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MANAGEMENT LETTER NO. 01-29

March 20, 2002

David B. Winder, Executive Director
Department of Community and Economic Development
324 So. State Street, Suite 500
Salt Lake City, UT 84111

Dear Mr. Winder:

We have completed our audit of the financial statements of the State of Utah for the year ended June 30, 2001. Our report thereon, dated November 2, 2001, is issued under separate cover. We have also completed the Department of Community and Economic Development's (DCED) portion of the statewide federal compliance audit for the year ended June 30, 2001. The federal programs tested as major programs at DCED were the Low-Income Home Energy Assistance (LIHEAP), the Home Investment Partnership (HOME), and the Community Services Block Grant (CSBG) programs. Our report on the statewide federal compliance audit for the year ended June 30, 2001 should be issued by April 2001.

In planning and performing our audits, we considered DCED's internal control over administration of major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on the State's compliance with the requirements of its major programs and not to provide assurance on internal control. We noted certain matters involving DCED's internal control over the administration of federal programs that we consider to be reportable conditions. These conditions are identified in the accompanying table of contents and are described in the attached findings and recommendations.

None of the reportable conditions is believed to be a material weakness to the State's financial statements. However, we noted a certain matter involving internal control over the administration of federal programs that we consider to be a material weakness to the LIHEAP program. This matter is described in the attached finding and recommendation Number 1.

Reportable conditions are defined as matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our

judgment, could adversely affect the organization's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. We have also identified as reportable conditions those instances of noncompliance that are required to be reported in accordance with Federal OMB Circular A-133.

Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

During our audit, we also noted other matters involving the internal control over compliance of DCED and its operations. We are submitting for your consideration related recommendations designed to help DCED make improvements and achieve operational efficiencies. These matters are described in the attached findings and recommendations.

This report by its nature focuses on exceptions, weaknesses, and problems. This should not be understood to mean there are not also various strengths and accomplishments. Our consideration of the internal control over financial reporting and administration of federal programs would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report is intended solely for the information and use of DCED and is not intended to be and should not be used by anyone other than this specified party.

We appreciate the courtesy and assistance extended to us by the personnel of DCED during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please call Stan Godfrey, Audit Director, at 538-1356.

Sincerely,

Auston G. Johnson, CPA
Utah State Auditor

cc: Todd Hauber, Finance Director
Kerry Bate, Director, Division of Community Development
Kimberly Schmeling, Budget and Accounting Supervisor

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

TABLE OF CONTENTS

	<u>Page</u>
FINDINGS AND RECOMMENDATIONS:	
<u>LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP)</u>	
1. INADEQUATE SUBRECIPIENT MONITORING (Material Weakness) (Repeat Finding)	1
2. NON-COMPLIANCE WITH EARMARKING REQUIREMENTS (Reportable Condition)	2
3. EXCESSIVE CASH ADVANCES TO SUBRECIPIENTS (Reportable Condition)	4
4. NON-COMPLIANCE WITH TREASURY-STATE AGREEMENT	6
5. INCORRECT REPORTING PERIOD FOR 269A REPORT	7
<u>SUBRECIPIENT MONITORING</u>	
6. SUBRECIPIENT MONITORING WEAKNESSES (Reportable Condition)	7
<u>HOME INVESTMENT PARTNERSHIP PROGRAM (HOME)</u>	
7. INCOMPLETE PROJECT MONITORING AND INADEQUATE MONITORING LIST (Reportable Condition)	9
8. FAILURE TO RECONCILE LOAN DISBURSEMENTS TO LOAN CONTRACTS AND TRUST DEEDS	11
<u>COMMUNITY SERVICES BLOCK GRANT (CDBG)</u>	
9. NON-COMPLIANCE WITH CASH MANAGEMENT REQUIREMENTS	12

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP)

1. **INADEQUATE SUBRECIPIENT MONITORING**

(Material Weakness) (Repeat Finding)

