



OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



DARLENE GREEN  
Comptroller

*Internal Audit Section*

1520 Market St., Suite 3005  
St. Louis, Missouri 63103-2630  
(314) 657-3490  
Fax: (314) 552-7670

DR. KENNETH M. STONE, CPA  
Internal Audit Executive

**FILE COPY**

October 17, 2012

Angela Morton Conley, Executive Director  
Affordable Housing Commission  
1520 Market Street, Suite 2080  
St. Louis, MO 63103

RE: Affordable Housing Commission (Project #2012-05)

Dear Ms. Conley:

Enclosed is the Internal Audit Section's process review report of the Affordable Housing Commission, for the period July 1, 2010 through June 30, 2011. A description of the scope of the work is included in the report.

Fieldwork was completed on March 22, 2012. Management's responses to the observations and recommendations noted in the report were received on September 21, 2012, and have been incorporated in the report.

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*.

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

Respectfully,

  
Dr. Kenneth M. Stone, CPA, CGMA  
Internal Audit Executive

Enclosure

cc: Samuel Dotson, Director of Operations, Mayor's Office



# CITY OF ST. LOUIS

**MAYOR'S OFFICE**

**AFFORDABLE HOUSING COMMISSION**

**PROCESS REVIEW**

**JULY 1, 2010 THROUGH JUNE 30, 2011**

**PROJECT #2012-05**

**DATE ISSUED: OCTOBER 12, 2012**

**Prepared by:  
The Internal Audit Section**



# OFFICE OF THE COMPTROLLER

**HONORABLE DARLENE GREEN, COMPTROLLER**

**CITY OF ST. LOUIS  
MAYOR'S OFFICE  
AFFORDABLE HOUSING COMMISSION  
PROCESS REVIEW  
MARCH 1, 2010 THROUGH JUNE 30, 2011**

**EXECUTIVE SUMMARY**

**Purpose**

The Affordable Housing Commission (AHC) was selected for review based on the Internal Audit's annual risk assessment. The purpose was to determine whether AHC's internal controls effectively and efficiently managed risks in achieving the following goals and objectives:

- Compliance with applicable laws, regulations, and policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- Economic and efficient use of resources

**Scope and Methodology**

The scope of the review included the grant/loan, disbursement, programmatic monitoring, and the loan repayment processes from the period July 1, 2010 through June 30, 2011. The review was confined to evaluating AHC's internal controls over operational and fiscal activities, related to the goals and objectives noted above.

The review procedures included the following:

- Inquiries of management and staff
- Observation of relevant processes
- Reviews for compliance with policies and procedures, applicable laws, and regulations
- Limited tests of controls
- Follow-ups on prior observations
- Other procedures, as considered necessary

**Background**

The AHC receives its funding through the Affordable Housing Trust Fund (AHTF), whose revenue is generated through a local use tax. The AHC was established under Ordinance 65132, which set the standards for the expenditure of funds from the AHTF. The AHC provides oversight of the distributed funds, which are made

available through grants, loans, and subsidies, for the development and preservation of affordable and accessible housing.

During Fiscal Year 2011, \$4,000,000 was allocated to AHC. Of funds awarded, no less than 40% shall go towards benefiting persons earning 20%, or below, of the Area Median Income (AMI). The remaining 60% must go towards benefiting persons earning no more than 80% of the AMI.

### **Exit Conference**

An exit conference was conducted at AHC on September 7, 2012. The Executive Director, Senior Housing Analyst, and Account Clerk II represented AHC. The Internal Audit Executive and Auditor I represented the Internal Audit Section.

### **Conclusion**

Several control procedures over the operational and fiscal activities were noted as strengths. These included, but were not limited to, the following:

- The recording, depositing, and reconciliation duties were properly segregated.
- There was oversight of AHC's operational and fiscal activities by a Board of Commissioners.
- There were clearly established criteria for the analysis, evaluation, and recommendation of grant/loan proposals.
- The Executive Director signed/initialed and dated applicable documents that required review and approval.
- Incoming documents were date stamped, which enabled tracking for timely submission of required documents from grant/loan recipients.
- A system was in place to identify projects with repayable and forgivable loans and to maintain annual financial compliance requirements.
- Agencies are monitored annually through either site visits by staff, agency presentations to the full Commission, or fiscal reviews by the City's Internal Audit Section.

