



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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Comptroller

Internal Audit Section

DR. KENNETH M. STONE, CPA
Internal Audit Executive

August 4, 2010

Veronica Banks, Executive Director
I-70 Northwest Development Corporation
4144 Lindell Blvd
St. Louis, MO 63108

RE: Community Development Block Grant (CDBG) (Project #2010-CDA13)

Dear Ms. Banks:

Enclosed is a report of our fiscal monitoring review of I-70 Northwest Development Corporation, a not-for-profit organization, CDBG Program for the period January 1, 2009 through August 31, 2009. 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 I-70 Northwest Development Corporation. Fieldwork was completed on September 11, 2009.

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 the 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 Internal Audit Section at 622-4723.

Sincerely,

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

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



CITY OF ST. LOUIS

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

**I-70 NORTHWEST DEVELOPMENT CORPORATION
CONTRACT #09-31-59
CFDA #14.218**

FISCAL MONITORING REVIEW

JANUARY 1, 2009 THROUGH AUGUST 31, 2009

PROJECT #2010-CDA13

DATE ISSUED: AUGUST 4, 2010

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
I-70 NORTHWEST DEVELOPMENT CORPORATION
FISCAL MONITORING REVIEW
JANUARY 1, 2009 THROUGH AUGUST 31, 2009**

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INTRODUCTION

Background

Contract Name: I-70 Northwest Development Corporation

Contract Number: 09-31-59

CFDA Number: 14.218

Contract Period: January 1, 2009 through December 31, 2009

Contract Amount: \$60,000

The contract provided Community Development Block Grant (CDBG) funds to I-70 Northwest Development Corporation (Agency) to encourage, promote and implement housing development and revitalization efforts in the 18th ward neighborhoods north of Delmar by providing decent and affordable housing in a viable living environment for people of mixed incomes.

Purpose

The purpose of the review was to determine Agency's compliance with federal, state and local Community Development Administration (CDA) requirements for the period January 1, 2009 through August 31, 2009 and make recommendations for improvements as necessary.

Scope and Methodology

Inquiries were made regarding the Agency's internal controls relating to the grant administered by CDA. Evidence was tested supporting the reports the Agency submitted to CDA and other procedures were performed as considered necessary. Fieldwork was completed on September 11, 2009.

Exit Conference

The Agency was offered the opportunity for an exit conference on July 20, 2010, but the Agency declined.

Management Responses

On July 20, 2010, the Agency was provided with our observations and recommendations and a response was requested by July 30, 2010; however, as of the date of the report, the Agency has not responded.

SUMMARY OF OBSERVATIONS

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 #2009-CDA15, dated April 3, 2009 contained the following observations:

1. Opportunity to file IRS Form 941 **(Repeated, see observation #1)**
2. Opportunity to maintain adequate payroll records **(Repeated, see observation #4)**
3. Opportunity to maintain adequate accounting records **(Repeated, see observation #3)**

A-133 Status

According to a letter received from the Agency dated August 27, 2009, it did not expend \$500,000 or more in federal funds in its fiscal year ending December 31, 2008, and was not required to have an A-133 audit.

Summary of Current Observations

Recommendations were made for the following observations, which if implemented, could assist the Agency in fully complying with federal, state and local CDA requirements.

1. Opportunity to file IRS Form 941 (Questioned Cost \$106)
2. Opportunity to file IRS Form 990
3. Opportunity maintain adequate accounting records
4. Opportunity maintain adequate payroll records
5. Opportunity to comply with CDA policies regarding maintaining general liability and bonding

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

1. Opportunity To File IRS Form 941 (Questioned Cost \$106)

The Agency did not provide a current IRS Form 941 for the second quarter of 2009, which the Agency was reimbursed with grant funds to pay these taxes. This represents a questioned cost of \$106.

IRS regulations and relevant state and local government regulations require all organizations with employees to file IRS Form 941. This form must be filed every quarter to report income tax withholdings, such as, FICA and Medicare taxes for both employees and employers shares.

The Agency lacks proper oversight and segregation of duties without compensating internal controls.

Failure to use grant funds for its intended purposes may result in an suspension or termination of the contract. In addition, unpaid withholding taxes may continue to accrue interest and penalties increasing the Agency's current liabilities, that obligation, the Agency would have to meet from its own resources.

Recommendation

It is recommended, the Agency file its outstanding IRS form 941 and pay the outstanding withholding taxes promptly. The Agency shall provide proof of the filing of the outstanding tax return to the Internal Audit Section. It is also recommended, the Agency reimburse CDA for its questioned cost of \$106 and provide proof of this payment.

Management's Response

On July 20, 2010, the Agency was provided with our observations and recommendations and a response was requested by July 30, 2010; however, as of the date of the report, the Agency has not responded.