Federal Agency: **DHHS**

CFDA Number and Title: **93.568 Low-Income Home Energy Assistance**

Federal Award #: **G-01B1UTLIEA**

Questioned Cost: **undeterminable**

The Department of Community and Economic Development (DCED) is not performing adequate monitoring and follow-up procedures for all subrecipients. DCED contracts with eight subrecipients to provide in-take services for the Low-Income Home Energy Assistance Program (LIHEAP). DCED monitored subrecipients by selecting a sample of 200 cases for fiscal year 2001 and reviewing eligibility determination and case files for inclusion of all the necessary supporting documentation. As a result of their monitoring, DCED noted errors and findings in relation to missing documentation for additional benefits, missing documentation for income verification, and incorrect benefit calculation. However, as of January 3, 2002, DCED had not taken any follow-up actions for these findings.

In addition, we selected a sample of 20 case files from DCED's monitoring sample for our testwork and noted the following two errors which were not found by DCED during their monitoring procedures or, if found, documentation that the errors were found was not provided to us:

- a. One case file did not contain documented proof of disability status even though the applicant received the additional benefit for disability of \$50.
- b. One client received an incorrect benefit payment. This error was caused by a data entry error of the applicant's income into the benefit payment system resulting in an overpayment to the client of \$9.27.

Total questioned costs were not determinable because DCED did not track the dollar amount related to their findings.

Recommendation:

We recommend that DCED take greater care in performing subrecipient monitoring procedures to ensure they identify all the errors. We also recommend that DCED track the amount of unallowable costs found in their monitoring and follow up on any findings resulting from their subrecipient monitoring.

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

DCED's Response:

We acknowledge that the \$9.27 error occurred; in fact, our staff discovered the error. However, it has historically been our practice not to correct errors that totaled less than \$30 on an individual application. We will contact our federal program representative to get concurrence that this standard is still acceptable.

While most errors that are identified during site monitoring visits are corrected at that time, some errors, such as collecting missing documentation, cannot be immediately corrected and require additional follow-up. We acknowledge the lack of follow-up on the missing documentation in one case file and have modified our monitoring plan to address this issue. Instead of waiting until a follow-up site visit is conducted to verify the receipt of previously missing documents, our instructions to our local operators will be to provide to us, by mail or fax, copies of the missing documentation within 2 weeks of the initial monitoring visit. The mailed or faxed documentation will then be attached to the monitoring report as verification that it was received. This will eliminate an opportunity for staff to overlook the follow-up issues from the first site visit at a time when they are conducting a second (or third) visit and auditing a new set of case files. Non-compliance with follow-up at the local level will be addressed in writing and/or in person and the payment will be adjusted if necessary.

We believe all other elements of the monitoring plan, which includes three site visits to each of the regional operations centers during the annual program season (October to May) and follow-up correspondence/verification, as well as regional training and increased on-site technical assistance, are being thoroughly implemented. While the plan was launched mid-season in FY 2001, FY 2002 was the first year the monitoring plan was utilized from the beginning of the heat season. We believe the increased site monitoring and training will prevent further problems from being identified this year and in the future.

*Contact Persons: Lauren Rayner, State Community Services Office Director, (801) 538-8650
Sherm Roquero, LIHEAP Program Manager, (801) 538-8644*

Anticipated Correction Date: June 30, 2002

2. NON-COMPLIANCE WITH EARMARKING REQUIREMENTS (Reportable Condition)

Federal Agency: **DHHS**

CFDA Number and Title: **93.568 Low-Income Home Energy Assistance**

Federal Award #: **G-01B1UTLIEA, G-00B1UTLIEA, G-99B1UTLIEA**

Questioned Cost: **undeterminable**

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Per 42 U.S. Code 8624, unless a waiver is granted, only certain percentages of LIHEAP grant funds allotted or funds available (whichever is greater) to the grantee may be used each federal fiscal year for the various types of expenditures as follows:

- 15% for low-cost residential weatherization or other energy-related home repairs,
- 10 % for planning and administrative costs, and
- 5 % for services provided to encourage and enable households to reduce energy needs.

During our testwork, we noted that the expenditures recorded under the LIHEAP weatherization code in the accounting system exceeded the 15 percent limitation as described above for federal fiscal years 1999 and 2000 by \$242,021 and \$720,276, respectively. Two factors contributed to the excessive amounts as follows.

