



**Auston G. Johnson, CPA**  
UTAH STATE AUDITOR

**STATE OF UTAH**  
**Office of the State Auditor**

211 STATE CAPITOL  
SALT LAKE CITY, UTAH 84114  
(801) 538-1025  
FAX (801) 538-1383

**DEPUTY STATE AUDITOR:**  
Joe Christensen, CPA

**FINANCIAL AUDIT DIRECTORS:**  
H. Dean Eborn, CPA  
Deborah A. Empey, CPA  
Stan Godfrey, CPA  
Jon T. Johnson, CPA

**MANAGEMENT LETTER NO. 02-33**

May 1, 2003

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

Dear Mr. Harmer:

We have completed our audit of the financial statements of the State of Utah for the year ended June 30, 2002. Our report thereon, dated November 1, 2002, 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, 2002. The federal programs tested as major programs at DCED were the Low-Income Home Energy Assistance Program (LIHEAP) and the Home Investment Partnership Program (HOME). Our report on the statewide federal compliance audit for the year ended June 30, 2002 should be issued by April 2003.

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 accompanying schedule of 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 accompanying schedule of 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 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  
Dick Bradford, Deputy Director  
Kimberly Schmeling, Budget and Accounting Supervisor  
Emily Sang, Director, Internal Audit

# **DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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# **DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**

## FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

### **LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP)**

#### 1. **INADEQUATE MONITORING OF ELIGIBILITY DETERMINATION** (Material Weakness) (Repeat Finding)

Federal Agency: **DHHS**

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

Federal Award #: **G-02B1UTLIEA**

Questioned Cost: **\$190**

The Department of Community and Economic Development (DCED) is not performing adequate monitoring of eligibility determination. DCED contracts with nine entities to provide in-take services for the Low-Income Home Energy Assistance Program (LIHEAP). DCED monitored these nine entities by selecting a sample of 214 cases for fiscal year 2002 and reviewing the eligibility determination and related supporting documentation. DCED then followed up on and resolved any potential errors found.

We tested a sample of 35 case files from DCED's monitoring sample for our testwork and noted the following errors which were not detected by DCED during their monitoring procedures:

- a. One client received a \$132 benefit payment even though her net household income exceeded 125% of the poverty level for her household size. Per the federal fiscal year 2002 State Plan, all households whose income exceeds 125% of the respective poverty level are considered ineligible for LIHEAP.
- b. One client received an incorrect benefit payment because the case worker did not include the client's earned income as a resident manager in the income calculation. This resulted in a \$58 overpayment to the client.
- c. Three additional files did not contain adequate documentation verifying vulnerability to heating costs, citizenship status, and birth dates of household members under the age of 6 years.

DCED monitors should carefully review case files to ensure that the applicants are eligible for LIHEAP, that benefit amounts are properly calculated, and that the file contains adequate supporting documentation for determining the client's eligibility and benefit amount. Failure to carefully review case files may result in overpayments of benefits or payments to ineligible applicants.

# **DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**

## FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

### **Recommendation:**

**We recommend that DCED take greater care in performing eligibility determination monitoring procedures to ensure that they identify all errors in the files.**

### *DCED's Response:*

*We concur with the recommendation. The Department is continuing to improve the monitoring process. We will focus on developing plans and tools to improve the quality of the review process. In addition, we will put more emphasis on the follow up process of monitoring.*

*Contact Persons: Sherm Roquero, LIHEAP Program Manager, (801) 538-8644  
Emily Sang, Internal Auditor, (801) 538-8624*

*Anticipated Correction Date: November 2003*

## 2. **UNTIMELY OBLIGATION OF LIHEAP FUNDS** (Reportable Condition)

Federal Agency: **DHHS**

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

Federal Award #: **various**

Questioned Cost: **N/A**

For the LIHEAP grant, federal regulations (45 CFR 96.14) allow a maximum of 10 percent of the LIHEAP funds allotted in any one year to be held available for the next fiscal year. All other funds must be spent or obligated by the end of the federal fiscal year for which they were allotted. However, \$77,037 of the funds required to be spent or obligated were not obligated by DCED by September 30, 2002, as required. Funds that are not obligated in a timely manner are no longer available for the State's use.

