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OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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April 9, 2007

William F. Seidhoff
Director, Department of Human Services
634 N. Grand Boulevard, Room 720
St. Louis, MO 63103-1002

RE: Special Review of Grant Funds Drawdowns (Project #2007-22)

Dear Mr. Seidhoff:

Enclosed is the report of our special fiscal review of grant funds drawdown procedures performed by the Department of Human Services. The objective of this review was to determine if the Department of Human Services has in place adequate fiscal controls to meet the City's cash management requirements with respect to obtaining payment from funding sources for eligible expenditures under terms of various grant agreements.

Our fieldwork was completed on December 27, 2006. Management responses to the observations and recommendations noted in the report were received on {date received} and have been incorporated into the 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 the Professional Practice of Internal Auditing.

If you have any questions, please contact me at (314) 589-6132.

Respectfully,

A handwritten signature in cursive script that reads "Sedrick D. Blake".

Sedrick D. Blake, CPA
Audit/ Fiscal Executive

Enclosure

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



CITY OF ST. LOUIS

DEPARTMENT OF HUMAN SERVICES

SPECIAL FISCAL REVIEW

DRAWDOWNS OF GRANT FUNDS

AS OF DECEMBER 2006

PROJECT #2007-22

DATE ISSUED: APRIL 9, 2007

*Prepared by:
The Internal Audit Section*



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
DEPARTMENT OF HUMAN SERVICES
SPECIAL FISCAL REVIEW
DRAWDOWNS OF GRANT FUNDS
AS OF DECEMBER 2006**

EXECUTIVE SUMMARY

Purpose

We have completed a special review of grant funds drawdown procedures performed by the Department of Human Services. Our purpose was to determine if the Department of Human Services has in place adequate fiscal controls to meet the City's cash management requirements with respect to obtaining payment from funding sources for eligible expenditures under terms of various grant agreements.

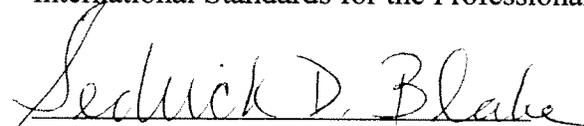
Conclusion

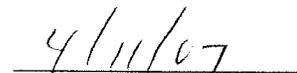
In general, the fiscal controls of the drawdown procedures performed by the Department of Human Services appeared to be adequate to meet the City's cash management requirements. The opportunity exists, however, for the department to make certain improvements in those controls. The following are observations resulting from our review:

1. There is an opportunity to document controls over grant funds cash management.
2. There is an opportunity to expedite identification of grant revenues received.

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* 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 the Professional Practice of Internal Auditing.


Sedrick D. Blake, CPA
Audit/ Fiscal Executive


Date

**CITY OF ST. LOUIS
DEPARTMENT OF HUMAN SERVICES
SPECIAL FISCAL REVIEW
DRAWDOWNS OF GRANT FUNDS
AS OF DECEMBER 2006**

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**CITY OF ST. LOUIS
DEPARTMENT OF HUMAN SERVICES
SPECIAL FISCAL REVIEW
DRAWDOWNS OF GRANT FUNDS
AS OF DECEMBER 2006**

INTRODUCTION

Background

The Internal Audit Section, in conjunction with the Federal Grants Section of the Comptroller's Office, developed a listing of the City departments and agencies that had open grant funding agreements from other entities (e.g., agencies of the federal or state governments), and performed their own drawdowns of the grant funds. The Federal Grants Section performs the drawdown function for most federal grant funds received by the City government. The Department of Human Services was identified as one of the departments that performed their own drawdowns for certain grant agreements.

Purpose

We have completed a special review of grant funds drawdown procedures performed by the Department of Human Services. Our purpose was to determine if the Department of Human Services has in place adequate fiscal controls to meet the City's cash management requirements with respect to obtaining payment from funding sources for eligible expenditures under terms of various grant agreements.

Scope and Methodology

We identified the amounts of expenditures eligible for grant funding made by the department for which no corresponding receipts of funds drawdowns had been recorded.* We evaluated the adequacy of fiscal controls in place to meet the City's cash management requirements with respect to obtaining payment from grant funding sources. Our procedures included inquiries of management and staff, observation of relevant processes, and reviews for compliance with policies and procedures, as well as applicable laws and regulations, and the performance of other procedures considered necessary. Our fieldwork was completed on December 27, 2006.