- a. When each year's grant award was received, DCED established budget amounts for the various expenditure types (including weatherization) in compliance with earmarking requirements. DCED also established adequate procedures for reviewing and approving expenditures, and comparing these expenditures to the budgeted amounts to ensure that these budgets were not over-expended. However, when DCED made cash draws for the LIHEAP program, they drew cash from the earliest available grant award year, rather than from the grant year in which the expenditures were actually made. This resulted in DCED exceeding the earmarking limitations identified above for 1999 and 2000.
- b. DCED did not track the weatherization expenditures separate from the other expenditures (such as planning and administrative expenditures) for the LIHEAP grant; hence, the amounts recorded for LIHEAP weatherization included expenditures other than weatherization expenditures. Because we were not able to determine the amount of non-weatherization expenditures included in the weatherization expenditure totals, we were not able to reduce the excess weatherization costs identified above and determine the extent of the non-compliance.

Recommendation:

We recommend that DCED record the program expenditures by budget category and award year. We also recommend that DCED draw-down cash based on expenditures from the award years in which they were budgeted or track the percentage of funds still available for each area in each award year before making draws.

DCED's Response:

We concur with the recommendation. The potential oversights began when old grant funds were carried forward as the program transferred from the Department of Human Services to the Department of Community and Economic Development. Likewise, the Budget & Accounting Supervisor accepts responsibility for not clarifying the budget and draw-down limitations to the

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Program Accountant who modeled the draw-downs after other federal programs he works with, specifically, the FIFO (first-in, first-out) model used in our HUD programs.

While we believed we were adequately tracking budgetary thresholds and expenditure limits through our budget process and in the Grants Management Information System (GMIS), we have taken further steps to ensure that actual expenditures, subsequent cash draws and reports clearly identify – and do not exceed – the limits established in the various categories. These efforts include building additional data elements in GMIS that identify budgeted program limits within each contract and prevent the contracts from being over-committed. In addition, a series of reporting categories, activity codes and object codes which identify the specific grant year and program expenditures for both the LIHEAP grant and the Weatherization subcontracts, have been put into place and will be utilized strictly. Finally, we created an additional spreadsheet to track expenditures as they are posted and revenue as it is drawn. This spreadsheet will compare the budgeted amounts against actual expenditures, including the percentage thresholds. We believe these three additional elements should prevent further confusion regarding the program's earmarking requirements.

*Contact Persons: Kimberley Brown Schmeling, Budget & Accounting Director, (801) 538-8727
Sherm Roquero, LIHEAP Program Manager, (801) 538-8644*

Anticipated Correction Date: June 30, 2002

3. EXCESSIVE CASH ADVANCES TO SUBRECIPIENTS (Reportable Condition)

Federal Agency: **DHHS**

CFDA Number and Title: **93.568 Low-Income Home Energy Assistance**

Federal Award #: **G-01B1UTLIEA, G-00B1UTLIEA, G-99B1UTLIEA**

Questioned Cost: **\$-0-**

The LIHEAP weatherization program at DCED allows subrecipients to request cash advances based on budgetary estimates and allows one subrecipient to carry inventory balances funded by cash advances. Per discussion with the federal contact for the LIHEAP Program, the federal Department of Health and Human Services (DHHS) allows cash advances for the LIHEAP weatherization program as long as there is an effort to fund these advances at a current needs level. Also, 31 CFR 205.20 states:

Cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the State in carrying out a program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of any allowable indirect costs.

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

In addition, the Compliance Supplement, Part 3.c. Cash Management states:

Pass-through entities must monitor cash drawdowns by their subrecipients to assure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.

We noted that 3 of DCED's 8 subrecipients were carrying excessive cash advances or inventory balances for 4 to 9 months. The first subrecipient had cash advances of \$62,000 that increased to \$67,000 in the following month, which they carried for approximately two more months. The second subrecipient had a total cash advance of \$19,523, which they carried for five months. The third subrecipient had an inventory balance funded by cash advances that increased over a nine month period to an ending inventory balance of \$28,852. Carrying cash and inventory balances in excess of immediate needs is not in compliance with 31 CFR 205.20 and results in an interest expense from the State to the Federal Government.

