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Missouri State Auditor

City of St. Louis
Community and Economic Development
Offices

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CITIZENS SUMMARY

Findings in the audit of the City of St. Louis - Community and Economic Development Offices

St. Louis Development Corporation	Procedures for receipting, recording, transmitting, and depositing receipts by various Saint Louis Development Corporation (SLDC) departments need improvement. Finance Department personnel have not periodically conducted a competitive selection process for the management of Land Clearance for Redevelopment Authority (LCRA) owned parking facilities. SLDC policies for Land Reutilization Authority land sale pricing are outdated. The SLDC does not have pricing policies for the sale of LCRA owned property and Real Estate Department personnel do not always obtain appraisals or other support for the value of property to be sold.
Community Development Administration	Community Development Administration (CDA) personnel did not always log payments and transmit receipts timely and intact and did not reconcile receipt logs to transmittals. The CDA's monitoring of Community Development Block Grant subrecipients needs improvement.
Electronic Communication Policy	The City of St. Louis Community and Economic Development Offices have not developed records management and retention policies in compliance with the Missouri Secretary of State Records Services Division guidance, as approved by the Missouri Local Records Commission.

In the areas audited, the overall performance of this entity was **Good**.*

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*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

City of St. Louis - Community and Economic Development Offices

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NICOLE GALLOWAY, CPA
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To the Honorable Mayor
and
Affordable Housing Commission
and
Executive Director of Community Development Administration
and
Director of Planning and Urban Design Agency
and
Economic Development Tax Board
and
Land Clearance for Redevelopment Authority
and
Land Reutilization Authority
and
Port Authority Commission
and
St. Louis Development Corporation
City of St. Louis, Missouri

We have audited certain operations of the City of St. Louis Community and Economic Development Offices in fulfillment of our duties under Section 29.200.3, RSMo. The State Auditor initiated audits of the City of St. Louis in response to a formal request from the Board of Aldermen. The City of St. Louis engaged KPMG LLP, Certified Public Accountants (CPAs), to audit the City's financial statements for the year ended June 30, 2019. To minimize duplication of effort, we reviewed the CPA firm's report. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2019. The objectives of our audit were to:

1. Evaluate the offices' internal controls over significant management and financial functions.
2. Evaluate the offices' compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the offices, as well as certain external parties; and testing selected transactions using haphazard and judgmental selection, as appropriate, but the results of our tests cannot be projected to the population of all transactions of each community and economic development office. We obtained an understanding of internal control that is significant to the audit objectives and planned and performed procedures to assess internal control to the extent necessary to

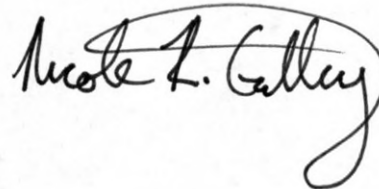
address our audit objectives. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of applicable contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the Community and Economic Development Offices' management and was not subjected to the procedures applied in our audit of the offices.

For the areas audited, we identified (1) deficiencies in internal controls, (2) non-compliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the City of St. Louis Community and Economic Development Offices.

We previously issued the following reports over selected economic development functions of the city: *City of St. Louis - Local Taxing Districts*, issued November 2019, report number 2019-114 and *City of St. Louis - Tax Increment Financing*, issued September 2020, report number 2020-076. Additional audits of various officials and departments of the City of St. Louis are in process, and any additional findings and recommendations will be included in subsequent reports.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA
State Auditor

City of St. Louis - Community and Economic Development Offices

Management Advisory Report - State Auditor's Findings

1. Saint Louis Development Corporation

The Saint Louis Development Corporation's (SLDC) controls and procedures for managing Land Reutilization Authority (LRA) and Land Clearance for Redevelopment Authority (LCRA) receipts, procurement, and property sales need improvement.

The SLDC's Real Estate Department facilitates real estate development throughout the city. Properties are acquired in the name of the LRA, LCRA, and the Planned Industrial Expansion Authority. The Real Estate Department manages, maintains, markets, and sells these agency-owned buildings and property. As of February 2020, the department was responsible for approximately 11,000 parcels of land.

The SLDC's Development Incentive Department facilitates the expansion and retention of businesses of all sizes in the City of St. Louis through review of development proposals that include requests for public assistance in the form of tax abatements or tax-exempt revenue bonds on behalf of the LCRA.

The SLDC's Finance Department handles all financial functions for the SLDC and the economic development authorities it represents.