Exit Conference

The Department of Human Services management declined to the opportunity to have an exit conference for this report.

Management's Responses

We received management responses to the observations and recommendations identified in this report from the Department of Human Services on March 21, 2007. These responses have been incorporated into this report.

* (See Exhibit on page 7 for a summary of grant-funded expenditures by DHS for which offsetting drawdowns of grant revenues had not yet been recorded.)

**CITY OF ST. LOUIS
DEPARTMENT OF HUMAN SERVICES
SPECIAL FISCAL REVIEW
DRAWDOWNS OF GRANT FUNDS
AS OF DECEMBER 2006**

OBSERVATIONS

Status of Prior Observations

There were no prior report observations.

Summary of Current Observations

In general, the fiscal controls of the drawdown procedures performed by the Department of Human Services appeared to be adequate to meet the meet the City's cash management requirements; however, the opportunity exists for the department to make certain improvements in those controls. The following are observations resulting from our review:

1. There is an opportunity to document controls over grant funds cash management.
2. There is an opportunity to expedite identification of grant revenues received.

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

**CITY OF ST. LOUIS
DEPARTMENT OF HUMAN SERVICES
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DRAWDOWNS OF GRANT FUNDS
AS OF DECEMBER 2006**

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

1. There is an opportunity to document controls over grant funds cash management.

The Department of Human Services (DHS) Fiscal Section did not have approved written procedures available for their current process of submitting and/or recording submission of drawdown requests to the funding sources of all the department's grant funding agreements. In addition, their procedures did not include maintaining a comprehensive tracking system for each grant funding agreement to provide applicable periodic (e.g., monthly) and contract-to-date information on:

1. Expenditures eligible for reimbursement drawdowns
2. Drawdown requests submitted for those eligible expenditures
3. The amounts expended but not yet reimbursed (float)

Also, funds drawdown requests for grants that funded programs of the Homeless Services Division and the Veterans' Affairs Office were respectively submitted by the Homeless Services Manager and the Veterans' Affairs Officer, rather than Fiscal Services Division accountants.

Written policies and procedures assist in ensuring that procedures and job functions are:

- Effectively communicated to and understood by staff
- Approved by management
- Consistently performed
- In accordance with management goals and objectives

They also provide a basis for training and cross training of new and current employees and provide a basis for the development of performance standards and measures.

DHS Fiscal Section management indicated there had been a number of changes in the department's procedures for obtaining and accounting for grant funds drawdowns since a major policy change in the drawdown process. All grant funding sources now require that their payments of the requested funds are remitted by wire transfer.

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

1. Continued...

Consequently, the department had not yet incorporated all of the changes into written procedures for management's approval.

Without updated written procedures, DHS incurred an increased risk that procedures would not be consistently performed in accordance with management goals and objectives. The absence of procedures to comprehensively track eligible expenditures through the receipt of applicable grant funds drawdowns could increase the risk that drawdowns will not be obtained on a timely basis. Delays in obtaining drawdowns would in turn negatively affect the City's cash management status.

In addition, the fact that the Homeless Services Division and the Veterans' Affairs grant funds drawdown requests were not submitted by the Fiscal Section increased the risk potential that control procedures would not be effectively carried out.

Recommendation

- A. We recommend the DHS Fiscal Section develop updated written procedures for the department's grant funds management and accounting and obtain approval for those procedures from appropriate levels of DHS management. The procedures should include their process for reconciling expenditures eligible for grant agreement funding to the respective drawdowns of cash from the funding sources. The procedures should also include maintenance of a comprehensive tracking system for each grant funding agreement that indicates, for the contract's reporting/ billing period (e.g., monthly) and contract-to-date:
1. Expenditures eligible for reimbursement drawdowns.
 2. Drawdown requests submitted for those eligible expenditures.
 3. The amounts expended but not yet reimbursed (floating).
- B. To simplify financial recordkeeping and control we recommend the DHS management strongly consider assigning the Fiscal Section the responsibility for submitting to the respective funding sources all grant funds drawdown requests other than those processed through the Comptroller's Office Federal Grants Section.