Recommendation:

We recommend that DCED monitor subrecipient requests for funds to ensure that cash advances and/or inventory balances are based on immediate needs.

DCED's Response:

The State's Weatherization Assistance program is currently made up of six funding sources totaling over \$5,000,000, triple the number of funding entities and double the budget from just a few years ago.

Historically, and in compliance with federal Department of Energy (DOE) rules, local agencies participating in the program made bulk purchases of weatherization materials to take advantage of cost efficiencies; the agencies then solicited reimbursement of these expenditures from the State program. The bulk purchases resulted in inventories of weatherization materials being created. As the materials were used on projects, local agencies completed accounting transactions to allocate those costs to specific projects/contracts. As the costs were allocated over time, the program that incurred costs for the bulk purchases was "reimbursed," giving the appearance that cash balances were being accrued/maintained, at least until more bulk materials were purchased. Again, this was an allowable practice under DOE rules.

This model was easy to implement and track when only one or two funding sources existed for Utah's program (federal Weatherization grants and PVE-funded subcontracts, both DOE-managed programs.) As the Utah Weatherization program was able to secure additional funding for these activities, including unused LIHEAP funds, the same practices were used with non-DOE funds. However, we will instruct our local agencies to use only DOE funds for bulk purchases and subsequent cost allocation. All non-DOE programs will operate on a reimbursement basis only.

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

This will prevent the appearance of cash inventories being accrued or maintained in the non-DOE programs, including the LIHEAP transfer component.

*Contact Persons: Richard Walker, State Community Development and Housing Programs Director, (801) 538-8730
Michael Johnson, Weatherization Assistance Program Manager, (801) 538-8657
Lauren Rayner, State Community Services Office Director, (801) 538-8650
Sherm Roquero, LIHEAP Program Manager, (801) 538-8644*

Anticipated Correction Date: June 30, 2002

4. NON-COMPLIANCE WITH TREASURY-STATE AGREEMENT

DCED did not make cash draws for the LIHEAP weatherization expenditures in accordance with the Treasury-State Agreement. According to the Treasury-State Agreement, cash draws for this type of payment should be based on an average clearing pattern of five days. Instead, DCED made cash draws once a month after receiving a financial report covering the weatherization expenditures for the prior month. Non-compliance with the Treasury-State Agreement in this case resulted in unnecessary use of State funds and lost interest income for the State.

Recommendation:

We recommend that DCED comply with the Treasury-State Agreement by making cash draws for LIHEAP weatherization expenditures five days after the expenditures occur.

DCED's Response:

The cash draw model implemented for the LIHEAP-Weatherization reimbursements, which resulted in this finding, was based on an exception we had been granted (in this and other CMIA-compliant programs we manage) for administrative costs. However, when pointed out to us, we recognize the obvious error in applying this model to the transfer of sub-contract costs. Therefore, we concur with the recommendation and have already begun implementing this practice. Cash draws for LIHEAP-Weatherization expenditures are now drawn according to the Treasury-State Agreement.

*Contact Person: Kimberley Brown Schmeling, Budget & Accounting Director, (801) 538-8727
Anticipated Correction Date: March 31, 2002*

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

5. **INCORRECT REPORTING PERIOD FOR 269A REPORT**

DCED is required to submit a 269A Financial Status Report for the LIHEAP grant. DCED is complying with this requirement; however, they are basing the reporting period on the state fiscal year. Per the 269A reporting guidelines established by DHHS, 269A reports for LIHEAP should be based on a federal fiscal year.

Recommendation:

We recommend that DCED comply with the DHHS requirement by submitted 269A reports based on the federal fiscal year.

DCED's Response:

Although the federal Department of Health and Human Services (DHHS) has not, in 4 years of operating this program and filing reports, notified us that our reports were prepared incorrectly, we accept this recommendation and will base our annual reports on the federal fiscal year rather than the state fiscal year.