1.1 Receipting, recording, and transmitting/depositing procedures

Procedures for receipting, recording, transmitting, and depositing receipts by various departments within the SLDC need improvement.

Real Estate Department receipting

Real Estate Department personnel do not issue prenumbered receipt slips for all money received, account for the numerical sequence of receipt slips issued, ensure checks and money orders are restrictively endorsed upon receipt, or always transmit receipts timely and intact.

- Our review of the LRA revenue report logs for July 2018, noted department personnel did not issue prenumbered receipt slips for 11 cash and/or check payments totaling \$108,795. Department personnel indicated prenumbered receipt slips are required to be issued for all cash and checks received.
- Receipt slips are not issued in numerical sequence. We reviewed the receipt slip sequence for all receipt slips issued in fiscal year 2019 and noted 244 of the 1,700 receipt slip numbers were not accounted for. Neither Real Estate nor Finance Department personnel could account for any of the missing receipt slips. Real Estate Department personnel indicated some of the missing receipt slips may have been voided but not retained.



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- Our review of revenue report logs identified 9 receipts totaling \$8,420 received between July 1, 2018, and July 6, 2018, that were not recorded on the log and transmitted to the Finance Department until July 20, 2018. In addition, we noted 5 receipts totaling \$2,343 received between July 12, 2018, and July 31, 2018, that were not recorded on the log and transmitted to the Finance Department until August 17, 2018. Department personnel indicated that a supervisory review of the revenue report logs is conducted prior to each transmittal to ensure all money received has been recorded properly and transmitted timely. However, this review did not detect the errors noted.

Real Estate Department
recording

Department personnel have not established adequate procedures to ensure all money collected is credited to the proper economic development authority. We reviewed 4 of the 11 LCRA land sales that occurred during the fiscal year ended June 30, 2019, and identified the following issues:

- Receipt slips issued for application fees received for 3 of the 4 properties indicated the fees were for the LRA rather than LCRA properties.
- The application fees collected for all 4 properties were improperly recorded on the LRA revenue report log and transmitted for deposit into a LRA bank account.
- Sales revenue received for 3 of the 4 properties, totaling \$18,600, was also recorded on the LRA revenue report log and transmitted for deposit into a LRA bank account instead of a LCRA bank account.

Department personnel could not provide an explanation for why these revenues were recorded incorrectly.

Development Incentive
Department

Development Incentive Department personnel do not issue receipt slips or log tax abatement application fees collected and do not restrictively endorse checks and money orders upon receipt. Department personnel indicated they did not think receipt slips were necessary since these application fees are transmitted to the Finance Department at the time of receipt. Without immediately receipting or logging these fees and reconciling these records to the amount transmitted, there is no assurance all application fees collected are subsequently transmitted to the Finance Department for further processing.

Finance Department

Finance Department personnel do not record money received upon receipt and deposits are not always timely. Department personnel receive payments for LCRA parking revenues and sale proceeds and application fees transmitted from other departments and typically prepare deposits for amounts transmitted and/or collected within 14 days of receipt. At the time the deposits are prepared, department personnel separate money collected by the revenue type and bank account it is to be deposited in, record the amounts



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on the Finance Department's receipt log, and prepare a deposit slip for each bank deposit. Department personnel indicated they did not believe it was necessary to record money received upon receipt since an email was sent by the department each time a transmittal was made, these fees are kept in a locked drawer in the Finance Department prior to being deposited, and deposits are prepared as staff have time due to the limited size of the department.

Conclusion

Failure to implement adequate receipting, recording, and transmitting/depositing procedures increases the risk that loss, theft, or misuse of money and errors will go undetected. By not logging payments received immediately upon receipt or issuing prenumbered receipt slips and not properly accounting for all receipts, there is no way to ensure that all payments received are ultimately transmitted/deposited. In addition, failure to restrictively endorse checks and money orders immediately upon receipt increases the risk of misuse of money.

1.2 Procurement procedures

Finance Department personnel have not periodically conducted a competitive selection process for the management of LCRA owned parking facilities. Following the end of the 5 year contract first entered into in 1983, LCRA officials decided not to solicit proposals for management of these parking facilities and instead chose to continue using the current management company on a month-to-month basis until either party decided to cancel the agreement. Neither the SLDC, nor the LCRA, have solicited proposals for the management of these parking facilities since the establishment of the initial contract in 1983.

Formal procurement procedures would provide a framework for economical management of resources of the LCRA and would help ensure the office receives fair value in its contracts, as well as, helping give all participants an equal opportunity to participate in the business of the LCRA.

