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OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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May 31, 2007

Ruth Smith
President and Chief Executive Officer
Human Development Corporation
929 N. Spring
St. Louis, MO 63108

RE: Fiscal Monitoring Report of Human Development Corporation, Homeless Challenge Program (HCP) (#2007-HOM32)

Dear Ms. Smith:

Enclosed is a report of our fiscal monitoring review of the Human Development Corporation (Document #53795) for the period October 1, 2005 through September 30, 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 the Human Development Corporation. Our fieldwork was completed on April 20, 2007.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised and through an agreement with the Department of Human Services (DHS) to provide fiscal monitoring to all grant subrecipients. The review was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. If you have any questions, please contact Charles Schroeder at 589-6089.

Sincerely,


Sedrick D. Blake, CPA
Fiscal/Audit Executive

Enclosure

cc: Patrick Brennan, Fiscal Manager, Department of Human Services



CITY OF ST. LOUIS

*DEPARTMENT OF HUMAN SERVICES
HOMELESS SERVICES*

*HUMAN DEVELOPMENT CORPORATION
HOMELESS CHALLENGE PROGRAM (HCP)
C.O.A.T.E.S. ACT of 1998
COMMUNITY SERVICES BLOCK GRANT - CFDA #93.569
DOCUMENT #53795*

FISCAL MONITORING REVIEW

OCTOBER 1, 2005 THROUGH SEPTEMBER 30, 2006

PROJECT #2007-HOM32

DATE ISSUED: JUNE 25, 2007

*Prepared by:
The Internal Audit Section*



OFFICE OF THE COMPTROLLER

Honorable Darlene Green, Comptroller

CITY OF ST. LOUIS
DEPARTMENT OF HUMAN SERVICES (DHS)
HOMELESS SERVICES
HUMAN DEVELOPMENT CORPORATION
DOCUMENT #53795
FISCAL MONITORING REVIEW
OCTOBER 1, 2005 THROUGH SEPTEMBER 30, 2006

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HOMELESS SERVICES
HUMAN DEVELOPMENT CORPORATION
DOCUMENT #53795
FISCAL MONITORING REVIEW
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INTRODUCTION

Background

Contract Name: Human Development Corporation

Contract Program: Community Services Block Grant CFDA #93.569

Document Number: 53795

Contract Period: October 1, 2005 through September 30, 2006

Contract Amount: \$66,071

The contract provided funds from the Department of Health and Human Services (HHS) Homeless Challenge Program (HCP) to the Human Development Corporation to provide supportive services to families who are at risk of becoming homeless.

Purpose

The purpose of this fiscal monitoring review was to determine Human Development Corporation's (Document #53795) compliance with federal, state and local Department of Human Services (DHS) requirements for the period October 1, 2005 through September 30, 2006. We will make recommendations for improvement if necessary.

Scope and Methodology

We made inquiries regarding Human Development Corporation's internal controls relating to the grant administered by the Department of Human Services (DHS), tested evidence supporting the reports the Agency submitted to DHS and performed other procedures considered necessary. Our fieldwork was completed on April 20, 2007.

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CONCLUSION AND SUMMARY OF OBSERVATIONS

Conclusion

The Human Development Corporation did not fully comply with federal, state and local DHS requirements.

Status of Prior Observations

As of the most recent fiscal monitoring report dated December 5, 2006 we noted one observation:

- There is the appearance of a conflict of interest on the Agency's Board of Directors **(Repeated – see Current Observation)**.

A-133 Status

Because it expended \$500,000 or more in federal funds for the year ended September 30, 2006, the Agency was required to file an A-133 audit report. The Agency's A-133 report, dated February 16, 2007, rendered a **qualified** opinion regarding compliance with requirements applicable to major federal awards. There were four reportable conditions, with one considered to be a material weakness; however, none were applicable to the DHS grant specifically. The auditors issued an unqualified opinion on the general purpose financial statements and described a reportable condition not considered to be a material weakness in the report on internal control over financial reporting. IAS did review the report and noted that the Agency did not qualify as a low-risk auditee but recommended the audit be accepted.

Summary of Current Observations

We made recommendations for the following observations, which if implemented, could assist Human Development Corporation in fully complying with federal, state and local DHS requirements.

1. There is the appearance of a conflict of interest on the Agency's Board of Directors.
2. Client Eligibility is not documented with eviction notices as required.
3. There appears to be a going concern issue.

