



OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



FILE COPY

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Comptroller

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DR. KENNETH M. STONE, CPA  
Internal Audit Executive

August 19, 2010

Dan Krasnoff, Executive Director  
Central West End – Midtown Community Development  
12 North Sarah Street  
St. Louis, MO 63108

RE: Community Development Block Grant (CDBG) (Project #2010-CDA14)

Dear Mr. Krasnoff:

Enclosed is a report of our fiscal monitoring review of Central West End – Midtown Community Development, a not-for-profit organization, 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 Central West End – Midtown Community Development. Fieldwork 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)**

**CENTRAL WEST END – MIDTOWN COMMUNITY  
DEVELOPMENT CORPORATION  
CONTRACT #09-31-65  
CFDA #14.218**

**FISCAL MONITORING REVIEW**

**JANUARY 1, 2009 THROUGH AUGUST 31, 2009**

**PROJECT #2010-CDA14**

**DATE ISSUED: AUGUST 19, 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)  
CENTRAL WEST END – MIDTOWN COMMUNITY DEVELOPMENT  
FISCAL MONITORING REVIEW  
JANUARY 1, 2009 THROUGH AUGUST 31, 2009**

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## **INTRODUCTION**

### **Background**

**Contract Name:** Central West End – Midtown Community Development

**Contract Number:** 09-31-65

**CFDA Number:** 14.218

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

**Contract Amount:** \$102,476 (Revised)

The contract provided Community Development Block Grant (CDBG) funds to Central West End – Midtown Community Development (Agency) to promote the Real Estate Development Program, promote public safety, to improve street lighting and increase awareness of programs and activities to benefit the community.

### **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 considered 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 31, 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 #2007-CDA7, issued March 20, 2009 contained the following observations:

1. Opportunity to satisfy the honesty blanket position bonding requirement **(Resolved)**
2. Opportunity to file monthly financial reports in a timely manner **(Resolved)**
3. Opportunity to track the usage and accrual of vacation and sick leave **(Repeated see observation #4)**

### A-133 Status

According to a letter received from the Agency dated June 3, 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 CDBG requirements.

1. Opportunity to file IRS form 941
2. Opportunity to comply with CDA's check signature policy
3. Opportunity to comply with CDA's guidelines regarding procurement
4. Opportunity to track usage and accrual of vacation and sick leave
5. Opportunity to meet contractual obligations

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

**1. Opportunity To File IRS Form 941**

The Agency's contract reimburses for payroll expenses including payroll taxes. The Agency did not provide proof of payment for its IRS Form 941 for the first and second quarters of 2009.

Employers are required to file Employer's Quarterly Federal Tax Return (IRS 941) to report payroll taxes withheld and paid. Required taxes withheld and paid to the IRS should be documented in the quarterly returns which are to be filed by the 15<sup>th</sup> day of the next month following the end of the quarter.

The Agency lacks proper oversight and internal controls in place to ensure timely payment of payroll taxes.

Failure to file the necessary federal documents as required may result in termination of the contract. In addition, this may result in penalties and interest, increasing the Agency's liabilities, which the Agency will be obligated to pay with its own revenues.

**Recommendation**

It is recommended the Agency file the outstanding tax forms and ensure timely filing of all future payroll taxes. It is also recommended the Agency pay any 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 31, 2010; however, as of the date of the report, the Agency has not responded.*

## **2. Opportunity To Comply With CDA's Check Signature Policy**

The Agency uses only one signature on checks under \$2,000. In addition, there were several instances when the Executive Director wrote and signed checks made payable to him and only his signature accompanied the check.

CDA's Operating Agency Procedures Manual states that all disbursement checks shall be pre-numbered and signed by the Chief Executive Officer and the Financial Officer or any two duly authorized officers.

The Agency considers that only one signature on checks under \$2,000 is sufficient for payment.

This can result of fraud and abuse when there is only one review of disbursement. It can also result in suspension or termination of the federal award.

### **Recommendation**

It is recommended the Agency comply with CDA's procedures regarding signatures for all checks.

### **Management's Response**

*On July 20, 2010, the Agency was provided with our observations and recommendations and a response was requested by July 31, 2010; however, as of the date of the report, the Agency has not responded.*

### **3. Opportunity To Comply With CDA Guidelines Regarding Procurement**

The Agency stated that it did not have a written procurement policy. The Agency has also not adopted CDA's policy for purchases.

CDA Operating Agency Procedures Manual requires, each Operating Agency must develop a written procurement procedure, which is consistent with the established CDA procurement procedure or as an alternative adopt the CDA procurement procedure in its entirety.

The Agency has never drafted a policy, or adopted CDA's policy.

Without a written policy or procedure in place, the Agency cannot ensure federal funds are spent on a competitive and cost-effective basis. This could also result in questioned costs or suspension or termination of the federal award.

#### **Recommendation**

It is recommended the Agency comply with CDA policies and draft a procurement policy or adopt CDA's.

#### **Management's Response**

*On July 20, 2010, the Agency was provided with our observations and recommendations and a response was requested by July 31, 2010; however, as of the date of the report, the Agency has not responded.*

#### **4. Opportunity To Track Usage And Accrual Of Vacation And Sick Leave**

It could not be determined if vacation and sick leave was accrued and used for pay periods ending June 28, March 14, May 9, May 23 and June 20 of 2009. IAS inquired if leave was taken, and requested the Agency's vacation and sick leave records; however, the Agency did not provide access to the specific pay periods requested.

IAS' prior audit noted that the Agency did not document accrual and usage of sick and vacation time.

Effective internal controls would provide and maintain documentation for the amount of employee sick and vacation leave earned and taken throughout the year. Also, Section 5.2 of the Operating Agency Fiscal Procedures Manual requires the Agency to maintain cumulative records of all paid time off charged to the grant.

The Agency lacked internal controls regarding the documentation and tracking of sick and vacation leave.

The lack of accurate documentation for paid leave is an internal control weakness that can lead to discrepancies on time earned and/or taken, and ultimately the abuse of paid time off by employees. This can also result in the suspension or termination of the federal award.

#### **Recommendation**

It is recommended that the Agency develop an effective process where the accrual and use of its employees' sick and vacation leave is adequately documented.

#### **Management's Response**

*On July 20, 2010, the Agency was provided with our observations and recommendations and a response was requested by July 31, 2010; however, as of the date of the report, the Agency has not responded.*

## **5. Opportunity To Meet Contractual Obligations**

The Agency has not completed its obligation to implement a program to improve street lighting. This obligation has not been resolved since the implementation of its 2006 contract. CDA's programmatic monitors have also noted it in their 2008 review of the Agency.

Objective #3 of the Agency's contract with CDA (09-31-65) states that the Agency will implement a program to improve street lighting. As a condition within the contract signed by the Agency stated, the Agency shall complete the objectives in a manner acceptable to CDA, in accordance with the schedule, budget and condition furnished.

The Agency did not appropriately budget and plan its contractual objectives in relation to its actual obligations nor adjust its contract accordingly.

If the Agency fails to meet its contractual objectives, then vital services agreed upon are not provided to the public. This could adversely affect the City's Earmarking requirement for the federal award.

### **Recommendation**

It is recommended the Agency impose reasonable and attainable plans and goals that can be reached during the term of the contract.

### **Management's Response**

*On July 20, 2010, the Agency was provided with our observations and recommendations and a response was requested by July 31, 2010; however, as of the date of the report, the Agency has not responded.*