1.3 LRA land sale policies

SLDC policies for LRA land sale pricing are outdated. In 2011, the SLDC Real Estate Department established standard sales prices based on square footage and neighborhood location for LRA owned properties.¹ The LRA established the standard sales prices based on an analysis of land sales prior to 2011 and has not updated these prices since 2011. Department personnel could not provide an explanation for why this price list had not been updated since 2011. Periodically updating the standard price list is necessary to ensure the price the LRA receives for land is reasonable or represents the fair value of the property.

¹ Occupied residential buildings, buildings suitable for occupancy, and large buildings that may be priced based on an appraisal are exempt from the pricing policies.



1.4 LCRA land sale policies and procedures

The SLDC does not have pricing policies for the sale of LCRA owned property and Real Estate Department personnel do not always obtain appraisals or other support for the value of property to be sold. None of the four property sales reviewed had appraisals associated with them. SLDC personnel indicated they use the assessed value as a guideline when pricing properties. However, they are not required to set the assessed value as the minimum sales price. For one of the four LCRA property sales reviewed, the SLDC received less than the assessed value and did not retain adequate documentation to support why the lower sales price was accepted.

Pricing policies and sufficient documentation to support the prices received are necessary to prevent lost revenue. Good business practice requires real estate purchases be formally and independently appraised to ensure a reasonable price is received.

Similar condition previously reported

A similar condition to section 1.3 was noted in our prior audit report. In the *Follow-up Report on Audit Findings City of St. Louis - Community and Economic Development Offices*, Report No. 2018-108, released in October 2018, LRA officials indicated MAR 1.3 had been implemented; however we found that corrective action taken was not always effective and problems continue to exist.

Recommendations

The SLDC work with the LRA and LCRA to:

- 1.1 Develop procedures to ensure receipt slips are issued for all money received or receipts are logged immediately upon receipt, the numerical sequence of receipt slips issued or voided are properly accounted for, checks and money orders are restrictively endorsed immediately upon receipt, receipts are transmitted/deposited intact and timely, and receipts are credited to and deposited on behalf of the proper economic development authority.
- 1.2 Periodically solicit competitive proposals for contracts.
- 1.3 Periodically update LRA's standard price list to ensure prices reflect the fair value of the property.
- 1.4 Develop a pricing policy for the sale of LCRA property and retain documentation to support sale prices.

Auditee's Response

- 1.1 *The Real Estate Department has established a point person for charting and recording fees received for all LRA real estate transactions. Prenumbered receipts are used for each transaction. All receipts are accounted for. LCRA property sale transactions are now accounted for separately from LRA transactions; they are also receipted and transmitted to the Finance Department and are clearly*



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identified as belonging to LCRA. We have purchased new "for deposit only" stamps for LRA, LCRA and SLDC. The stamps are used to restrictively endorse all incoming checks. These stamps now reside in the Real Estate, Development Incentive, and Finance Departments. The Finance Department will continue to lock up undeposited checks and will make physical bank deposits on a bi-weekly basis or sooner.

1.2 *SLDC staff will meet in the first quarter of 2022 to discuss the issuance of an RFP for parking operators.*

1.3 *SLDC staff are presently working with the City Assessor's Office to incorporate more recent data into its standard pricing policy. The updated pricing policy, when adopted by the LRA Commission, will be put into effect to more accurately reflect the present market environment.*

1.4 *SLDC staff do not generally obtain professional appraisals when selling LCRA properties. We use the assessed value as a basis, subject to consideration for age, end use, offerors' plans and budget and condition of property. Regarding the LCRA property sold for less than the assessed value, following the LCRA's purchase of this property, it was subdivided and partially used for public improvements. The remaining property was irregular and not suitable for development and was sold to a neighborhood garden group for a community garden.*

2. Community Development Administration

The Community Development Administration's (CDA) procedures for receipting money and monitoring Community Development Block Grants (CDBG) need improvement. The CDA is primarily responsible for the administration of federal funds for housing projects and community and economic development programs. The amount of funds allocated to various CDA programs is approved by city ordinance on a calendar year basis.

2.1 Receipting and transmittals

CDA personnel did not always log payments and transmit receipts timely and intact and did not reconcile receipt logs to transmittals.

