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CITY OF ST. LOUIS



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DR. KENNETH M. STONE, CPA
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FILE COPY

April 21, 2012

Bonnie Reece, Executive Director
St Louis Transitional Hope House
1161 Hodiament
St. Louis, MO 63112

RE: Supportive Housing Program (SHP) and Federal Emergency Shelter Grant (FESG)
(Project #2012-HOM14)

Dear Ms. Reece:

Enclosed is a report of the fiscal monitoring review of the St Louis Transitional Hope House, a not-for-profit organization, SHP and FESG Programs, for the period January 1, 2011 through December 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 St Louis Transitional Hope House. Fieldwork was completed on April 9, 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 City of St. Louis, Department of Human Services (DHS) to provide fiscal monitoring to all grant sub-recipients.

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

Respectfully,

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: Antoinette Triplett, Program Manager, DHS
Paul Mehta, Fiscal Manager, DHS



CITY OF ST. LOUIS

**DEPARTMENT OF HUMAN SERVICES (DHS)
SUPPORTIVE HOUSING PROGRAM (SHP)
FEDERAL EMERGENCY SHELTER GRANT (FESG)**

**ST. LOUIS TRANSITIONAL HOPE HOUSE
CONTRACT #62396 AND #63163
CFDA #14.235 AND #14.231**

FISCAL MONITORING REVIEW

JANUARY 1, 2011 THROUGH DECEMBER 31, 2011

PROJECT #2012-HOM14

DATE ISSUED: APRIL 21, 2012

**Prepared By:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
DEPARTMENT OF HUMAN SERVICES (DHS)
SUPPORTIVE HOUSING PROGRAM (SHP)
FEDERAL EMERGENCY SHELTER GRANT (FESG)
ST LOUIS TRANSITIONAL HOPE HOUSE
FISCAL MONITORING REVIEW
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INTRODUCTION

Background

Contract Name: St Louis Transitional Hope House

Contract Numbers: 62396 (SHP)
63163 (FESG)

Contract Periods: January 1, 2011 through December 31, 2011(SHP)
October 1, 2011 through September 30, 2011 (FESG)

CFDA Numbers: 14.231
14.235

Contract Amounts: \$39,000 (SHP)
\$748,332 (FESG)

These contracts provided SHP and FESG funds to St Louis Transitional Hope House (Agency) to promote the delivery of supportive housing, emergency shelter, and supportive services to assist homeless or at risk persons in the transition from homelessness to interdependency and permanent housing in the Greater St Louis Area.

Purpose

The purpose of the review was to determine the Agency's compliance with federal, state and local Department of Human Services' (DHS) requirements for the period January 1, 2011 through December 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 DHS. Evidence was tested supporting the reports the Agency submitted to DHS and other procedures were performed as considered necessary. Fieldwork was completed on April 9, 2012.

Exit Conference

The Agency was offered the opportunity for an exit conference on April 17, 2012, but it was declined.

Management's Response

The management's responses to the observations and recommendations identified in the draft report were received from the Agency on April 18, 2012. The responses have been incorporated into this report.

SUMMARY OF OBSERVATIONS

Conclusion

The Agency did not fully comply with federal, state, and local DHS requirements.

Status of Prior Observations

The Agency's previous fiscal monitoring report, Project #2011-HOM27 issued January 9, 2012 noted one observation.

- Going concern issues exist (Repeated)

A-133 Status

The Agency expended \$500,000 or more in federal funds for the calendar year ending June 30, 2011 therefore, it was required to have a single audit in accordance with OMB Circular A-133.

The report was dated December 9, 2011 and rendered unqualified opinions on both the general purpose financial statements and the federal awards. There were no material weaknesses or significant deficiencies identified on both the general purpose financial statements and the federal awards. There were no audit findings required to be reported in accordance with section 510(a) of OMB Circular A-133.

The Agency did qualify as a low risk auditee.

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 DHS requirements.

1. Opportunity to address going concern issues
2. Opportunity to follow procurement guidelines

DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES

1. Opportunity To Address Going Concern Issues

Based on the agency's financial statements for the last three years, the Agency appears to have a going concern issue.

The Agency's Balance Sheets as of June 30, 2010, 2011, and February 29, 2012 show negative working capital (excess of current liabilities over current assets) and the Agency's income statements for the respective years showed net losses as follows:

Description	June 30, 2010	June 30, 2011	February 29, 2012
Working Capital	(\$102,936.79)	(\$42,458.57)	(\$30,501.04)
Net Income	(\$126,670.00)	(\$119,069.29)	(\$52,789.06)

Going concern measures the entity's ability to stay operational for the foreseeable future by continuing to realize assets and discharge liabilities in the normal course of business, and generate sufficient resources to stay operational. Positive working capital, an excess of current assets over current liabilities, and excess of income over expenditures provide evidence that an entity will stay a going concern for the foreseeable future.