*Contact Person: Kimberley Brown Schmeling, Budget & Accounting Director, (801) 538-8727
Anticipated Correction Date: March 31, 2002*

SUBRECIPIENT MONITORING

6. **SUBRECIPIENT MONITORING WEAKNESSES** (Reportable Condition)

Federal Agency: **DHHS**
CFDA Number and Title: **various**
Federal Award #: **various**
Questioned Cost: **undeterminable**

DCED's accounting department is responsible for performing centralized monitoring of subrecipients. Those subrecipients who receive federal assistance equal to or more than \$300,000 are required to submit an OMB Circular A-133 audit (single audit) report. Those subrecipients who receive less federal assistance are not required to have a single audit. The subrecipients who are not required to have a single audit are still required to be monitored by DCED. We noted the following weaknesses in relation to the subrecipient monitoring at DCED:

a. **Lack of Subrecipient Determination**

Of the 7 HOME Program subrecipients we reviewed, DCED did not conclude whether one entity was a subrecipient or a beneficiary. This entity had three HOME loan contracts with DCED

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

amounting to \$535,000. This entity was included on DCED's list for OMB Circular A-133 subrecipient monitoring (Single Audit Tracking Report). However, we noted that DCED received a financial audit report from this entity instead of a single audit report, and the subrecipient's financial audit report did not include the three HOME Loan contracts. Per discussion with the DCED Budget and Accounting Supervisor and Accountant in charge of monitoring, this entity indicated a single audit was not required since they did not actually spend the funds received but passed the funds through to the applicable projects. Our review of the loan documents showed some evidence that this entity may be a beneficiary of the program and not a subrecipient. However, there was not enough information available at DCED to make a final determination.

b. Failure to Communicate with Program Specialists

DCED's accounting department did not inform the various program specialists of those subrecipients which are not required to have a single audit. In addition, the accounting department does not communicate findings noted in the single audits to the program specialists. Unless specific monitoring criteria apply to the federal programs, the individual program specialists perform no additional subrecipient monitoring aside from the centralized monitoring done in the accounting department. Therefore, DCED may not be completing the required subrecipient monitoring as explained above if the proper information is not communicated to the program specialist.

Recommendation:

We recommend that DCED:

- a. **Follow up with and make a final determination whether entities on their Single Audit Tracking Report are subrecipients according to OMB Circular A-133 which require subrecipient monitoring, or if they are beneficiaries and should not be on the tracking report.**
- b. **Implement a procedure to inform appropriate program specialists of subrecipients that are not required to have single audits so that additional monitoring can be performed to satisfy OMB Circular A-133 monitoring requirements. We also recommend that DCED inform the appropriate program specialists of any findings in the single audits related to their programs so that the program specialists can follow up and resolve the findings with the subrecipients.**

DCED's Response:

The project on which this finding was based was on a unique situation involving an entity, Utah Non-Profit Housing (UNPH), that fully believed (and represented to their independent auditors) that

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

they were utilizing our funds in only a pass-thru capacity rather than in a subrecipient capacity, and that the full Single Audit requirement did not apply to them. Unfortunately, our A-133 Compliance Officer did not communicate with DCED program staff, who were more knowledgeable about the project, to clarify the relationship. While he did receive and review UNPH's financial statements, he did not advise that a site monitoring by our staff would be necessary in lieu of UNPH complying with the full audit requirement.

While we have had written Single Audit Retention and Review Procedures in place for several years, policy to address the specific oversights mentioned in the recommendations above, including notifying program staff and fiscal monitoring staff if subrecipient entities are not required to comply with single audit requirements (or simply refuse to), will be added to the written procedures immediately. (Currently, our procedures do dictate protocol for following up with non-compliant entities. The protocol largely involves the A-133 Compliance Officer but will be expanded accordingly. Habitual non-compliant cases, which have been extremely rare in our programs, are turned over to the Department's Internal Auditor.)

Likewise, we will add an element to the audit tracking component of our Grants Management Information System (GMIS) which will require staff to define what kind of relationship (subrecipient or pass-thru) is created each time we issue a contract.

