



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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DR. KENNETH M. STONE, CPA
Internal Audit Executive

FILE COPY

August 22, 2012

James Roos, President
Neighborhood Enterprise, Inc.
2752 Lafayette
St. Louis, MO 63104

RE: Neighborhood Enterprise, Inc. (Project #2012-AHC11)

Dear Mr. Roos:

Enclosed is a report of our fiscal monitoring review of Neighborhood Enterprise, Inc for the period October 1, 2010 through October 31, 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 Neighborhood Enterprise, Inc. Fieldwork was completed on June 4, 2012.

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 Affordable Housing Commission (AHC) to provide fiscal monitoring to grant sub-recipients.

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: Angela M. Conley, Executive Director, Affordable Housing Commission
Jill Claybour, Acting Executive Director, Community Development Administration



CITY OF ST. LOUIS

AFFORDABLE HOUSING COMMISSION (AHC)

**NEIGHBORHOOD ENTERPRISE, INC.
CDA – CONSTRUCTION LOAN
CONTRACT #61698**

**FISCAL MONITORING REVIEW
OCTOBER 1, 2010 THROUGH OCTOBER 31, 2011**

PROJECT #2012-AHC11

DATE ISSUED: AUGUST 22, 2012

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
AFFORDABLE HOUSING COMMISSION (AHC)
NEIGHBORHOOD ENTERPRISE, INC.
FISCAL MONITORING REVIEW
OCTOBER 1, 2010 THROUGH OCTOBER 31, 2011**

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INTRODUCTION

Background

Contract Name: Neighborhood Enterprise, Inc.
Contract Number: CDA – Construction Loan #61698
Contract Period: Beginning October 1, 2010
Loan Amount: \$136,000

The loan agreement provides funds from Community Development Administration (CDA) to Neighborhood Enterprise, Inc. (Agency) to rehabilitate one unit located at 3520 Oregon. The agreement allows for a construction loan to the developer of \$136,000 with an additional gap construction loan in the amount of \$92,927, to assist in rehabilitation of the unit. The loan has an additional amount of \$14,479 (bridge loan), which comes in the form of a tax credit.

The qualified buyer of the unit is provided a subsidy in the amount of \$40,000. If the home is sold above the projected sale price of \$170,000, then 50% of the additional profit would be returned to the City.

Purpose

The purpose of the review was to determine the Agency's compliance with federal, state, and local CDA requirements for the period October 1, 2010 through October 31, 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 supporting the reports the Agency submitted was tested and other procedures were performed, as considered necessary.

Exit Conference

An exit conference was conducted on August 10, 2012. The Agency was represented at the exit conference by the President and Director of Development. The Internal Audit Section was represented by an Auditor I and Auditor II.

Management's Responses

Management's responses to the observations and recommendations identified in the draft report were received from the Agency on August 17, 2012. These responses have been incorporated into the report.

SUMMARY OF OBSERVATIONS

Conclusion

The Agency did not fully comply with CDA requirements.

Status of Prior Observations

The Agency did not have any previous CDA fiscal monitoring reviews.

Summary of Current Observations

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

1. Opportunity to document construction costs (questioned cost \$5,235)
2. Opportunity to maintain financial records in accordance with generally accepted accounting principles
3. Opportunity to provide adequate insurance coverage

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Opportunity To Document Construction Costs (Questioned Cost \$5,235)

A review of expenditures was performed to ensure that costs reimbursed were allowable under the terms of the loan agreement. IAS learned that differences in the amounts reimbursed were noted when compared to the lien signed waivers. IAS was informed the differences were for labor costs, yet documentation certifying the labor costs for each budget category was not available for review, resulting in questioned cost of \$5,235.

Section 6.2(a) of the loan agreement requires amounts disbursed relate to the construction and development of the project and only for completed work and materials to be incorporated into the project. Discussion with the disbursing agency revealed that a review of each budget category amount was performed and an inspection was performed by CDA and the disbursing agency was considered acceptable. Without proper documentation of labor and signed waivers the risk increase that cost associated with each budget category may not be accurate.

Recommendations

It is recommended that the Agency repay the questioned cost of \$5,235. It is also recommended that all costs be documented by both the Agency and the disbursing agent to ensure that accurate expenditures are being reimbursed for each project category.

Management's Responses

The minor variances are related to general contractor labor (not reflected in a subcontractor lien waiver). These costs would be a part of the lien waiver issued by general contractor to the owner at each draw. In addition, the large variance in the painting category is the same explanation. The painting for this project was done by general contractor's employees. Attached is an additional lien waiver for the HVAC line item. Again, any minor differences are due to general contractor labor performed for that line item of budget.

Auditor's Comments

All costs need to be supported with documentation to ensure payments are being disbursed only for the construction and development of the project. In addition, supporting documentation ensures that the disbursed amounts are within the budget of each category of the project.

The additional lien waiver for the HVAC line item was dated May 19, 2011; however, the initial payment request for the questioned variance was January 6, 2011. It is recommended that the Agency repay the questioned cost of \$5,235.

2. Opportunity To Maintain Financial Records In Accordance With Generally Accepted Accounting Principles

A review of the Agency's financial statements and a letter from the preparer revealed that the financial statements are prepared using the modified cash basis of accounting. The modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles.

Section 9.4 of the loan agreement requires the Agency to maintain books of record and account, in which full and correct entries are made in accordance with generally accepted accounting principles. It appears the Agency was not aware of the loan requirements. As a result, the Agency did not comply with loan requirements. There may be incomplete and unreliable information furnished to CDA from the Agency's financial affairs and business operations.

Recommendations

It is recommended that the Agency create and maintain records and financial statements in accordance with generally accepted accounting principles as required by the loan agreement.

Management's Responses

Earlier this year, the financial statement was adjusted to be clearer and closer to GAAP but still is a "Modified Cash Basis" of accounting. In the future grant request, we will request a waiver regarding our accounting practice.

3. Opportunity To Provide Adequate Insurance Coverage

A review of the Agency's insurance policy revealed that the Agency did maintain worker's compensation coverage as required by the loan agreement. The Agency's coverage was limited to only \$500,000 per accident.

Section 9.13 of the loan agreement requires the Developer to maintain worker's compensation with policy limits of not less than \$1,000,000 per accident to meet the requirements of Missouri law. It appears the Agency was not aware of the insurance coverage requirement. As a result, the Agency did not comply with loan requirements. The Agency risks being inadequately covered by their insurance, if workers are involved in an accident.

Recommendations

It is recommended that the Agency increase and maintain adequate workers compensation insurance coverage as required by the loan agreement.

Management's Responses

We did not know we needed such for 3520 Oregon and the project is finished without incident. With regard to Neighborhood Enterprise's pending grant request to AHC for 3515 Oregon, we will ask for a waiver allowing \$500,000 coverage. If rejected, we will increase coverage to \$1,000,000.