



CITY OF ST. LOUIS

AFFORDABLE HOUSING COMMISSION (AHC)

**HAMMOND APARTMENTS, L.P.
CONTRACT #43-14G**

**FISCAL MONITORING REVIEW
MARCH 1, 2014 THROUGH MARCH 31, 2015**

PROJECT #2015-AH08

DATE ISSUED: OCTOBER 27, 2015

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER



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October 27, 2015

Craig Heller, Manager
Hammond Apartments, L.P.
219 Cass Avenue
St. Louis, MO 63102

RE: Hammond Apartments (Project #2015-AH08)

Dear Mr. Heller:

Enclosed is a report of the fiscal monitoring review of Hammond Apartments, L.P. for the period March 1, 2014 through March 31, 2015. 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 Hammond Apartments, L.P. Fieldwork was completed on September 29, 2015.

This review was made under the authorization contained in Section 2, Article XV, of the Charter, City of Saint Louis, as revised and through agreement with the Affordable Housing Commission to provide fiscal monitoring to all grant sub-recipients. The review was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Respectfully,

Dr. Ishmael Ikpeama
Internal Audit Supervisor

Enclosure

CC: April Ford Griffin, Executive Director, Affordable Housing Commission

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SUMMARY

Background

Contract Name: Hammond Apartments L.P.
Contract Number: 43-14G
Contract Period: March 1, 2014 through March 31, 2015
Contract Amount: \$125,000

The contract provided funds from the Affordable Housing Commission (AHC) to Hammond Apartments L.P. (Partnership) to provide rental assistance and supportive services for approximately eleven (11) residents for a year. The Partnership provided supportive services to the residents through the St. Patrick Center.

The Partnership provides services to residents earning 20% of St Louis City area's median income or below. Effective January 1, 2015, the Partnership entered into a new management agreement with Community Asset Management Company (CAMCO) to manage the rental operations of the project.

Purpose

The purpose of the review was to determine the Partnership's compliance with federal, state, and local AHC requirements for the period of March 1, 2014 through March 31, 2015, and make recommendations for improvements, as considered necessary.

Scope and Methodology

Inquiries were made regarding the Partnership's internal controls related to the contract administered by AHC. Evidence supporting the reports the Partnership submitted was tested and other procedures were performed as considered necessary.

Status of Prior Observations

The Partnership did not have any previous AHC fiscal monitoring reviews.

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SUMMARY

Summary of Observations

1. Failure to submit programmatic reports timely in accordance with the contract.
2. Need to develop written accounting policies and procedures.
3. Need to document the cost of supportive services and monitor performance.
4. Implement additional control procedures to safeguard all assets.

Conclusion

The Partnership did not fully comply with federal, state, and local AHC requirements.

Management's Response and Exit Conference

An exit conference was conducted at Hammond Apartments on October 19, 2015. In attendance from Hammond Apartments was the Manager. In attendance from CAMCO were the President/CFO, Regional Property Manager, Property Manager and the Accounting Manager.

The Community Development Specialist II and Accounting Clerk II represented the Affordable Housing Commission. The Internal Audit Supervisor and the Auditor-in-Charge represented the Internal Audit Section.

At the exit conference the report observations and recommendations were discussed. Management provided written responses on October 26, 2015 which have been incorporated in this report.

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

1. Failure to Submit Programmatic Reports Timely in Accordance with the Contract

The Partnership elected to submit quarterly programmatic reports to the Affordable Housing Commission (AHC) as opposed to monthly. However, the reports were not submitted timely in accordance with the contract.

Section 7 of the contract requires the Partnership to submit quarterly programmatic reports no later than the twentieth (20) calendar day of the next quarter. Internal Audit noted that three quarterly reports and the final report were not submitted timely as follows:

First Quarter	17
Third Quarter	21
Fourth Quarter	91
Final	98

Section 24 of the contract states that if the reports are more than thirteen (13) days late, the Commission may hold up reimbursements until the delinquent reports are received. Further failure to submit programmatic reports may be considered abandonment of the program activities rendering the contract subject to immediate termination.

Recommendation

The Internal Audit Section recommends that management reviews the terms of the contract and ensures all programmatic reports are submitted timely. A policy should be developed by management that establishes a designated time frame before the due dates to prepare and review the programmatic reports.

Management's Response

Going forward, management will ensure that all programmatic reports are submitted timely in accordance with the terms of the contract. Management will review the reports no less than five days prior to the due date to allow time for any required revisions prior to submittal.

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2. Need to Develop Written Accounting Policies and Procedures

Early in the review, Internal Audit was informed by the Partnership that there was no accounting manual. However, at the scheduled pre-exit meeting, excerpts from a manual were provided. It appears the Partnership employees were unaware of the manual.

Our review revealed that, with the exception of cash receipts, the three pages of the manual provided to us primarily addressed standards and definitions of control as opposed to the process and procedures of accounting for rent receipts, expenditures involving Affordable Housing funds. Also, responsibilities and level of managerial reviews were not noted. No control procedures for timely reporting, maintenance of inventory records, and separate account coding for all sources of funds were noted.

Section nine (9) of the contract required the Partnership to establish an adequate accounting system in accordance with generally accepted accounting principles. In addition, the best practice as stated by the Committee on Accounting, Auditing, and Financial Reporting's (CAAFR) notes that communication is an essential component of a comprehensive framework of internal control. One method of communication that is particularly effective for control over accounting and financial reporting is the formal documentation of accounting policies and procedures.