*Contact Person: Kimberley Brown Schmeling, Budget & Accounting Director, (801) 538-8727
Anticipated Correction Date: June 30, 2002*

HOME INVESTMENT PARTNERSHIP PROGRAM (HOME)

7. INCOMPLETE PROJECT MONITORING AND INADEQUATE MONITORING LIST (Reportable Condition)

Federal Agency: **HUD**

CFDA Number and Title: **14.239 Home Investment Partnership Program**

Federal Award #: **various**

Questioned Cost: **N/A**

DCED is required to complete on-site monitoring of completed multi-family HOME projects to ensure they meet ongoing program requirements. Five of the 9 HOME program projects we reviewed, out of a total of 35 projects, did not have either the required on-site monitoring or adequate supporting documentation to show that on-site monitoring was properly completed by another agency. In addition, the monitoring list which DCED uses to track on-site monitoring was inadequate because it was missing vital information and contained projects that did not belong on the list. An accurate monitoring list should be maintained and used to ensure projects are monitored as required by the HOME program. Failure to have a complete and accurate on-site monitoring list

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

could result in some projects never being subject to an on-site compliance/quality inspection or a delay in monitoring.

Recommendation:

We recommend that DCED establish a complete and accurate monitoring list that includes the frequency of required monitoring, the last completed monitor date, and the next monitoring due date. In addition, we recommend that DCED complete on-site monitoring of projects in a timely manner. Furthermore, we recommend that DCED obtain proper support for on-site monitoring done by other agencies to ensure their monitoring is complete and adequate.

DCED's Response:

The projects on which this finding was based were coordinated under a contract with the Utah Housing Corporation (UHC). Because DCED's HOME funding was used to enhance the tax credit element of the projects provided by UHC, and because tax credit projects require ongoing monitoring, DCED contracted with UHC to complete the monitoring to the appropriate standards and supply written reports to DCED. Unfortunately, while the monitoring and the reports were completed, the reports were never forwarded to DCED and follow-up was not completed. The reports have since been received and reviewed by DCED staff. Likewise, we agree our tracking of monitoring requirements and completion was less than stellar, although the monitoring was being completed.

Thus, we concur with the recommendations and have taken steps to ensure that monitoring responsibilities are identified, completed and reported accurately.

We have revised and updated the existing monitoring list, which previously listed all Housing projects and indicated in a "yes-no" manner if monitoring should be completed. We have pared this list to include only those projects that need to be monitored, thus eliminating confusion and opportunities for required elements to get buried in the list. The list has been updated and will be updated and reviewed monthly henceforth. Likewise, we have added space for recording the monitoring date.

Secondly, in addition to collecting the required reports from UHC, we are working with that organization to revise the monitoring checklist. We will meet with them in the next thirty days to extend the monitoring contract. A critical element of the contract amendment will include the timely transfer of monitoring documentation and reports to DCED.

Finally, we have enhanced the data collection elements and reports previously built in the Grants Management Information System (GMIS) to include all information needed for accurate monitoring reporting. While some of this had been built in GMIS prior to the audit, program staff was not utilizing the features. They have been re-trained on the enhanced components and are committed

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

to utilizing them. The Housing Program Manager will review the online database monthly to ensure it is being used.

*Contact Person: Richard Walker, Community Development and Housing Programs Director,
(801) 538-8730*

Michelle Lea, Housing Program Manager, (801) 538-8885

Anticipated Correction Date: June 30, 2002

8. FAILURE TO RECONCILE LOAN DISBURSEMENTS TO LOAN CONTRACTS AND TRUST DEEDS

For 1 of 9 projects reviewed, DCED had disbursed \$450 more than the approved loan contract and recorded trust deed amounts. The loan contracts and trust deeds contain the authorized and committed funding amounts that have been approved by the applicable loan committee or board. Therefore, loan disbursements should not exceed the contract and trust deed amounts unless there has been an approved amendment to the HOME project. Failure to adequately reconcile loan disbursements with the authorized and committed funding amounts could result in the over-disbursement of contracted amounts and the potential misuse of HOME program funds.

