



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



FILE COPY

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DR. KENNETH M. STONE, CPA
Internal Audit Executive

December 5, 2001

Rodney Hubbard, Executive Director
Carr Square Tenant Management/McElroy Day Care
1629 Biddle
St. Louis, MO 63106

RE: Community Development Block Grant (CDBG) (Project #2012-CDA8)

Dear Mr. Hubbard:

Enclosed is a report of the fiscal monitoring review of the Carr Square Tenant Management/McElroy Day Care, a not-for-profit organization, CDBG Program for the period January 1, 2011 through June 30, 2011. 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. Fieldwork was completed on September 13, 2011.

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 Internal Auditing* and through an agreement with the Community Development Administration (CDA) to provide fiscal monitoring to all grant subrecipients.

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

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)**

**CARR SQUARE TENANT MANAGEMENT / MCELROY DAY CARE
CONTRACT #11-11-37
CFDA #14.218**

FISCAL MONITORING REVIEW

JANUARY 1, 2011 THROUGH JUNE 30, 2011

PROJECT #2012-CDA8

DATE ISSUED: DECEMBER 5, 2011

**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)
CARR SQUARE TENANT MANAGEMENT / MCELROY DAY CARE
FISCAL MONITORING REVIEW
JANUARY 1, 2011 THROUGH JUNE 30, 2011**

TABLE OF CONTENTS

Description	Page(s)
INTRODUCTION	
Background	1
Purpose	1
Scope and Methodology	1
Exit Conference	1
SUMMARY OF OBSERVATIONS	
Conclusion	2
Status of Prior Observations	2
A-133 Status	2
Summary of Current Observations	2
DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGERMENTS'S RESPONSES	
	3 – 6

INTRODUCTION

Background

Contract Name: McElroy Day Care and Carr Square Infant/Toddler Program

Contract Number: 11-11-37

CFDA Number: 14.218

Contract Period: January 1, 2011 through June 30, 2011

Contract Amount: \$29,000

This contract provided Community Development Block Grant (CDBG) funds to Carr Square Tenant Management Corporation (Agency) to provide quality childcare services for low to moderate-income families in the St. Louis area.

Purpose

The purpose of this fiscal monitoring review was to determine the Agency's compliance with federal, state, and local Community Development Administration (CDA) requirements for the period January 1, 2011 through June 30, 2011 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 13, 2011.

Exit Conference

The Agency was given an opportunity to participate in an exit conference on November 9, 2011. As of the date of this report, the Agency has not responded.

Management's Response

The Agency was given an opportunity to respond to the observations and recommendations noted in the report. As of the date of this 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 #2010-CDA27, issued November 9, 2010, contained one observation:

- Opportunity to account correctly for day care service units served (**Resolved**)

A-133 Status

The Agency did not provide a letter to the Internal Audit Section (IAS) stating whether The Agency was required to have an OMB Circular A-133 audit. See Current Observation #2.

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 submit programmatic reports in a timely manner
2. Opportunity for the Agency to provide access to all financial and operational records
3. Opportunity to obtain and maintain adequate fidelity bonding insurance
4. Opportunity to file IRS form 990 in a timely manner

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Opportunity To Submit Programmatic Reports In A Timely Manner

According to the correspondence between CDA and the Agency, the Agency did not submit the programmatic reports for the months of January and February 2011.

CDA contract #11-11-37 fiscal and programmatic procedures section states "Programmatic reports are due by the 10th calendar day of the month following the reporting period."

CDA contract #11-11-37 fiscal and programmatic procedures section states "Failure by the Operating Agency to comply with these reporting requirements in a timely manner shall result in sanctions."

The Agency did not have internal controls in place to ensure that the programmatic reports are filed in a timely manner.

Recommendation

It is recommended that the Agency comply with CDA regulations and submit its monthly programmatic reports by the 10th day of the month following the report period end.

Management's Response

As of the date of this report, the Agency did not respond to the observation.