Agency is carrying too many liabilities however; the Agency is restructuring their debt, which shows a positive trend for both working capital and net income.

An uncertainty over the Agency's ability to continue in operation for the foreseeable future may limit the Agency's ability to provide the services to the community as required by the grant contract. It may also lead funding sources to discontinue funding the Agency.

Recommendation

It is recommended that the Agency implement budgetary controls to ensure its expenses do not exceed the revenues it receives. In addition, the Agency needs to seek additional funding sources to meet its operational requirements to achieve a positive financial outlook.

Management's Response

Management is well aware of the agency's negative working capital balance. As your chart illustrates, Working Capital and Net Income have improved over the last fiscal year, and continue to improve:

<i>Description</i>	<i>June 30, 2010</i>	<i>June 30, 2011</i>	<i>% increase</i>	<i>February 29, 2012</i>	<i>% increase</i>
<i>Working Capital</i>	<i>(\$102,936.79)</i>	<i>(\$42,458.57)</i>	<i>58.75%</i>	<i>(\$30,501.04)</i>	<i>28.16%</i>
<i>Net Income</i>	<i>(\$126,670.00)</i>	<i>(\$119,069.29)</i>	<i>6%</i>	<i>(\$52,789.06)</i>	<i>55.66%</i>

The improvement was realized a result of the improvement plan that was developed and executed last year:

- 1. The Child Development Center's operating schedule has been reduced to match our clients' need for childcare. In April 2011, full-time staffing positions were reduced accordingly, resulting in a decrease in payroll expenses.*
- 2. On September 6, 2011 the agency's Head Start slots were increased to 21 slots, resulting in increased revenue.*
- 3. The agency has increased its applications for grant funding for operating purposes*
- 4. In June 2011, \$90,000 in short-term debt was restructured to long term debt*
- 5. The agency consistently submits its monthly reimbursement requests for eligible expenditures by the 10th of the month.*

The improvement was realized despite the fact that Hope House lost approximately \$67,000.00 in childcare accreditation premium payments over a 14-month period beginning with August 2010 and ending December, 2011. The accreditation premium is paid in addition to the normal childcare subsidy, and was restored to Hope House effective January 2, 2012. The agency expects to receive approximately \$50,000.00 annually from these fees alone, having received \$11,266.70 since January 2, 2012. Additionally, Hope House is weighing the benefit of managing its own vending machines instead of receiving a small commission from the company that now places its machines on site.

2. Opportunity To Follow Procurement Guidelines

Non-payroll expenditures were tested for the months of October (ESG) and December (SHP) 2011. There were five expenditures that were in excess of \$500 which did not have any procurement documentation resulting in total questioned costs of \$5,373.99 as follows:

Vendor Name	Program	Invoice Number	Invoice Date	Invoice Amount	Reimbursed Amount
Top Flight Flooring	ESG	N/A	10/20/11	\$2,619.00	\$1,309.50
Dell Business Credit	ESG	XFJ1PXTN3	09/21/11	\$993.00	\$496.50
Williams Squared	ESG	N/A	09/06/11	\$3,300.00	\$1,161.24
H & G Sales	SHP	194512	12/07/11	\$1,099.00	\$824.25
Mattress Wholesale, Inc.	SHP	393	12/02/11	\$2,110.00	\$1,582.50
Total				\$10,121.00	\$5,373.99

DHS procurement policy states that for all procurement over \$500 a minimum of three sources must be contacted. There must be at least one minority business among the contacts. Also, the Agency's own policy states that all purchases require three telephone quotes/bids.

The Executive Director stated that these purchases were considered for emergency repairs.

Non-compliance with the DHS procurement guidelines may result in higher prices being paid for goods/services, which could have been avoided by competitive bidding. This can also result in contracting goods/services to individuals/businesses that could possibly be on the Federal suspension/debarment list, resulting in unallowable costs.

Recommendation

It is recommended that the Agency repay DHS \$5,373.99 in questioned costs. It is also recommended that the Agency follow DHS procurement guidelines for all future purchases over \$500.

Management's Response

We do not agree with your recommendation that Hope House repay \$5,373.99 in costs that you consider questionable.