2. Opportunity To File IRS Form 990

The Agency did not provide a copy of its IRS Form 990 from calendar year 2008. The Agency received two filing extensions from the IRS in calendar year 2009, but both extensions have expired. As of the end of fieldwork, September 11, 2009, the Agency has not filed the form.

Federal guidelines require all not-for-profit 501(c)(3) organizations with annual gross receipts of \$25,000 or more are required to file a return of organization exempt from income tax IRS Form 990 by 15th of the fifth month following the end of the Agency's fiscal year end. This form should also be available for public inspection.

The Agency lacks proper oversight and segregation of duties without compensating internal controls.

Failure to met federal obligations may result in suspension or termination of the contract. In addition, failure to file the form could result in fines carrying penalties and interest impacting the Agency's current liabilities. The Agency would have to meet that obligation from its own resources.

Recommendation

It is recommended, the Agency file the outstanding 2008 IRS form 990 and pay any outstanding penalties and interest applicable.

Management's Response

On July 20, 2010, the Agency was provided with our observations and recommendations and a response was requested by July 30, 2010; however, as of the date of the report, the Agency has not responded.

3. Opportunity To Maintain Adequate Accounting Records

It was noted that the Agency did not perform bank reconciliations from April 2009 through July 2009 and the income statement provided by the Agency showed total banking fees of \$30,423. It was also noted that the Agency does not produce a complete balance sheet. The balance sheet that was provided by the Agency as of August 29, 2009 included only assets. There were no liabilities or owner's equity sections.

Sound accounting practices requires the Agency to maintain adequate accounting records and prepared reports of its financial activities. These include, but are not limited to, maintaining a cash receipts and disbursement journal, check register, general ledger, payroll register, preparing monthly financial reports and perform monthly bank reconciliations.

The Agency acquired new accounting software in the past year. The Executive Director is in charge of the accounting functions and is still learning how to operate the software.

Failure to maintain adequate accounting records and perform bank reconciliations may increase the risk of errors or misappropriation of funds that may go undetected. In addition, the board of directors may not have reliable financial information that will enable them to perform their oversight responsibilities to the Agency.

Recommendation

It is recommended that the Agency acquire proper training on how to use the accounting software. It is also recommended, that the Agency produce adequate basic accounting records such as a balance sheet and income statement, and perform monthly bank reconciliations.

Management's Response

On July 20, 2010, the Agency was provided with our observations and recommendations and a response was requested by July 30, 2010; however, as of the date of the report, the Agency has not responded.

4. Opportunity To Maintain Adequate Payroll Records

Time sheets provided by the Agency's management for the period of January through July 2009 showed that no vacation or sick leave was taken; however, upon review of the vacation/sick leave records provided by Agency management, it was noted that the Executive Director:

- Used 40 hours of sick leave on January 5th through the 9th of 2009
- Used 8 hours of vacation on January 16, 2009
- Used 8 hours of vacation on February 2, 2009
- Used 8 hours of vacation on March 26, 2009
- Used 8 hours of vacation on May 8, 2009

The above timesheets were signed and approved by a Board member.

OMB Circular A-122 and Section 5.2 of the CDA Operating Agency Procedure Manual require the Agency to maintain adequate payroll records for its employees paid with CDBG funds. These include, but not limited to payroll register, timesheets and records of vacation and sick leave (earned and used).

The Agency lacks adequate board oversight regarding its Executive Director and inadequate internal controls.

Inaccurate payroll records could result in the abuse of vacation and sick leave benefits and suspension or termination of the federal award.

Recommendation

It is recommended that the Agency comply with federal and CDA requirements and maintain accurate time records which correspond to the use of vacation and sick leave.

Management's Response

On July 20, 2010, the Agency was provided with our observations and recommendations and a response was requested by July 30, 2010; however, as of the date of the report, the Agency has not responded.

5. Opportunity To Comply With CDA Policies Regarding Maintaining General Liability And Bonding

The Agency could not provide adequate documentation to verify if payments on its insurance policies were current.

Sound business practices require agencies to maintain general liability insurance to protect the agency against liability claims. In addition, CDA regulations require the Agency maintain fidelity (dishonesty) bonding insurance for all persons employed or authorized to perform functions related to the execution of a CDBG-funded project or activity.

The Agency lacks proper oversight and internal controls to ensure the Agency is properly insured.

Failure to maintain adequate and current general liability and fidelity bonding increases financial risk to the Agency. In addition, it may pose a potential loss of federal funds due to a disregard of contractual obligations.

Recommendation

It is recommended that the Agency renew their general liability insurance and their fidelity bonding for duration of their contract and future contracts. It is also recommended that the Agency keep adequate documentation of payments made on these policies.

Management's Response

On July 20, 2010, the Agency was provided with our observations and recommendations and a response was requested by July 30, 2010; however, as of the date of the report, the Agency has not responded.