

FILE COPY

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Comptroller



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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DR. KENNETH M. STONE, CPA
Internal Audit Executive

August 13, 2009

Sam Maraldo, Finance & Administration Director
West End Mount Carmel Community Outreach Service
5935 Horton Place
St. Louis, MO 63112

RE: Community Development Block Grant (CDBG)
(Project #2009-CDA18)

Dear Ms. Maraldo:

Enclosed is a report of our fiscal monitoring review of West End Mount Carmel Community Outreach Service, a not-for-profit organization, CDBG Program, for the period of January 1, 2008 through June 30, 2008. The scope of a fiscal monitoring review is less than an audit and, as such, we do not express an opinion on the financial operations of the Agency. The initial fieldwork was completed on August 12, 2008, and additional fieldwork was completed on April 8, 2009.

This review was made under the 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* and through an agreement with the City of St. Louis Community Development Administration (CDA) to provide fiscal monitoring to all federal grant sub-recipients.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Sincerely,

A handwritten signature in black ink that reads "Kenneth M. Stone".

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: Lorna Alexander, Special Assistant for Development, CDA
Jill Claybour, Acting Executive Director, CDA



CITY OF ST. LOUIS CITY OF ST. LOUIS

**COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)**

**WEST END MOUNT CARMEL
COMMUNITY OUTREACH SERVICE
CONTRACT #08-10-94
CFDA #14.218**

**FISCAL MONITORING REVIEW
JANUARY 1, 2008 THROUGH JUNE 30, 2008**

PROJECT #2009-CDA18

DATE ISSUED: AUGUST 13, 2009

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
WEST END MOUNT CARMEL COMMUNITY OUTREACH SERVICE
FISCAL MONITORING REVIEW
JANUARY 1, 2008 THROUGH JUNE 30, 2008**

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INTRODUCTION

Background

Contract Name: Make a Difference Afterschool Program
Contract Number: 08-10-94
CFDA Number: 14.218
Contract Period: January 1, 2008 through December 31, 2008
Contract Amount: \$95,000.00

Contract #08-10-94 provides Community Development Block Grant (CDBG) funds to West End Mount Carmel Community Outreach Service (Agency) to operate the Make a Difference Afterschool Program.

Purpose

The purpose of our review was to determine the Agency's compliance with federal, state and local Community Development Administration (CDA) requirements for the period January 1, 2008, through June 30, 2008, and make recommendations for improvements, as considered necessary.

Scope and Methodology

Inquiries were made regarding the Agency's internal controls relating to the grants administered by CDA. Evidence was tested supporting the reports the Agency submitted to CDA, and other procedures were performed, as considered necessary. The fieldwork was completed on August 12, 2008.

Exit Conference

We conducted an exit conference at West End Mount Carmel Community Outreach Service on August 6, 2009. The Agency was represented at the exit conference by Sam Maraldo, Director of Finance, and Donald Glenn, Acting Executive Director. The Internal Audit Section was represented by Anchaleeya Thompson, Auditor I, and Jeremy Holtzman Auditor II.

Management's Responses

Management's responses to the observation and recommendations noted in the report were received August 3, 2009, and have been incorporated into this report.

SUMMARY OF OBSERVATION

Conclusion

The Agency did not fully comply with federal, state and local CDA requirements.

Status of Prior Observations

The Agency's previous fiscal monitoring report, Project #2007-CDA18, dated February 2, 2007, did not have any observations.

A-133 Status

According to a letter received from the Agency, dated February 13, 2008, it did not expend \$500,000 or more in federal funds in its fiscal year ended December 31, 2007, and was not required to have an A-133 audit report.

Summary of Current Observations

A recommendation was made for the following observation which, if implemented, could assist the Agency in fully complying with federal, state and local CDA requirements.

- The Agency has going concern issues

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

Opportunity to Address Going Concern Issues

Going concern refers to an entity's ability to function as a business entity. It is based on the assumption that the entity will continue operations for the foreseeable future.