**CITY OF ST. LOUIS
DEPARTMENT OF HUMAN SERVICES
SPECIAL FISCAL REVIEW
DRAWDOWNS OF GRANT FUNDS
AS OF DECEMBER 2006**

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

1. Continued...

Management's Response

The DHS Fiscal Section will update the written procedures for the department's grant funds management and accounting and obtain approval for those procedures from appropriate levels of DHS management. Also, the DHS Fiscal Section will take on the responsibility for submitting to the respective funding sources all grant funds drawdown requests other than those processed through the Comptroller's Office Federal Grants Section.

2. There is an opportunity to expedite identification of grant revenues received.

In accordance with sound cash management practices, grant funds should be drawn down from funding sources, and the revenues deposited to the appropriate cash account, as soon as practically possible after expenditures have been incurred that are eligible for reimbursement under terms of the funding agreement. Some wire transfer reimbursements to the City of St. Louis Department of Human Services (DHS) under Missouri Department of Health and Senior Services (MDHSS) grant funding agreements are not timely posted to the appropriate fund and center revenue and cash accounts. The City Treasurer's Office has to borrow money to cover any temporary cash shortages in funds appropriated for expenditures from specific program cost centers.

DHS grant funds drawdown procedures indicate the respective Fiscal Section accountants send an e-mail to the Comptroller's Office Federal Grants Section, stating the account, fund, and center to which revenue should be coded, and requesting that they fax a copy of the RCF to the DHS Accounting Manager. At times, however, the wire transfer notifications received by the Treasurer's Office do not include specific information about the purpose of the payments sent by MDHSS and some uncertainty about correct account posting may result if the amount and timing of the payment are not sufficiently distinctive.

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

2. **Continued...**

Recommendation

We recommend DHS management:

Request that all grant funding sources provide include adequate information along with wire transfer payments to ensure that the program(s) and activity period(s) being funded can be readily determined.

Management's Response

The DHS Fiscal Section can readily identify grant funds due to DHS. The DHS Fiscal Section cannot control the amount of time it takes for the Treasurer's and Comptroller's offices to process wire transfers. As soon as the DHS Fiscal Section is notified by the Treasurer's Office of a wire transfer, the DHS Fiscal Section sends to the Federal Grants Section of the Comptroller's Office an email indicating the appropriate accounts for deposit. There continues to be an inordinate time lag between the date of the wire transfer and the receipt by the DHS Fiscal Section of the RCF. The DHS Fiscal Section has attempted to organize a meeting with the Treasurer's and Comptroller's offices to address this issue, so far to no avail.

**CITY OF ST. LOUIS
DEPARTMENT OF HUMAN SERVICES
SPECIAL FISCAL REVIEW
DRAWDOWNS OF GRANT FUNDS
AS OF DECEMBER 2006**

**SUMMARY OF GRANT-FUNDED EXPENDITURES BY THE DEPARTMENT OF
HUMAN SERVICES (DHS) FOR WHICH OFFSETTING DRAWDOWNS OF GRANT
REVENUES WERE NOT YET RECORDED
AS OF NOVEMBER 30, 2006**

TOTAL APPROPRIATIONS	TOTAL EXPENSE	TOTAL GRANT REVENUE	ADVANCE/ (FLOAT)
\$27,277,467.00	\$13,857,824.25	\$13,635,241.98	\$(222,582.27)

Note: The "Float" amount also includes all drawdown requests invoiced to the funding agencies and still outstanding, and any amounts received by the City but not yet posted to the appropriate General Ledger accounts. The expenses incurred are based on information from the City's General Ledger system. The Total Expense amount represents payments made to scores of sub-recipients, subcontractors, and vendors under the terms of hundreds of subcontracts the operating divisions of DHS have administered for varying contract periods.

Due to the lack of a comprehensive system in place for tracking grant eligible expenditures by DHS programs through their subsequent receipt of applicable grant funds drawdowns, (See Observation #1 of this report.) we were unable to obtain an analysis and aging of the expended amounts. The management and staff of the DHS Fiscal Services Division have indicated all drawdowns for which they are responsible are submitted to the funding sources on a timely basis in accordance with the terms of the respective grant agreements.