



# CITY OF WILMINGTON

## AUDITING DEPARTMENT

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January 7, 2019

Honorable Michael S. Purzycki, Mayor  
City of Wilmington  
Louis L. Redding City/County Building  
800 N. French Street, 9th Floor  
Wilmington, DE 19801

The City's Internal Audit Department (IAD) has performed the procedures below, which were agreed upon by the City of Wilmington solely to assist the Mayor's Office in reviewing the financial management of the Wilmington Housing Partnership (WHP). This included determining whether the WHP's accounting records were clerically accurate and had adequate controls in place to provide reasonable assurance that payments were accurate, timely, and reasonable:

- Reviewed cash disbursements and receipts for the period of July 01, 2017 to April 30, 2018.
- Examined bank statement reconciliations for the year-ending June 30, 2017 through July 31, 2018.
- Reviewed copies of bylaws, minutes, accounting records, and other official documents.

These agreed upon procedures were conducted in accordance with attestation standards established by Generally Accepted Government Auditing Standards (GAGAS). The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures below either for the purpose for which this report has been requested or for any other purpose. Furthermore, the scope of the engagement was limited by the untimely receipt and lack of critical documentation received from WHP's Executive Director (ED), Steven Martin.

- 1) At the time of our review, WHP had not received \$400K in anticipated funds from the JP Morgan Chase Foundation. This has had a critical impact on the completion of the Eastside Revitalization Project. Since most project funds are restricted or reimbursed at project completion, WHP has utilized approximately \$183K to-date in operational funds to float the East Side project expenses. Although \$385K of funding for the million-dollar project was from direct grants, WHP was required to cover upfront costs while awaiting reimbursement from JP Morgan Chase.
  
- 2) WHP lacks a reliable method of accounting and as a result, the Corporation's financial records and controls contain several errors and deficiencies such as:
  - ED has too much control over the financial management process, as a result there were segregation of duties issues noted.
  - Insufficient financial reporting, due to WHP not accurately capturing all project costs or tracking the use of restricted grant funding.
  - City issued loans to the WHP were not repaid timely. Currently, \$158K in outstanding loans exists.
  - WHP records of City funding do not consistently reconcile with City records regarding the remaining funds being distributed and reimbursed for the Live Near Your Work Program.
  - Operations and projects accounting records contain \$763K and \$267K in errors respectively, due to duplicate journal entries, unrecorded expenses, and manually voided transactions.
  
- 3) WHP's bank accounts are not being properly monitored or managed. WHP lacks the internal controls necessary to accurately recognize year end accruals and adjustments as deemed necessary.
  - WHP is not using City-financial assistance for its intended purpose. The developer fees provided to WHP are intended to help the Corporation cover the operational expenses associated with each project but are currently being used as revolving funds for ongoing projects, per discussions with the ED.
  - The Corporation is in arrears in their operations account. As of April 2018, there was a negative balance of \$70.6K and funds were being used from the Project account to float the Operations account, to cover salaries and other operational costs. In addition, funds were not being transferred back into the account accurately and in a timely manner.
  - Monthly bank reconciliations were not performed timely, it was noted, the oldest unreconciled account was June 30, 2009.

- WHP is also carrying an excessive amount of properties that have no planned development. As of June 30, 2017, there were 88 of 156 (56%) properties with no planned development that have a net carrying value of \$3.1M.

**Other reportable concerns:**

- The Corporation's by-laws do not list the "President" role as an approved office according to Article IV "Officers." Page 3 of the by-laws describes the Director of Real Estate and Housing as WHP's President and outlines the authority granted to the role within WHP operations.
- WHP's policies and procedures have not been updated since 2013. Names instead of positions are referenced and the prior ED is still referred to by name in many areas.
- The Corporation did not supply IAD with requested conflict of interest documents. The ED stated possible concerns with the Corporation's contracted legal representation.

**Recommendations:**

Based upon the above findings, IAD makes the following recommendations for the improvement of Wilmington Housing Partnership's financial management:

- WHP should hire an external firm to handle all its accounting and bookkeeping.
- WHP should consider decreasing their number of properties with no planned development in order to minimize liabilities. Income received from these dispositions should be used for WHP operational costs.
- It is imperative that the JP Morgan Foundation honors its contractual agreement to disburse \$400K for the projects that have been reported on and are a work in progress.
- The City should take on the role of monitoring whether the conflict of interest policy is being followed according to the WHP's by-laws.

This report is intended solely for the information and use of the Mayor's Office and management of The City of Wilmington and is not intended to be and should not be used by anyone other than these specified parties.



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Terence Williams  
City Auditor  
January 7, 2019

## ATTACHMENT A

IAD reviewed all WHP bank statements and cash disbursement journals for each of their three bank accounts: Federal, Operations, and Projects. A summary of audit findings is detailed below:

Significant Exceptions	WHP Bank Accounts			Grand Total of Exceptions
	Federal	Operations	Projects	
Uncleared transactions (Check is less than 30 days out)		\$ (76,981.00)		\$ (76,981.00)
Cleared but with errors		\$ (13,659.14)	\$ (2,210.00)	\$ (15,869.14)
Duplicate entry		\$ (187,689.12)	\$ (28,947.76)	\$ (216,636.88)
Journal entry not on bank statements		\$ 9,568.66	\$ (12,000.00)	\$ (2,431.34)
No exception noted	\$ (3,000.00)	\$ 221,598.87	\$ 91,393.25	\$ 309,992.12
NSF (with errors) not recorded in disbursement journal		\$ (9,529.35)		\$ (9,529.35)
NSF not recorded in disbursement journal		\$ (28,184.63)		\$ (28,184.63)
Possible exception (further research needed)		\$ (939.04)		\$ (939.04)
Possible stale date check (further research needed)		\$ (107,410.76)	\$ (240,883.23)	\$ (348,293.99)
Project Account Transaction (paid with Operations' funds)		\$ (226,865.99)		\$ (226,865.99)
Risk of unauthorized transaction (lack of dual signature)			\$ (97,588.38)	\$ (97,588.38)
Transaction on bank statement but not in disbursement journal	\$ (1,800.00)	\$ (6,545.82)		\$ (8,345.82)
Untimely journal entry (greater than 3 business days)		\$ (1,563.84)		\$ (1,563.84)
Transaction was void but still cleared bank		\$ (1,870.50)		\$ (1,870.50)
Void not recorded in disbursement journal (blank)		\$ (505,799.10)	\$ (289,965.94)	\$ (795,765.04)
<b>Grand Total of Exceptions</b>	<b>\$ (4,800.00)</b>	<b>\$ (935,870.76)</b>	<b>\$ (580,202.06)</b>	<b>\$ (1,520,872.82)</b>