The Housing Program secretary is responsible for receiving and logging all closing fees, loan payments, and recording fees received on the Housing Program's check log upon receipt. For closing fees and loan payments received, the secretary prepares a memorandum documenting project information associated with the payments and transmits the memorandum and payments to the Fiscal Section for processing. For recording fees, the secretary transmits the payments directly to the Real Estate Section of the Comptroller's office for further processing. The secretary logs the date the payments are transmitted on the check log.



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Our comparison of the check log to the cash receipt log maintained by the Fiscal Section for the 2 week period ending March 23, 2019, noted personnel recorded two receipts totaling \$9,950 (\$3,200 and \$6,750), for loan payments for the Healthy Home Repair Program on the cash receipt log, but not on the check log. In addition, we noted Housing Program personnel did not record the \$28 recording fees received for 2 loans. We verified the recording fees were received and transmitted to the Real Estate Section of the Comptroller's office for processing. CDA personnel indicated the omissions were a clerical error and subsequently updated the log.

In addition, for the fiscal year ended June 30, 2019, we traced all money received by Housing Program personnel for closing fees and loan payments recorded on the check log to entries recorded in the city's general ledger. We identified one check for \$2,045 recorded and marked as transmitted in the Housing Program's check log on April 24, 2019, that was not posted to the city's general ledger until November 13, 2019. CDA Fiscal Section personnel indicated this check was caught in a paper clip with other documentation and they did not realize it was not transmitted timely. Also, at the time this occurred, neither personnel in the Real Estate Section or Fiscal Section reconciled their respective records to ensure all money collected was transmitted and recorded in the city accounting system. CDA personnel indicated the individual responsible for performing these reconciliations retired in May 2019 and the position was not filled until March 2020.

Recording all receipts on a log and reconciling receipt records will help ensure all receipts are accounted for and properly transmitted. In addition, transmitting all receipts timely and intact will help reduce the risk of loss, theft, or misuse of money received.

2.2 Monitoring procedures

The CDA's monitoring of CDBG subrecipients needs improvement. According to the CDA's programmatic monitoring guidebook, CDA subrecipients classified as higher risk based on the CDA's annual risk assessment, are required to receive a technical assistance visit in addition to their annual monitoring visit. Our review of 10 of the 69 subrecipients that received CDBG funds in calendar year 2019 included 6 subrecipients classified as higher risk. CDA personnel did not conduct the required technical assistance monitoring visit for one of these six subrecipients. Per CDA personnel, the monitor who was responsible for this left and the CDA did not have the staffing required to perform the visit.

Site reviews are a crucial part of program monitoring. Timely reviews facilitate good management and ensure that subrecipients receive the technical assistance needed to operate programs in compliance with all requirements, thereby maintaining program integrity.



Similar conditions previously reported

Similar conditions were noted in our prior audit report. In the *Follow-up Report on Audit Findings City of St. Louis - Community and Economic Development Offices*, Report No. 2018-108, released in October 2018, the CDA officials indicated the recommendation for section 2.1 was in progress and the recommendation for section 2.2 had been implemented; however we found that corrective action taken was not always effective and problems continue to exist.

Recommendations

The Community Development Administration:

- 2.1 Ensure all receipts are recorded and transmitted timely and intact and receipt records are reconciled.
- 2.2 Ensure technical assistance monitoring visits are performed for all higher risk agencies as required.

Auditee's Response

- 2.1 *We will ensure all receipts are recorded and transmitted timely and intact to the proper entity and receipt records are reconciled timely to ensure that these types of errors do not occur moving forward.*
- 2.2 *We will ensure technical assistance monitoring visits are performed and documented for all higher risk agencies as required.*

3. Electronic Communication Policy

The City of St. Louis Community and Economic Development Offices have not developed records management and retention policies in compliance with the Missouri Secretary of State Records Services Division guidance, as approved by the Missouri Local Records Commission. This guidance recommends government entities have a policy on electronic messaging, including text messages, email, and other third party platforms. Officials in some offices did not recognize the need for the policy, while those in other offices considered this issue to be the city's responsibility.

While the offices' emails sent or received through the city's hosted email system are archived, the offices have not adopted a policy to address the other issues set forth in the guidance, including the retention of messages sent from text messages and other third party platforms, such as personal email accounts and personal devices, when they represent official business of the city.

Section 109.270, RSMo, provides that all records made or received by an official in the course of his/her public duties are public property and are not to be disposed of except as provided by law. Section 109.255, RSMo, provides that the Local Records Board issue directives for the destruction of



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records. The guidelines for managing electronic communications records can be found on the Secretary of State's website.²

Written policies to address the retention of electronic communications are necessary to ensure all documentation of official business of the city is retained as required by state law.