### **Recommendation:**

**We recommend that DCED obligate a sufficient amount of funds to comply with regulations in a timely manner or inform the federal agency (DHHS) of the amount that was not obligated so they can reallocate those funds for the next year.**

### *DCED's Response:*

*We concur with the recommendation. The department has already taken steps to monitor and track the grant more closely to ensure all LIHEAP funds are obligated in a timely manner.*

# **DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**

## FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

*Contact Persons: Sherm Roquero, LIHEAP Program Manager, (801)538-8644  
Kimberley Schmeling, Budget & Accounting Director, (801)538-8727  
Emily Sang, Internal Auditor, (801)538-8624*  
*Anticipated Correction Date: October 1, 2003*

### 3. **NONCOMPLIANCE WITH TREASURY-STATE AGREEMENT** (Repeat Finding)

For two of the seven LIHEAP draws we reviewed, DCED did not make cash draws for LIHEAP 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 at least five business days. The Department of Health and Human Services will deposit the funds the same day as the request if draws are made before a designated time. Expenditures related to the first draw were processed and disbursed in the state accounting system on Friday, April 5, 2002. The draw request was credited to DCED's bank account on Tuesday, April 10, 2002 – a period of three business days, two days sooner than the average clearing pattern of five business days. Expenditures related to the second draw were processed and disbursed in a benefit payment system on Thursday, June 21, 2001. The draw request was credited to DCED's bank account on Tuesday, July 3, 2001 – a period of seven business days, two days longer than the average clearing pattern. Noncompliance with the Treasury-State Agreement resulted in unnecessary interest expense for the first draw and in loss of interest income for the second draw.

#### **Recommendation:**

**We recommend that DCED make cash draws in compliance with the Treasury-State Agreement.**

#### **DCED's Response:**

*We concur with the recommendation. DCED will monitor cash draws according to the Treasury Agreement and will modify procedures related to this issue.*

*Contact Persons: Kimberley Schmeling, Accounting Manager, (801)538-8727  
Emily Sang, Internal Auditor, (801)538-8624*  
*Anticipated Corrective Action Date: July 1, 2003*

### 4. **INACCURATE FEDERAL REPORT**

In order to prepare the LIHEAP Household Report, the program manager input the source data he collected from the subrecipients into a spreadsheet. This spreadsheet was then used to prepare the

# **DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**

## FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

report. We noted that this spreadsheet contained a number of inputting errors and formula errors. As a result, the report was not accurate.

In addition, the program manager did not keep adequate supporting documentation for the submitted federal report. A copy of the spreadsheet supporting the report was not kept when the spreadsheet was updated, and reports from subrecipients used to prepare the federal report were not identified.

### **Recommendation:**

**We recommend that DCED exercise greater care in the inputting of data and formulas in the spreadsheet to ensure the LIHEAP Household Report is accurate. We also recommend that DCED maintain adequate supporting documentation corresponding to the submitted federal report.**

### *DCED's Response:*

*We concur with the recommendation. DCED will take appropriate action to prevent similar problems from happening in the future.*

*Contact Persons    Sherm Roquero, LIHEAP Program Manager, (801)538-8644  
                              Emily Sang, Internal Auditor, (801)538-8624  
Anticipated Corrective Action Date: November 2002*

## **HOME INVESTMENT PARTNERSHIP PROGRAM (HOME)**

### 5. **NONCOMPLIANCE WITH 24-MONTH COMMITMENT REQUIREMENT** (Reportable Condition)

Federal Agency: **DHHS**  
CFDA Number and Title: **14.239 Home Investment Partnership**  
Federal Award #: **M-00-SG-49-0100**  
Questioned Cost: N/A

Five projects totaling \$1,045,910 were inappropriately entered into the Integrated Disbursement and Information System (IDIS) as commitments. However, these projects did not have contracts/agreements signed by **both** parties or funds disbursed by the State for the projects when entered into the system. The HUD Notice CPD 01-13 clarifies that acceptable commitment documentation requires either (1) a written agreement or contract for a specific amount of HOME funds signed by **both** parties on or before the commitment deadline, or (2) actual HOME program expenditures for a specific HOME project. Since these contracts/agreements were not signed by

# **DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**

## **FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

both parties, these projects are not considered to have been legally binding commitments when entered into the system.

