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OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



DARLENE GREEN  
Comptroller

*Internal Audit Section*

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February 22, 2007

Mr. Paul McCarthy, President  
Nova Source, Inc.  
12166 Old Big Bend Rd., Suite 107  
St. Louis, MO 63122

RE: Fiscal Monitoring Report of Nova Source, Inc. (#2007-SLATE-13)

Dear Mr. McCarthy:

Enclosed is a report of our fiscal monitoring review of Nova Source, Inc. for the period January 1, 2006 through June 30, 2006 (Contract #111-06). 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 Nova Source, Inc. Our fieldwork was completed on January 12, 2007.

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 St. Louis Agency on Training and Employment to provide fiscal monitoring to all grant subrecipients. If you have any questions, please contact Charles Schroeder at (314) 589-6089.

Sincerely,

  
Sedrick D. Blake, CPA  
Audit / Fiscal Executive

Enclosure

cc: Tom Jones, Director, St. Louis Agency on Training and Employment (SLATE)  
Kim Neske, Fiscal Manager, SLATE



CITY OF ST. LOUIS  
**CITY OF ST. LOUIS**

***ST. LOUIS AGENCY ON TRAINING AND EMPLOYMENT (SLATE)***

***NOVA SOURCE, INC.  
CONTRACT #111-06***

***FISCAL MONITORING REVIEW***

***JANUARY 1, 2006 THROUGH JUNE 30, 2006***

***PROJECT #2007-SLATE13***

***DATE ISSUED: FEBRUARY 22, 2007***

***Prepared by:  
The Internal Audit Section***



OFFICE OF THE COMPTROLLER  
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***Honorable Darlene Green, Comptroller***

**CITY OF ST. LOUIS  
ST. LOUIS AGENCY ON TRAINING AND EMPLOYMENT  
NOVA SOURCE, INC.  
CONTRACT #111-06  
FISCAL MONITORING REVIEW  
JANUARY 1, 2006 THROUGH JUNE 30, 2006**

**TABLE OF CONTENTS**

<b><u>Description</u></b>	<b><u>Page(s)</u></b>
INTRODUCTION	
Background	1
Purpose	1
Scope and Methodology	1
CONCLUSION AND SUMMARY OF OBSERVATIONS	
Conclusion	2
Status of Prior Observations	2
A-133 Status	2
Summary of Current Observations	2
DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES	3- 4

**CITY OF ST. LOUIS  
ST. LOUIS AGENCY ON TRAINING AND EMPLOYMENT  
NOVA SOURCE, INC.  
CONTRACT #111-06  
FISCAL MONITORING REVIEW  
JANUARY 1, 2006 THROUGH JUNE 30, 2006**

**INTRODUCTION**

**Background**

**Contract Name:** Nova Source, Inc.

**Contract Number:** 111-06

**Contract Period:** January 1, 2006 through June 30, 2006

**Contract Amount:** \$60,000.00

This contract provided funds through the St. Louis Agency on Training and Employment to Nova Source, Inc. for its Workforce Investment Act Project Reentry Adult program. The Nova Source, Inc. organization is responsible for assisting ex-offenders in gaining entry into the business world. The program concept is that ex-offenders will be hired by Nova Source Inc. as Career Development Specialists/Technical Recruiters and will recruit other ex-offenders into permanent positions in the St. Louis area utilizing their pre-incarceration business skills as well as any skills attained during incarceration. The funding provided will be used for the salary and payroll taxes for two (2) recruiters, partial salary and payroll taxes for a program coordinator and trainers; as well as administrative costs, office supplies and recruiting software.

All ex-offenders served with funds through this contract must be determined eligible for Parent's Fair Share services by Family Support Division Child Support Enforcement staff and enrolled in Parent's Fair Share by the Department of Workforce Development staff.

**Purpose**

The purpose of our review was to determine Nova Source Inc.'s compliance with federal, state and local SLATE requirements for the period January 1, 2006 through June 30, 2006. We will make recommendations for improvements if necessary.

**Scope and Methodology**

We made inquiries regarding Nova Source Inc.'s internal controls relating to the grant administered by the St. Louis Agency on Training and Employment (SLATE), tested evidence supporting the reports the agency submitted to SLATE and performed other procedures considered necessary. Our fieldwork was completed on January 12, 2007.

