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OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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April 06, 2007

David Mueckl, Ph.D., President and Chief Executive Officer
Stepstone Productions, Inc.
500 S. Ewing, Ste. F
St. Louis, MO 63103

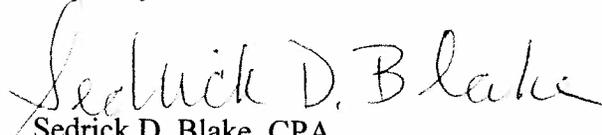
RE: Fiscal Monitoring Report of Stepstone Productions, Inc. (Project #2007-CDA25)

Dear Mr. Mueckl:

Enclosed is a report of our fiscal monitoring review of Stepstone Productions, Inc. (Contracts #05-10-95 & #06-10-95) for the period January 1, 2005 through January 31, 2007. 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 Stepstone Productions, Inc. Our fieldwork was completed on March 02, 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 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)**

STEPSTONE PRODUCTIONS, INC.

CONTRACTS #05-10-95 & #06-10-95

FISCAL MONITORING REVIEW

JANUARY 1, 2005 THROUGH JANUARY 31, 2007

PROJECT #2007-CDA25

DATE ISSUED: APRIL 6, 2007

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

CITY OF ST. LOUIS
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
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CONTRACTS: #05-10-95 & #06-10-95
FISCAL MONITORING REVIEW
JANUARY 1, 2005 THROUGH JANUARY 31, 2007

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INTRODUCTION

Background

Contract Name: Stepstone Productions, Inc.

Contract Numbers: 05-10-95
06-10-95

Contract Periods: January 1, 2005 through December 31, 2005
January 1, 2006 through December 31, 2006

Contract Amount: \$10,000
\$30,000

Contracts #05-10-95 & #06-10-95 (Documents 51095 & 54836) provided Community Development Block Grant (CDBG) funds to Stepstone Productions Inc. to provide video production apprenticeship program to at risk youth. The programs provides life training and job readiness skills through classroom and individual counseling sessions covering subjects such as: self-esteem, anger management, conflict resolution, resume writing, interviewing techniques, and job search resources.

Purpose

The purpose of our review was to determine Stepstone Productions Inc.'s compliance with federal, state and local CDBG requirements for the periods January 1, 2005 through January 31, 2007. We may make recommendations for improvements if necessary.

Scope and Methodology

We made inquiries regarding Stepstone Productions Inc.'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 March 02, 2007.

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CONCLUSION AND SUMMARY OF CURRENT OBSERVATIONS

Conclusion

Stepstone Productions Inc. did not fully comply with federal, state and local CDBG requirements.

Status of Prior Observations

IAS did not have a prior contract with the Stepstone Productions Inc; therefore we did not do any monitoring, and did not have any prior observations.

A-133 Status

In a letter drafted by Agency's management on February 8, 2007, The Agency stated it did not expend over \$500,000 for CY 2005 and CY 2006; therefore, it was not required to have a single audit in accordance with OMB Circular A-133.

Summary of Current Observations

We made recommendations for the following observations, which if implemented, could assist Stepstone Productions Inc in fully complying with federal, state and local CDBG requirements.

1. The Agency does not require two authorized signatures on checks.
2. Eligibility requirements were not met.
3. There is an apparent conflict of interest.
4. The Agency has an inadequate nepotism policy.

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DETAILED OBSERVATIONS, RECOMMENDATIONS, AND
MANAGEMENT'S RESPONSES

1. The Agency does not require two authorized signatures on checks

CDA policy guidelines require the Agency to have two authorized signatures on all checks. During our review, we observed that some issued checks only had one signature on them. We also noted that the President and CEO signs his own disbursement checks for a personal loan he made out to the Agency. Internal controls over expenditures may be inadequate when only one individual signs disbursement checks.

Recommendation

We recommend the Agency comply with CDA policy guidelines and require two authorized signatures for all checks.

Management's Response

Stepstone Productions concurs with the observation with the following explanation: First, Stepstone failed to recognize the two-signatures policy as a CDA policy, Second, Stepstone is a small organization that is not able to have a functioning accounting department. The CEO handles all of the financial affairs of the company while the rest of the staff is involved in production and teaching. If the organization were to hire another individual to meet this requirement of two signatures, for example a competent bookkeeper, the organization would have to place this person on the payroll for approximately \$20,000 per year, including matching taxes and benefits. The first year block grant was for \$10,000 of reimbursable funds for the Director of Stepstone Institute. The Second year block grant was for \$30,000 of reimbursable funds for rent on the building. If it were to hire another person qualified to sign checks, the block grant money would have no financial impact on our organization. To rectify this situation, we plan to authorize a board member to be the second signatory on checks. This will create an undue hardship on the operation of the company. However, Stepstone now recognizes the policy of CDA and will come into full compliance.

