with Section VIII of the Agency's Articles of Incorporation which requires a majority of one-third plus one of the currently active Board members to complete a quorum.

One Board member has resigned due to these conflicts and strife within the Board. He mentions in his resignation letter [quoting], "Union West cannot stand if the toxic thinking, negative attitudes, finger pointing, and denial continue that has plagued us for months." ... "The organization is on a path of self destruction." This statement was also considered as we deliberated the Going Concern Issue.

According to the current Administrative Assistant, the Chairperson of the Board verbally requested that she sign his name on Agency checks. We learned that this request was not presented to or approved by the Board. The Administrative Assistant drafted an approval form, dated May 17, 2006, giving her authorization to sign the Chairperson's name; however, the Chairperson did not sign the form. The Administrative Assistant also signed a letter stating that she witnessed the Secretary of the Board sign the Chairperson's name on checks.

**CITY OF ST. LOUIS  
UNION WEST COMMUNITY CORPORATION  
FISCAL MONITORING REVIEW  
APRIL 3, 2005 THROUGH JUNE 28, 2006**

**DETAILED OBSERVATIONS, RECOMMENDATIONS**

**RECOMMENDATION**

We recommend CDA carefully consider the effect of the above problems in considering its continued funding to this Agency.