**CITY OF ST. LOUIS  
ST. LOUIS AGENCY ON TRAINING AND EMPLOYMENT  
NOVA SOURCE, INC.  
CONTRACT #111-06  
FISCAL MONITORING REVIEW  
JANUARY 1, 2006 THROUGH JUNE 30, 2006**

**Conclusion**

Nova Source, Inc. did not fully comply with federal, state and local SLATE requirements.

**Status of Prior Observations**

This is the first fiscal monitoring review of Nova Source, Inc. conducted by the Comptroller's Office Internal Audit Section.

**A-133 Status**

According to a letter received from Agency management, Nova Source, Inc. was not required to obtain an A-133 audit for the year ended December 31, 2005 because it did not expend \$500,000 or more in Federal funds.

**Summary of Current Observations**

We made recommendations for the following observation, which if implemented, could assist Nova Source, Inc. in fully complying with federal, state, and local SLATE requirements:

- The Agency has a going concern issue.
- The Agency adjusted the payroll budget without approval from SLATE.

**CITY OF ST. LOUIS  
ST. LOUIS AGENCY ON TRAINING AND EMPLOYMENT  
NOVA SOURCE, INC.  
CONTRACT #111-06  
FISCAL MONITORING REVIEW  
JANUARY 1, 2006 THROUGH JUNE 30, 2006**

**CONCLUSION AND SUMMARY OF OBSERVATIONS**

**1. The Agency has a Going Concern Issue**

Contract #111-06 page 4 paragraph 14b states that the contractee must be a fiscally viable entity without receipt of this contract.

The Agency's Balance Sheet ending June 30, 2006 showed working capital at an overall deficit of \$371,237.29. The President and Accountant stated the agency is a for-profit entity and expended upfront costs and reserves for its primary operations as well as for the SLATE Project Reentry Adult Program. The Agency had not received reimbursement from SLATE at the time the financial reports were prepared. Also a decrease in the funding expected from SLATE to start-up the Project Reentry program affected overall expenditures and projected income. The Agency's financial statements should improve when revenues from general operations and reimbursements from SLATE are received.

**Recommendation**

We recommend the Agency rectify the going concern issue and return working capital to a positive position to comply with SLATE contractual requirements.

**Management Response**

*While certainly concurring that Nova Source's financial reports have indicated it has had an overall deficit in its operations, we want to emphasize that earnings have begun to increase due to added business with our primary client, Northrop Grumman Corporation. Invoicing amounts to Northrop Grumman have increased since December 2006, and the indications are that the trend will continue well into 2007 and beyond.*

**CITY OF ST. LOUIS  
ST. LOUIS AGENCY ON TRAINING AND EMPLOYMENT  
NOVA SOURCE, INC.  
CONTRACT #111-06  
FISCAL MONITORING REVIEW  
JANUARY 1, 2006 THROUGH JUNE 30, 2006**

**CONCLUSION AND SUMMARY OF OBSERVATIONS**

**2. The Agency Adjusted the Payroll Budget without Approval from SLATE**

Page 5, paragraph 18, of contract #111-06 states ... no more than the specific amount, as stated in the Budget Section ... may be spent for the per performance unit costs or by activity or the outlined costs categories and/or activities on a line-by-line basis as outlined in the contract budget, without prior written approval of SLATE.

The May 2006 payroll records showed that the Program Coordinator was paid as an independent contractor rather than as an employee as required by the contract budget. The amount paid and requested for reimbursement was less than the budgeted amount. The President of Nova Source, Inc. informed us that the salary of the Program Coordinator was adjusted because this position was changed from a salaried employee to an independent contractor.

The Agency did not request written authorization from SLATE prior to making the budget adjustment because this was their first SLATE contract and they were not familiar with the correct procedure.

**Recommendation**

We recommend that the Agency request prior written authorization from SLATE before making contract budget adjustments as required by the contract.

**Management Response**

*For various reasons "...our attorney advised us to change Ms. Custer's status to Independent Contractor instead of salaried employee. This affected the payments and taxes paid to Ms. Custer. In order that she would be paid the allocated total amount, according to the contract, different payment amounts were made to her..."*

**Auditor's Comment**

The Agency should obtain prior written approval, from SLATE, before making any changes in the contract budget.