Recommendation

The City of St. Louis Community and Economic Development offices develop written records management and retention policies that address electronic communications management and retention to comply with the Missouri Secretary of State Records Services Division Electronic Communications Guidelines.

Auditee's Response

The SLDC provided the following response:

As the city provides Information Technology support and guidance for most SLDC functions of this nature, and SLDC generally follows city policies on these matters, SLDC will await the development of the city's policy regarding retention of electronic communications to the extent noted here. SLDC policy will likely be structured after the city policy.

² Missouri Secretary of State Records Services Division, *Electronic Communications Records Guidelines for Missouri Government*, May 14, 2019, <<https://www.sos.mo.gov/CMSImages/RecordsManagement/CommunicationsGuidelines.pdf>>, accessed November 1, 2021.

City of St. Louis - Community and Economic Development Offices

Organization and Statistical Information

The city has established the following offices to provide community and economic development services.

Affordable Housing Commission

The Affordable Housing Commission (AHC) was established under City Ordinance 65132. The AHC promotes city living and neighborhood stabilization through the preservation and production of affordable, accessible housing and support services that enhance the quality of life for those in need. The AHC provides partial funding to both social service organizations and housing developers to provide housing construction/rehabilitation, education/training, and homelessness prevention services to the city. The Executive Director is April Ford Griffin.

Community Development Administration

The Community Development Administration (CDA) was established under City Ordinance 64688. The CDA is responsible for the administration of federal funds allocated to the city for housing production and home repair, community development, public service, and economic development programs. Its activities are mainly funded with federal Housing and Urban Development funds, including both HOME Investment Partnership (HOME) funds and Community Development Block Grant funds. Currently, the Executive Director is Justin Jackson. At June 30, 2019, Matt Moak served as the Executive Director.

Planning and Urban Design Agency

The Planning and Urban Design Agency (PDA) was established under the City Ordinance 64687. The PDA performs neighborhood planning for the city, historical preservation activities, provides research information to individuals, and creates city maps. The PDA has several regulatory functions including serving as staff for the Planning Commission and Preservation Board. The Executive Director is Don Roe.

Economic Development Tax Board

The Economic Development Tax Board was established by Ordinance 70435 to oversee economic development sales tax funding. In April 2017, voters approved a one half of one percent sales tax for economic development purposes. This tax is allocated (1) 60 percent for the Metrolink, (2) 10 percent for neighborhood revitalization, (3) 10 percent for workforce development, (4) 10 percent for public safety, and (5) 10 percent for infrastructure. This 9 member board is composed of two members appointed by the school district, five members appointed by the Mayor, and two members appointed by the Board of Aldermen.



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Organization and Statistical Information

Land Clearance for Redevelopment Authority

The Land Clearance for Redevelopment Authority (LCRA) was established under Section 99.330, RSMo. The goal of the LCRA is to reduce blight in the city. To achieve this goal, the LCRA recommends development incentives such as tax abatements, tax-exempt revenue bonds, and eminent domain for commercial, industrial, and residential projects in redevelopment areas which are reviewed and approved by the PDA and the St. Louis Board of Aldermen. The SLDC provides administrative services for the LCRA.

Land Reutilization Authority

The Land Reutilization Authority (LRA) was established under the authority of Sections 92.700 to 92.920, RSMo. The LRA receives title to donated property and all tax delinquent properties not sold at Sheriff's sales. The St. Louis Development Corporation (SLDC) Real Estate Department maintains, markets, and sells these properties and performs land assemblage for future development.

Port Authority Commission of the City of St. Louis

The Port Authority Commission was established under Section 68.010, RSMo. It is responsible for working with individuals or corporations regarding the preparation and negotiation of land and mooring leases on property owned by the City of St. Louis in the Port District. In addition to managing leases for city-owned property in this area, the commission works with shipping stakeholders across the bi-state area to promote regional commerce. The SLDC provides administrative services for the commission.

St. Louis Development Corporation

The St. Louis Development Corporation (SLDC) is an umbrella not-for-profit corporation organized under Chapter 355 of the Missouri Revised Statutes with the mission of fostering economic development and growth in the city. The SLDC is directed by its own Board of Directors and its employees serve as staff support for the city's economic development authorities, including the Land Reutilization Authority, the Land Clearance for Redevelopment Authority, and the Port Authority Commission of the City of St. Louis.