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2. Eligibility requirements were not met

CDA eligibility requirements for 2005 were that clients are within the age range of 15-20, for 2006 it required clients to be within the age range of 18-30. We reviewed the 2005 and 2006 client listing and the Agency had clients that were outside the criteria. In 2005 the Agency had one out of four clients tested outside of the age range, and in 2006 the Agency had seven out of nine clients tested outside the age range. For the 2006 contract, we also noted that training began in 2005 before the actual contract got under way. Servicing clients not eligible for the program can result in questioned costs for the entire grant period.

Recommendation

We recommend the Agency comply with CDA and the approved contract.

Management's Response

Stepstone Productions technically concurs with this observation. However, our clients are approved by the primary funding source, SLATE, who is well aware of the age range of our program. SLATE approves the clients based upon background and special circumstances and will not discriminate based upon age. Some of the clients beyond age range were Veterans that SLATE approved based upon veterans benefits.

The Training in 2006 did begin before the contract was signed due to the fact that CDA did not issue the contract until January 2007 – backdating the contract to September of 2006. This was done due to the prolonged illness of the CDA representative working with Stepstone and the extraordinary amount of time to have city officials sign the contract. CDA instructed Stepstone to fill out all reports beginning in September 2006 with the contract number being assigned to the year. Stepstone was in full compliance with all reporting procedures and did not receive any of the funds for the contract until the actual contract was signed by all city officials in January 2007.

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**DETAILED OBSERVATIONS, RECOMMENDATIONS, AND
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3. There is an apparent conflict of interest

CDBG regulations at 24 CFR 570.611 prohibit conflict of interests for government and public agency sup-recipients. These conflicts of interest provisions apply to any person, who is an employee, agent, consultant, officer or elected official or appointed official of the recipient (City of St. Louis) or of any designated public agencies, or sub-recipients, that are receiving funds. There is a City of St. Louis Alderman on the Board of Directors. We believe the inclusion presents the appearance of a conflict of interests and a violation of CDGB regulations because it is the Board of Directors who approves these CDA contracts.

Recommendation

We recommend the Agency meet with and obtain a written opinion from CDA or the City Counselor's Office to resolve the inclusion of the City of St. Louis Aldermen on the Board of Directors.

Management's Response

While there is no need to respond, Stepstone wishes to clarify that Board Minutes will show that the alderman never attended any board meetings. In addition, he did not participate in any discussions about the contract or the use of the funds.

Auditor's Response

On February 08, 2007 Internal Audit Staff held an entrance conference with Stepstone Productions. While reviewing the Board of Directors listing we noticed that there was a City of St Louis Alderman on the Board. We brought this matter to the attention of management. On March 13, 2007 Stepstone Productions sent a letter stating that the City of St. Louis Alderman in question had resigned. Internal Audit considers this issue resolved and no further action is required.

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4. The agency has an inadequate nepotism policy

Federal regulations prohibit, and CDA policy states that no person shall be employed or contracted with if a member of his or her immediate family who is on the Board of Directors of the Grantees or is employed in administrative capacity by the Grantee. For the purposes of this section "immediate family" includes wife, husband, daughter, son, mother, father, brother, sister...and step. During our review, we noted that the Agency hired the President and CEO's brother, who worked directly under him as the Business Manager. The hiring of relatives gives the appearance of a conflict of interest, and shows an appearance of favoritism towards the relatives.

Recommendation

We recommend the Agency discuss the situation with CDA to resolve this issue.

Management's Response

Stepstone Productions does not concur with this observation. Stepstone Productions never had a "brother" of the CEO employed in any capacity with the organization. Stepstone Productions did employ, for a one year assignment, a nephew of the CEO to be a marketing administrator. The marketing manager position was eliminated in January of 2007, after one year assignment expired. No other relatives of any member of the staff are employees of Stepstone Productions.

Auditor's Response

During our review, we noted that the Agency hired the nephew of the President and CEO. We also noted that there were checks made payable to the brother of the President and CEO. Checks were also made payable to a brother, son and sister-in-law of a board member of Stepstone Productions.