2. Opportunity For Agency To Provide Access To All Financial And Operational Records

The site visit was scheduled for August 10, 2011. On August 4, 2011, a letter was faxed to the Agency requesting the following documents:

1. Latest financial records (i.e., Balance Sheet, Income Statement, etc).
2. The most recent A-133 audit report, if available or required. If not, a letter on Agency letterhead stating the organization is not required to have an A-133 audit report.
3. A copy of Board minutes from contract start date to present.

The Internal Audit Section (IAS) did not receive the requested documents. On September 13, 2011, and again on October 10, 2011, IAS requested the following documents with the purpose of completing the review:

1. Balance sheet from January 1, 2011 through June 30, 2011
2. A copy of the A-133 audit report for year 2010-2011
3. A copy of the board minutes from January 1, 2011 through June 30, 2011

The Agency did not provide the requested documents.

CDA contract #11-11-37 section 8 states, "Operating Agency personnel will make available to the Comptroller's Office of the City of St. Louis all accounting records needed for an evaluation of the accounting system. All records necessary for the audit of this program shall be made available to the CDA staff, Comptroller's Office staff, and any other auditor authorized by the Director of CDA."

CDA contract #11-11-37 Sanction section states, "Failure by the Operating Agency to comply with all of the terms and conditions grant contract may result in sanctions being imposed upon the Operating Agency."

Recommendation

It is recommended that the Agency make available to IAS the requested financial and operational records so that it can complete the review of the Agency's CDBG program.

Management's Response

As of the date of this report, the Agency did not respond to the observation.

3. Opportunity To Obtain And Maintain Adequate Fidelity Bonding Insurance

The Agency did not provide documentation of adequate fidelity bonding insurance.

Section 2.6 of the CDA Operating Agency Fiscal Procedural Manual states, "Each CDBG subrecipient is required to have an Honesty Blanket Position Bond. This coverage is defined as "the loss sustained by any of the employees, acting alone or in collusion with others during the bond period." All persons employed or authorized to perform functions related to the execution of a CDBG funded project or activity shall be covered by a minimum Honesty Blanket Position coverage of \$10,000. Certain positions such as the chief executive officer and the financial officer require \$25,000 in coverage."

The Agency did not have a system of internal control in place to ensure the Agency's compliance with the fidelity bonding insurance requirements of the CDA Operating Agency Fiscal Procedural Manual.

Failure to maintain adequate and current fidelity bonding increases financial risk to CDA and the Agency. In addition, the lack of fidelity bonding may result in the termination of the grant contract agreement.

Recommendation

It is recommended that the Agency obtain and maintain adequate fidelity bonding insurance for its employees in order to comply with Section 2.6 of the CDA Operating Agency Fiscal Procedural Manual.

Management's Response

As of the date of this report, the Agency did not respond to the observation.

4. Opportunity To File IRS Form 990 In A Timely Manner

The Agency filed its IRS Form 990 for its year ending September 30, 2010 on August 15, 2011. This form was due on February 15, 2011. The Agency did not provide documentation of filing an automatic three month extension, which would have extended the due date to May 15, 2011. In addition, the Agency did not provide documentation for an additional three month extension, which would have extended the due date to August 15, 2011.

According to US Code Title 26, Section 6033 (a) (1), "...every organization exempt from taxation under section 501 (a) shall file an annual return, stating specifically the items of gross income..." Form 990 must be filed by the 15th day of the 5th month after the organization's accounting period.

The Agency does not have a system of internal control in place to ensure compliance with the federal filing requirements for IRS Form 990.

According to US Code Title 26, Section 6652 (c) (1) (A), a penalty of \$20 a day, not to exceed the smaller of \$10,000 or 5% of the gross receipts of the entity for the reporting period, can be charged when a return is filed late. In addition, CDA may delay processing of reimbursement requests, suspend, or terminate funding.

Recommendation

It is recommended that the Agency establish and implement a system of internal controls to ensure compliance with the federal filing requirements for IRS Form 990.

Management's Response

As of the date of this report, the Agency did not respond to the observation.