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DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES

1. There is an appearance of conflict of interest on the Agency's Board of Directors

Sound business practices would prohibit any person who is an agent, consultant, officer, elected official or appointed official of the recipient (City of St. Louis) or of any designated public Agencies, or sub-recipients, from being a Member of the Board of Directors of the Operating Agency. Upon review, it was noted the Director of the Department of Human Services, a City of St. Louis Alderman, and the Special Assistant to the Comptroller are on the Agency's Board of Directors. We acknowledge the Agency is a Community Action Agency that is required by charter to have exactly one third of its Board composed of public officials; however an appearance of a conflict of interest is presented because the three members in question are in a position to directly participate in, provide information for, and influence the decisions of the Agency's Board, as well as being directly involved in funding of the Agency

This has been noted in prior monitoring reports. Human Development Corporation's latest response, included in our last report, Project 2007-HOM8, dated December 5, 2006, indicated the Agency's Management had discussed with the Director of Human Services our observation and our recommendation that the Agency either request the subject Board Members to resign or meet with and obtain legal written opinion from the originating federal funding source (actually the Department of Health and Human Services), the City of St. Louis Department of Human Services (DHS) or the City Counselor's Office to resolve their inclusion on the Agency's Board of Directors. The response stated that the Director of Human Services was in the process of securing a legal opinion on this matter, and that the Agency's Management would forward their final decision for our review upon receipt of that opinion.

Recommendation

We repeat our recommendation that the Agency either request the subject Board Members to resign or obtain written legal opinions from the City Counselor's Office to resolve their inclusion on the Agency's Board of Directors.

Management's Response

Mr. William Siedhoff, Director, Human Services, City of St. Louis, is in the process of securing a legal opinion on this matter; the agency is still awaiting the final decision from the Dept. of Human Services in this matter.

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

1. Continued...

Auditor's Comment

The Agency's Management should ensure that when a legal opinion is obtained, it will be sufficiently definitive to avoid potential conflicts of interest that would result from membership on the Agency's Board of Directors by any public officials or employees whose duties or authority are considered incompatible with that membership under applicable federal, state, or City of St. Louis legal restrictions.

2. **Client Eligibility is not documented with Eviction Notices as Required**

The Homeless Prevention Eligibility requirements, stated under Section 3.2 of the Missouri Department of Family Services Homeless Challenge Program Contract #HCP 33, indicate individuals or families who receive housing assistance payments provided by the program must have received an eviction notice. In our review of seven client files, six did not contain an eviction notice, resulting in questioned costs of \$6,434. Documents the Agency maintained as evidence of client eligibility for such payments are not eviction notices. Instead, they are agreement letters signed by rental property owners and/or managers to accept the assistance payment in lieu of continuing to assess late charges or take any additional actions against the respective client. Agency Management stated that the agreement letter forms have been used since the inception of the program and were approved by their State of Missouri funding source, the Division of Family Services. However, the managers interviewed by IAS did not have any written documentation of that approval available for review.

In the absence of written approval for their alternative eligibility documentation method, the Agency does not appear to be in compliance with the contract's requirement to use an eviction notice as evidence of eligibility for housing assistance payments. As a result, there may be an increased risk that assistance provided to some housing payment assistance clients could be considered as questioned costs.

Recommendation

We recommend the Agency obtain written confirmation from the Missouri Division of Family Services that the signed agreements they obtain and keep on file are acceptable evidence to satisfy the requirement stated in Homeless Challenge Program Contract #HCP 33 that an individual or

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**DETAILED OBSERVATIONS, RECOMMENDATIONS
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2. **Continued...**

family must have received an eviction notice to be eligible for housing assistance payments.

Management's Response

Management will seek to obtain written confirmation from the Missouri Division of Family Services that the signed agreements they obtain and keep on file are acceptable evidence to satisfy the requirement. In addition, the agency will revise the language of the agreement letter to ensure it clearly states that the amount of the payment made to the rental property owner/management or mortgage holder is necessary to prevent the eviction or home foreclose of the respective client.

Auditor's Comment

If the issue above is not resolved by the next fiscal monitoring review of the Agency, the amount indicated in this observation will be considered a questioned cost.

3. **There Appears to be a Going Concern Issue**

Working capital, the excess of current assets over current liabilities, 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 as at September 30, 2006 showed negative working capital of (\$634,173). As a result, the Agency may have a going concern issue which could potentially affect its ability to continue providing services to its clients. The Agency's President/ Chief Executive Officer had indicated in their December, 2006 Board of Directors meeting that a large portion of their stated current liabilities consisted of a \$477,895 note payable to the U.S. Department of Health and Human Services (HHS), which the President/ CEO would seek to have forgiven or set up as a long term obligation during a planned 2007 meeting with HHS officials in Washington, DC.

Recommendation

We recommend the Agency continue to work toward reducing their deficit by generating additional revenues and reduce its liabilities to attain a positive working capital.

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Management's Response

Management is currently working on the current showing liability due the Department of Health and Human Services (\$477,895). After further research and meetings with our corporate attorney, there have been some adjustments made to the total due that must be verified and agreed upon with the agency and the Department of Health and Human Services.