The documentation of accounting policies and procedures should:

- Be readily available to all employees who need it.
- Delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records.
- Explain the design and purpose of control related procedures to increase employee understanding of and support for controls.

In addition, a well-designed and properly maintained system of documenting accounting policies and procedures enhances accountability and consistency. The resulting documentation can also serve as training tool for staff.

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The lack of written policies and procedures increases the risk that:

- Records may not be accurately and consistently maintained.
- Control procedures will not be effective or may be over-ridden.
- Employees will not be adequately trained.
- Performance standard and measures may not be developed.

Recommendation

Internal Audit recommends that management develop written accounting policies and procedures for the receipt and use of Affordable Housing Commission funds. The policies and procedures should delineate the responsibility of all employees, authority to authorize transactions and the responsibility for the safekeeping of assets and records. In addition, the policies and procedures should be:

- Approved by the management and dated.
- Formally communicated to the staff and the communication documented.
- Reviewed and updated periodically.

Management's Response

Management has an Accounting Department Procedures Manual. As directed, management will develop written accounting policies and procedures specifically, for the receipt and use of Affordable Housing Commission funds. The policies and procedures will delineate the responsibility of all employees, authority to authorize transactions and the responsibility for the safekeeping of assets and records. In addition, the policies and procedures will be:

- *Approved by the management and dated.*
- *Formally communicated to the staff and the communication documented.*
Reviewed and updated periodically.

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3. Need to Document the Cost of Supportive Services and Monitor Performance

Invoices were paid by the Partnership to the St. Patrick Center (SPC) upon receipt. However, no supporting documentation to support cost and the level of service was provided to AHC. Internal Audit requested documentation supporting the invoices; however, only the invoices were sent. Internal Audit also noted that there was no written agreement between the Partnership and SPC.

Section 13 of the contract requires that:

- All sub-contracts for any of the work or services covered in the contract shall be in writing and shall include all of the terms and conditions in the Hammonds Apartments contract.
- The Contracting Agency shall be responsible for the performance of any and all subcontractors.
- The Contracting Agency shall record, furnish to AHC for review and approval prior to the execution of the subcontract an explanation of how the amount of compensation or reimbursement to be paid was determined and a contractor compliance report for amounts over \$50,000.

Due to lack of documentation, Internal Audit was unable to determine if proper supportive services were provided as noted in the grant application/proposal and if cost of services was allowable.

Recommendation

The Internal Audit Section recommends that management document its commitment with St. Patrick Center through a written agreement. Internal Audit also recommends that management:

- Submit sub-contracts for review and approval to AHC and monitor performance.
- Provide supporting documentation of personnel cost to AHC.
- List sub-contractor's clients as required on the programmatic report form.
- In addition, AHC may consider reviews of the Agency, to ensure staffing levels, and supportive services are delivered in accordance with the AHC's agreement.

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Management's Response

The partnership has executed a Memorandum of Understanding with St. Patrick's Center and included same with the AHC application for funding. Going forward a Sign in/Sign out Log will be maintained at the site and submitted with invoices. The invoices will contain supporting documentation for man hours or services billed to the property.

4. Implement Additional Internal Control Procedures to Safeguard all Assets

Through review of the procedures and request for financial data, Internal Audit found:

- Separate accounting or coding was not maintained for each funding source. The Partnership received funding from four different funding sources totaling \$447,591.
- The policy of dual signatures on checks was not adequately documented and properly communicated. Only one authorized signature is required on checks \$25,000 and under, and two on checks over \$25,000. The level of authorization was not specifically noted in the procedures. Best practices require that specific limits of signing authority be established and formally approved by management to ensure funds are adequately safeguarded from loss or misappropriation. At the current level of authority, the risk exists that one person could possibly misappropriate 20% of AHC funds.
- The Partnership requested and received from AHC three reimbursements of \$7,695.32 for the replacement of home furnishings. According to Section 23 of the contract, in the event the contract is terminated, the Partnership must return all property purchased unless authorized by the Commission to retain the property. A listing of household furnishings was not made available to Internal Audit for review. In addition, there was no control procedure requiring periodic inventories to safeguard household furnishings.
- Internal Audit reviewed one (1) request for reimbursement and observed sales tax of \$153.87 was paid by the Partnership and reimbursed by AHC, although a Missouri tax exemption form, expiration July 15, 2016, was observed.

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Checks were allowed to remain outstanding for a period of six (6) months before a follow-up with the payee was performed. This creates an extended liability, reducing the use on available funds. Best practices on outstanding checks require a reasonable period, based on entity's financial operations and size. Six (6) months does not appear to be a reasonable timeframe.

Recommendation

Internal Audit recommends that management consider implementing control procedures to ensure all assets are safeguarded. Specifically:

- Segregate AHC funds through the use of a special fund or accounting code.
- Require dual signatures on checks over \$1,000.
- Conduct periodic inspections and maintain documentation of household furnishings.
- Review and revise the policy on outstanding checks.

Management's Response

The new management agent has implemented or is in the process of implementing control procedures to ensure all assets are safeguarded. Specifically:

- *Segregate AHC funds through the use of a special fund or accounting code.*
- *Continue to require dual signatures on checks as stated in the Accounting Department's Procedures Manual until directed otherwise by the Board of Directors.*
- *Conduct periodic inspections and maintain documentation of household furnishings.*
- *Per the new management agent's Accounting Department Procedures Manual pg. 16, outstanding checks more than 90 days old are investigated and stop payments issued as required.*