Recommendation:

We recommend that DCED HOME staff reconcile loan disbursements to the approved loan contract and trust deed amounts to ensure that disbursements do not exceed that which has been approved and committed to each project.

DCED's Response:

The project on which this finding was based was initiated long before the Grants Management Information System (GMIS) was designed. With the advent of the online GMIS system, both program and fiscal staff now have access to the same information. We believe adequate internal controls have been built into the system and procedurally among staff to prevent this type of error from occurring again.

First, project details that are entered into GMIS by Housing staff are reviewed periodically by the Housing Program Manager to ensure that they are in concurrence with Board instructions and all applicable rules or laws.

Second, because GMIS will not allow project funds to be over-committed or over-spent, the Housing Accountant will not be able to exceed the project's financial limitations when he enters the payment amount in GMIS. If the payment entry is incorrect and exceeds the project limits, an error message

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

flashes on the screen and the payment amount drops to zero dollars. This should trigger a second look at the expenditure and ensure an accurate entry.

Third, the Division's accounting policies include FINET entry and review/approvals by separate parties. This method is effective for identifying and correcting the occasional typographical error that may occur when the Accounting Technician does the data entry. Likewise, when the Accounting Technician enters the document number in GMIS, she should recognize any discrepancies between what was paid and what the Housing Accountant entered in the system.

Fourth, we currently provide to the DAS's Division of Finance (the team responsible for loan servicing) a summary of payment vouchers prepared for loan payments. Finance staff compares our list to the state's Data Warehouse and the original loan documents, which Finance retains, to ensure that all financial elements are concurrent.

Finally, if after all this, an error was made that wasn't previously identified, DCED's Loan Administrator, who is responsible for loan portfolio maintenance, is available for prompt follow-up and correction. Ironically, the payment on which this finding was based, was identified by staff, but follow-up was not executed to ensure the mistake was fully corrected at the time it was noted. (It has since been corrected completely and accurately.)

*Contact Persons: Richard Walker, Community Development and Housing Program Director,
(801) 538-8730*

Michelle Lea, Housing Program Manager, 801/538-8885

Anticipated Correction Date: June 30, 2002

COMMUNITY SERVICE BLOCK GRANT

9. NON-COMPLIANCE WITH CASH MANAGEMENT REQUIREMENTS

For the Community Service Block Grant (CSBG), DCED allows one subrecipient to request cash advances in excess of immediate needs. The subrecipient is allowed to request funds one month in advance, based on budgetary estimates. These advances range from \$10,000 to \$18,500 and appear to be expended in the month following the request. According to the grant award letter from DHHS, CSBG is instructed to comply with 31 CFR 205 (see finding No. 4). CSBG's allowance of cash advances for this subrecipient is not in compliance with these federal requirements.

Recommendation:

We recommend that DCED limit subrecipient cash advances to immediate needs, based on actual expenditures to ensure compliance with federal regulations.

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

DCED's Response:

Cash advances requested by Community Action Agencies (CAA) are based on projected need to administer the program. Since a majority of the agencies participating in Utah's CSBG program are non-profit organizations, they are unable to fund the block grant projects out of their own general funds. Likewise, when cash advances are requested, agencies project the funding they will need over the next 4-6 week period until the next payment is received.

However, we concur that excessive cash balances should not accrue or be maintained if the funds are not being used within the 4-6 week period. Thus, prior to forwarding a cash advance or reimbursement request to Accounting, the program staff will work with the CAAs to ensure that the payment would not exceed the agency's financial need for CSBG activities in the upcoming period.

In addition, while we have previously relied on submission and review of the CAAs' Single Audits to fulfill our federal monitoring requirement, we are already taking steps to conduct fiscal site monitoring visits with these organizations. We will include a review of the cash flow/cash inventory in the monitoring checklist. Should excess cash balances be identified, we will take steps to eliminate them in the future.

Finally, we will contact representatives from our federal funding agency to ensure that current practices are acceptable. We will document their response and react accordingly.

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Anticipated Correction Date: June 30, 2002*