There were doubts about the Agency's ability to continue as a going concern based on the analysis of its financial statements for the past three years:

Working Capital

The Agency's balance sheets for the past three years showed that the Agency consistently had a negative working capital (current liabilities exceeded current assets) as follows:

Description	December 2006	December 2007	December 2008
Current Assets	\$30,499	\$21,372	\$57,465
Current Liabilities	40,033	80,241	89314
Working Capital	\$ (9,534)	\$(58,869)	\$(31,848)

Working capital, excess of current assets over current liabilities, is a measure of an organization's ability to realize assets, discharge liabilities in the normal course of business and generate sufficient resources to stay operational.

The Agency did not have internal controls in place to ensure that it used its resources efficiently and effectively to stay operational for the foreseeable future.

If an Agency is not generating enough revenue, where current assets are not enough to offset its current liabilities, then the Agency may become insolvent and may not be able to continue providing services to its clients.

Unpaid Payroll Taxes

The Agency's current liabilities for the past two years included unpaid payroll taxes as follows:

Year Ended	Payroll taxes
December 2007	\$37,323
December 2008	42,612

The Agency's CDBG grant agreement requires that all expenses must be paid before their reimbursements are requested from CDA. The Agency did not provide the detail breakdown of these taxes by grants; therefore, it could not be determined if the reimbursed payroll taxes for CDBG grant were included in the outstanding payroll taxes.

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

Unpaid Payroll Taxes (Continued...)

The Federal payroll taxes are required to be paid in full by the end of the 15th day of the first month of the following quarter.

The Agency did not have an effective system of internal control in place to ensure that:

- Payroll taxes are paid when due
- Reimbursement requests are made only after expenses are incurred and paid

In addition to requiring the Agency to pay penalty and interest on the outstanding taxes, the IRS may place a lien on the Agency's property, endangering its very survival. Furthermore, CDA may terminate its grant agreement with the Agency for not following the requirements of the grant agreement.

Board of Directors' Oversight

Review of the minutes of the Agency's monthly Board of Directors' meetings for the period of the review did not disclose any on-going discussion or concern of the Agency's financial position.

Sound management practices require the Board of Directors to oversee the financial operations of the Agency in order to prevent misconduct, violation of law and regulations, and mismanagement of the Agency's affairs.

Lack of adequate Board oversight may cause the Agency to not be fiscally responsible in complying with the requirements of the grant agreement, which may ultimately result in its termination.

Recommendation

Working Capital

It is recommended that the Agency continue to work toward attaining a positive working capital by:

- Developing and implementing budgetary controls in order to ensure expenditures do not exceed revenues.
- Generating additional revenues and reducing liabilities.

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

Unpaid Payroll Taxes

It is recommended that the Agency establish internal controls to ensure:

- Payroll taxes are paid when due
- Compliance with the requirements of the grant agreement, which requires that all expenditures are incurred and paid before requesting their reimbursements

Board of Directors' Oversight

It is recommended that the Agency put in place internal controls to ensure the Agency's affairs are discussed at Board meetings and corrective measures are taken, as deemed necessary by the Board.

Management's Response

In recent months West End Mt Carmel Community Outreach Service (WEMCCOS) has taken steps to ensure the continued financial viability of our agency. We have cut staff in several areas; First step, Evening Performing Arts Program, and Day Care. These staffing cuts total in excess of 65,000 dollars over a 12 month period.

WEMCCOS has paid all 2008 payroll taxes. WEMCCOS has held various fundraisers this year, and have several more planned. The Executive Director is making a 30,000.00 contribution to the center. WEMCCOS has decided to attack the problem from all sides to ensure a positive working capital. We are putting controls in place to ensure sufficient resources to stay operational.

It is our hope that we are able to continue our partnership with CDA as we continue to be a positive driving force in our community.