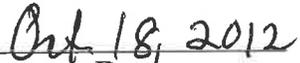
However, opportunity exists for AHC to improve internal controls over operational and fiscal activities.

The following observations resulted from the review:

1. Opportunity to improve controls in safeguarding checks
2. Opportunity for timely submission of programmatic reports
3. Opportunity to maintain complete client files
4. Opportunity to update written policies and procedures

These observations are discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

  
Dr. Kenneth M. Stone, CPA, CGMA  
Internal Audit Executive

  
Date

**CITY OF ST. LOUIS  
MAYOR'S OFFICE  
AFFORDABLE HOUSING COMMISSION  
PROCESS REVIEW  
MARCH 1 2010 THROUGH JUNE 30, 2012**

**TABLE OF CONTENTS**

<b>Description</b>	<b>Page(s)</b>
<b>OBSERVATIONS</b>	
Status of Prior Observations	1
Summary of Current Observations	1 - 2
<b>DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES</b>	<b>3 - 8</b>

## OBSERVATIONS

### Status of Prior Observations

The Internal Audit Section (IAS) followed-up on the observations included in the prior process review report, issued October 25, 2005. The status is as follows:

- Opportunity to ensure contracting agencies submit quarterly reports in a timely manner (**Unresolved**)
- Opportunity to monitor agencies' fiscal and programmatic activities (**Resolved**)
- Opportunity to establish performance standards (**Resolved**)
- Opportunity to ensure efficient use of financial resources (**Resolved**)

The IAS also followed-up on the prior observations included in the State Auditor's report, issued April 2009. The status is as follows:

- The AHC does not summarize the results of the evaluation process when selecting applications for funding awards (**Resolved**)
- The AHC procedures for monitoring recipient awards need improvement (**Resolved**)
- The AHC does not have adequate procedures to ensure loans to housing developers are repaid in compliance with loan agreements (**Resolved**)

### Summary of Current Observations

Several control procedures over the operational and fiscal activities were noted as strengths. These included, but were not limited to, the following:

- The recording, depositing, and reconciliation duties were properly segregated.
- There was oversight of AHC's operational and fiscal activities by a Board of Commissioners.
- There were clearly established criteria for the analysis, evaluation, and recommendation of grant/loan proposals.
- The Executive Director signed/initialed and dated all applicable documents that required review and approval.
- Incoming documents were date stamped, which enabled tracking for timely submission of required documents from grant/loan recipients.
- A system was in place to identify projects with repayable and forgivable loans and annual financial compliance requirements.
- Agencies are monitored annually through either site visits by staff, agency presentations to the full Commission, or fiscal reviews by the City's Internal Audit Section.

However, the opportunity exists for AHC to improve internal controls over its activities. The following observations resulted from the review:

1. Opportunity to improve controls in safeguarding checks
2. Opportunity for timely submission of programmatic reports (**Repeated**)
3. Opportunity to maintain complete client files
4. Opportunity to update written policies and procedures

These observations are discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

## **1. Opportunity To Improve Controls In Safeguarding Checks**

The AHC's written policies and procedures indicate that all incoming mail is received by the Secretary and distributed to the appropriate personnel. When checks are received in the mail, they are date stamped and handed over to the Community Development Specialist to be recorded on the repayment schedule and photocopied for the contract files. However, there are no policies and procedures in place to ensure that checks are adequately safeguarded while being handled by the Secretary.

Sound management practices require that internal controls should include the following:

- Accountability procedures should be followed when checks are handled by multiple persons.
- A mail log should be used to document collections made through the mail.
- All checks should be restrictively endorsed at the time of receipt.

The AHC does not have a system of internal controls in place to ensure the Secretary's accountability when handling incoming checks.