- 1. Top Flight Flooring Expense: This expense was incurred in response to a licensing criticism that required Hope House to remediate a problem with classroom floors that was causing the vinyl tile flooring to crack. In this case, we did not have enough time before the repairs had to be made to implement a bidding process. A complicating factor in this particular instance was that the work could only be done in the evening after close of business or on the weekend. This kind of limitation*

significantly reduces our ability to obtain bids, because many contractors cannot (or won't) work around our scheduled operations, or they impose "overtime and after hours" costs that are prohibitive. Given these circumstances, I believe that our best option was to move forward with Top Flight Flooring.

- 2. Dell Business Credit Expense: Hope House formerly obtained PCs from an IT service provider, who does quote a lower price for PCs (\$950.00 vs. \$993.00), but is expensive to use for IT service. Those PCs (also Dell machines) were constructed with lesser capacity and less software than those that we now construct ourselves on-line with Dell, and we are able to lower our IT expense in association with these machines because Dell is willing to provide technical assistance with a much better turnaround than we had with our former local IT provider. PCs are a purchase that we seldom make, and will not need to make again for quite some time considering the kind of work that we do here at Hope House and the condition of our desktop computers. It was a sound purchase for an organization of this size and limited IT needs.*
- 3. Williams Squared Expense: In addition to receiving a bid from Houlihan Fence (we provided a copy of the bid for City of St. Louis Auditors); we used the Missouri Directory of M/WBE Vendors website and made contact with Williams Squared to obtain a bid from a minority vendor. We also called Alpha Fence to ask for a quote for this project, but they did not respond to the request. Time limitations did not allow for us to spend more time waiting for contractors to bid on the project, so we went with the low bidder, Williams Squared.*
- 4. H & G Sales Expense: A technician from H&G Sales, Inc. perforated not just one job in the Residential Facility; he came in to perform several repair jobs for Hope House as follows: (1) We had sweeps installed on some of the metal doors leading to the outside to help mitigate a problem with mice; (2) the stairwell doors were sticking and difficult to open because clients moving in and out of the building had propped the metal doors open in such a fashion as to throw off the alignment of the doors; (3) the lockset on the door of the third floor playroom was broken and had to be completely replaced; a door handle on a stairwell door was broken and had to be replaced. We accumulated a listing of problems that were confined to the doors and/or door locks in the building and had a technician make one visit to correct these problems, because they now add fuel surcharges and service charges to the cost on top of the labor and supplies. It would have been more expensive to have a service call made for each repair.*
- 5. Mattress Wholesale, Inc. Expense: After a period of trial and error with the purchase of mattresses, we have necessarily limited ourselves to purchasing mattresses that are vinyl-covered and finished on both sides so that each side has equal construction and sleeping comfort. The vinyl covering also helps to extend the life of the mattress, and save replacement costs in the long run. We need at least three different mattress sizes, and so we have more than one source for*

mattresses. We use the Missouri Vocational Enterprises on-line catalog and Mattresses Wholesale for the two different sizes of twin mattresses that we use, and on-line vendor Seating Systems, Inc. for the sleeper-sofa mattresses. We do not have the need to buy mattresses in a volume that would be qualify for a quantity discount, so the purchase price of each mattress will not be affected by volume. We do get advertising materials from vendors who present a lesser quality product, but we are achieving savings by purchasing a reasonably priced mattress that we know to be durable and of good quality. In addition, the mattress purchase in question included \$120.00 for mattress pads that we believe will further extend the life of the mattresses. We will track the effectiveness of these pads to determine if they are a cost efficient purchase for Hope House.

In order to locate minority businesses to include in the contacts that we make for goods and services, we consult the Missouri Minority/Women business Enterprise Program website (<http://www.directory.oeo.oa.mo.gov/Default.aspx>, which is how we located Williams Squared, the company that installed the fence for Hope House. Top flight Flooring is also a minority vendor. The only purchases shown here that involved a time constraint were the purchases from Top Flight Flooring and Williams Squared, and we were able to obtain at least one competitive bid for the fencing project. We are always cognizant of the need to obtain competitive bids. One of the challenges we face is to get qualified contractors to come out and do business with Hope House. Our location sometimes makes it problematic to engage with some vendors, and we must make many contacts in order to get the bids that we need in order to be compliant with DHS procurement guidelines and our own procurement policy. When at all possible, we obtain the best price for the goods and services we purchase. I believe that we achieve very good results from our good faith efforts to be good stewards of our taxpayer-funded grant awards.

Auditor's Comment

The Agency should have obtained prior approval from the City for these emergency purchases.