Per federal regulations [24 CFR 92.2 and 24 CFR 92.500(d)], funds are required to be committed within 24 months after the last day of the month in which such funds are awarded. If such commitments are not made within the 24-month period, the rights to draw such funds from the HOME program expire. Because the above projects were not considered binding commitments by the end of the 24-month period ending April 30, 2002, DCED's rights to draw HOME funds totaling \$502,475 for the 2000 award expired.

The HUD regional offices use IDIS to monitor the State's compliance with the commitment and expenditure requirements. The errors noted above were caused by a difference in the interpretation of what constitutes a binding commitment and DCED not being familiar with IDIS and its capabilities.

### **Recommendation:**

**We recommend that DCED properly execute legally-binding commitments within 24 months after the last day of the month in which such funds are awarded to the State, or inform the federal agency (HUD) of the amount not obligated.**

### **DCED's Response:**

*The Department performs quarterly project reconciliation to meet various compliance requirements under HUD and the Statute, including the "24-month commitment" regulation; however, the Department acknowledges the issue regarding the definition of commitment. Corrective action has been implemented that requires the Olene Walker Housing Trust Board to obtain signatures from both parties as soon as a contract is approved by the Board. This process, along with the quarterly reconciliation, will effectively eliminate the issue of untimely commitment.*

*Contact Persons: Richard Walker, Community Development and Housing Programs Director, (801) 538-8730  
Michelle Lea, Housing Program Manager, (801) 538-8885  
Emily Sang, Internal Auditor, (801) 538-8624*

*Anticipated Correction Date: July 2003*

# **DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**

## FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

### **OTHER**

#### 6. **INADEQUATE SEPARATION OF PROGRAMMER DUTIES**

DCED's application programmers have access to production programs and data and are moving programs from test to production. A separation of these duties is necessary to reduce the opportunity for an employee to commit and conceal errors or fraud in the normal course of their duties. Proper assignment of responsibilities helps prevent or detect deliberate or accidental errors caused by improper use of data files, unauthorized or incorrect use of a computer program, and/or improper use of computer resources. If the separation of duties is weak or lacking, the integrity of a computer system may be affected. An alternate course of action, that is less desirable, would be to log all programmer access to production areas and designate an employee without programming duties to review the logs. At the current staffing level, implementing adequate controls in this area is difficult but, nonetheless, important.

#### **Recommendation:**

**We recommend that DCED restrict application programmers' access to production data and programs. If proper separation of duties cannot be achieved, we recommend that DCED log all programmer access to production areas and designate an employee without programming duties to review these logs.**

#### *DCED's Response:*

*We concur with the recommendation. While it is a challenge to exercise segregation of duties with limited staff in the IT office, DCED is implementing Versioning Control software with third-party review to resolve the issue.*

*Contact Persons Sandi Diamond, Director of Information Technology Services Office,  
(801)538-8692*

*Emily Sang, Internal Auditor, (801)538-8624*

*Anticipated Corrective Action Date: September 30, 2002*

#### 7. **LACK OF FORMAL DISASTER RECOVERY PLAN**

DCED does not have a current written disaster recovery plan, which is considered essential to properly plan and prepare employees for emergency situations and to ensure that operations are not disrupted when emergency situations occur. A formal plan should be developed that covers all types and degrees of contingencies that could have an adverse effect on the critical systems of DCED. In addition, employees should be trained for appropriate responses to emergency situations.

# **DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**

## FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

### **Recommendation:**

**We recommend that DCED develop and implement a written disaster recovery plan.**

### *DCED's Response:*

*We concur with the recommendation. A formal written business continuity plan is being developed and implemented by the Department.*

*Contact Persons: Sandi Diamond, Director of Information Technology Services Office,  
(801)538-8692*

*Emily Sang, Internal Auditor, (801)538-8624*

*Anticipated Corrective Action Date: July 1, 2003*