When control procedures are not in place for all personnel who handle checks, then the likelihood of financial loss, through misappropriation and mishandling, is greatly increased.

### **Recommendation**

The following internal controls are recommended to ensure the accountability of check handling by the AHC's Secretary:

- Log all incoming checks. Information in the logbook should include the check number, check date, check amount, payer's name, and the date check was received.
- Checks should be restrictively endorsed immediately upon receipt.

### ***Management's Response (Received September 21, 2012)***

*Secretary II incoming checks procedure:*

## 1. Continued...

- *When the check arrives at the AHC the Secretary II date stamps the check, logs it in the logbook. Logged check information includes: Date, agency/payer's name, check number, project number, project name, amount of check. After the check is logged it is endorsed and stamped "For Deposit Only: The Affordable Housing Commission".*
- *The check is then given to the Community Development Specialist II for processing.*

## 2. Opportunity To Ensure Programmatic Reports Are Submitted Timely (Repeated)

Three of the five grant recipients reviewed did not submit timely programmatic reports. The grant contracts require that recipients submit programmatic reports quarterly by the 20th calendar day of the month following the reporting period.

The AHC does not have a system of internal controls in place to ensure that grant recipients submit their programmatic reports in a timely manner. The AHC indicates that, despite the requirement of the contracts, recipients are allowed to submit reports on a monthly basis.

Failure to submit programmatic reports by the due date is a violation of contract terms. Allowing submissions on either a monthly or quarterly basis may cause confusion as to when the reports are due. In addition, late reports may hide adverse conditions that could have been acted upon before such conditions deteriorated.

### Recommendation

It is recommended that AHC establish a system of internal controls to ensure timely submission of programmatic reports. Such internal controls may include the following:

- Sending out report submission reminders to grant recipients, via email or mail, at the end of each quarter or month.
- Investigating reasons why the reports are late.
- Holding reimbursement requests until reports are received.
- Terminating the contract of those who repeatedly submit late reports.

## 2. Continued...

### *Management's Response (Received September 21, 2012)*

*AHC's system of internal controls ensures that grant recipients submit their programmatic reports prior to receiving AHC funds. The auditor's review highlights three distinct issues.*

1. *An accurate description of the reports in the Affordable Housing Commission contracts:*
  - *The auditor took issue with AHC's acceptance of monthly programmatic reports when AHC's contractual language refers to quarterly reports. It has been the Affordable Housing Commission's practice to accept monthly reports in lieu of quarterly reports, so long as the report is up-to-date. AHC has allowed agencies flexibility in this area because some grantees' bookkeeping systems are better suited for monthly reporting, and AHC believes some allowances need to be made for small, non-profit and faith-based agencies. AHC will explore revising the language in the contracts to allow agencies the choice of submitting monthly or quarterly programmatic reports and then accurate reflection of the type of report in the agency's contract.*
2. *The AHC's internal controls to ensure up-to-date programmatic reports are received prior to AHC's disbursement of funds:*
  - *The Affordable Housing Commission uses its control of fund disbursement to compel grantees to submit timely programmatic reports. If AHC receives a disbursement request and AHC does not have an up-to-date programmatic report, AHC will send an email to the grantee stating the quarterly report is late and that requested funds will not be released until the report is received. The email notice is sent to agencies as soon as AHC detects that a report is late. AHC does not disburse funding without an up-to-date quarterly or monthly report.*
3. *The submission of timely programmatic reports:*
  - *The AHC cannot be held accountable for actions that are beyond AHC's control, such as timeliness of grantee report submission.*
  - *A late report is not a valid reason for terminating a contract. The AHC will continue to withhold payments, however, to those agencies that do not comply with contract reporting requirements.*

### **3. Opportunity To Maintain Complete Client Files**

Six contract files were reviewed; all of them were incomplete, lacking a copy of the award letters. In addition, one of the files did not have a copy of the Board of Estimate and Apportionment approval request letter, and another did not have the letter requesting signatures from the Mayor's office. Also, the files were lacking documentation supporting the approval of disbursements.

Sound, internal controls would require that grantees' files include all of the information on grant approval and support for disbursements.

The AHC did not have a system of internal controls in place to ensure that supporting documents are retained in the contract files. Supporting documents for disbursement requests are forwarded to the Comptroller's Office, and copies are not kept in the contract files because the Agency feels that the volume of submitted material is too large to retain.

The Account Clerk makes copies of the unsigned disbursement vouchers and places them in the contract files before they are signed by the Executive Director. Once disbursement vouchers are signed by the Executive Director, the Account Clerk does not make copies of the signed vouchers before they are sent to the Comptroller's Office.

The lack of supporting documents in contract files increases risks that the proper approval process has not been completed and that not all disbursements were approved.

#### **Recommendation**

It is recommended that AHC retain the following documents in its contract files:

- All letters that pertain to the contract approval process.
- Supporting documents for grant disbursement requests.

#### ***Management's Response (Received September 21, 2012)***

*Upon the resignation of the former account clerk, staff copied letters denoting awards approved for that period and kept them in a single file/place. Since the hiring of the current Account Clerk II in October 2010, all contract documentation has been uniformly filed into the contract files, this includes grant award letters, Board of E&A approval letters and request of signature letters. The current Clerk received cross training in these procedures from the previous Clerk, so it would seem that all files before FY11 should have been*

### **3. Continued...**

*uniform as well. The missing documents may be more of a human error than procedural error in these cases.*

*In March 2012, AHC adjusted its procedures so that the signed approved copy of the disbursement voucher is now being placed in the contract file. (For ease of processing staff simply copied the documents prior to the Director's signing. Lack of the signature on a copy had not been thought of as an approval problem by AHC, since it is a known fact that no disbursement voucher would ever be paid by the Comptroller's Office with out an authorized signature.)*

*Regarding file disbursement records, AHC at a minimum retains the following back up documentation in all contract files: the signed approved voucher request, the agency disbursement request/ invoice, and all excel sheets used for balancing.*

*AHC contest the recommendation that all supporting documentation should be kept in our contract files. All back up must be sent to the Comptroller with the voucher requests. Each and every piece of backup document is scanned into the online database Web Retriever system. If needed, AHC or internal audit can request backup for any voucher from the Comptroller's Office. Also, all AHTF contracts state that an Agency must keep copies of all requests for reimbursements three years after the end of the contract date. If an Agency is audited by Internal Audit all backup will be on site by the Agency. AHC has successfully followed this approach without incidence and without prior audit citing for the last 10 years.*

### **4. Opportunity To Update Written Policies And Procedures**

The AHC does not have written policies and procedures that address Management's review and approval of disbursement vouchers and supporting documents.

Written policies and procedures provide a basis for training and cross-training of new and current employees, as well as for the development of performance standards and measures.

The AHC does not have a system of internal controls in place to make sure that there are written policies and procedures for all of its processes.

The lack of written policies and procedures increases the risk that control procedures may not be performed or may be over-ridden. Employees may not

#### 4. Continued...

be adequately trained and appropriate performance measures and standards may not be developed.

#### **Recommendation**

It is recommended that AHC update its written policies and procedures to include Management's review and approval of disbursement vouchers and supporting documents.

When implementing written policies and procedures, several controls will need to occur:

- Approval by the appointing authority and the date approved
- Formal communication to the appropriate staff
- Periodic review and written update of the policies and procedures

#### ***Management's Response (Received September 21, 2012)***

*Staff has reviewed the current Policies and Procedures Manual. There have been revisions to the manual to include control procedures for handling incoming checks, to include management's review and approval of disbursement vouchers and supporting documents, and the inclusion of examples of frequently used documents. The revisions have been made to assist in the training and cross training of new and current employees.*

*The revisions have been approved by signature and date by the appointing authority, distributed to all staff, an electronic version is kept in the shared directory and a hard copy is kept on file for reference. The appointing authority will periodically review and update policies and procedures manual in consultation with staff as needed.*