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MANAGEMENT LETTER NO. 03-33

March 17, 2004

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, 2003. Our report thereon, dated October 31, 2003, 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, 2003. The federal programs tested as major programs at DCED were the Low-Income Home Energy Assistance Program (LIHEAP), the Community Development Block Grant (CDBG), and the Home Investment Partnership Program (HOME). Our report on the statewide federal compliance audit for the year ended June 30, 2003 should be issued by April 2004.

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 are believed to be a material weakness to the State's financial statements.

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.

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
Gordon Walker, Community Development Division 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, 2003

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FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2003

HOME INVESTMENT PARTNERSHIP PROGRAM (HOME)

1. **INADEQUATE HOME PROGRAM PROJECTS LISTING** (Reportable Condition)

Federal Agency: **HUD**
CFDA Number and Title: **14.239 Home Investment Partnership**
Federal Award #: **various**
Questioned Cost: **N/A**

The Department of Community and Economic Development (DCED) does not maintain an accurate central listing of HOME program projects that is used by program monitors to identify when housing quality inspections are due and which projects are subject to the Davis-Bacon Act. Although a listing is maintained, it is not updated regularly nor used by program monitors due to inaccuracies in the number of units, project closure dates, and the date when projects were last monitored. Each program monitor maintains and tracks their own assigned project listing but no one is responsible to ensure the completeness of assigned projects. As a result, there is no control procedure to ensure that all projects are included in the listing or that projects subject to the Davis-Bacon Act are properly identified and that inspections are performed when required. 24 CFR 92.504(d) requires DCED to perform on-site inspections of HOME-assisted rental housing to determine compliance with property standards on specific timetables based on the number of units in a project. Maintaining an accurate central listing is necessary in order to ensure that all projects are properly included and scheduled for required inspections and to document compliance with program requirements, including the Davis-Bacon Act.

Recommendation:

We recommend that DCED maintain an accurate up-to-date listing of HOME program projects tracking the number of units in each project, scheduled dates of inspections, when projects were last monitored, and which projects are subject to the Davis-Bacon Act. In addition, DCED should implement procedures to ensure that all projects are properly inspected as required and that the Davis-Bacon Act requirements are satisfied for those applicable projects.

DCED's Response:

We agree with the recommendation on maintaining an accurate up-to-date listing of HOME program projects. We were aware of the issue of not having a centralized list and have been in the process of developing the list based on the multiple lists separately maintained by the program specialists.

Regarding the Davis/Bacon Act, we feel that the significance of this compliance should not have been represented in this audit. The Davis/Bacon compliance is only triggered when there

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are 12 or more assisted units and when HOME funds are used for the construction or rehabilitation of the building itself. Program specialists review and assess the need for Davis/Bacon compliance for each HOME funds assisted project. Since DCED administers its HOME funds primarily through gap finance, Davis/Bacon is rarely triggered. Only a few projects triggered Davis/Bacon compliance since the inception of the HOME programs. The projects met the Davis/Bacon compliance and have been closed. We have no open projects that require Davis/Bacon compliance.

*Contact Persons: Richard Walker, Programs Director, (801) 538-8730
Emily Sang, Internal Auditor, (801) 538-8624
Anticipated Correction Date: April 2004*

2. **INADEQUATE CONTROLS OVER COMPLIANCE WITH PERIOD OF AVAILABILITY REQUIREMENTS** (Reportable Condition)

Federal Agency: **HUD**
CFDA Number and Title: **14.239 Home Investment Partnership**
Federal Award #: **various**
Questioned Cost: **N/A**

During our review of IDIS (Integrated Disbursement and Information System) Report PR22, we noted 14 of 37 projects that were entered into IDIS before they were properly committed. Per 24 CFR 92.500(d), the participating jurisdiction is required to have a legally binding commitment (written agreement), as defined in 24 CFR 92-2, reserving a specific amount of HOME funds within 24 months after the last day of the month in which such funds are awarded to the participating jurisdiction. In addition, 24 CFR 92.500(d)(1)(c) requires the participating jurisdiction to expend funds within five years after the last day of the month in which funds are awarded to the participating jurisdiction. The HUD Notice CPD 01-13 specifies that acceptable commitment documentation is either: 1) a written agreement or contract for a specific amount of HOME funds on a specific HOME project between the participating jurisdiction and a state recipient, subrecipient, program recipient, or contractor signed by **both** parties on or before the commitment deadline, or 2) HOME program income expenditures for a specific HOME project as recorded in the participating jurisdiction's financial ledgers (i.e. paid invoices, vouchers, payroll, etc.) not reflected in IDIS.

The projects were entered into IDIS before they were properly committed because there was a difference in the interpretation of what constitutes a binding commitment. If commitments are not properly made and substantiated within the 24-month period and/or if funds are not expended within the 5-year period, the participating jurisdiction's rights to the HOME funds shall expire.

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In addition, DCED does not have adequate controls to ensure compliance with the 24-month commitment requirement and the 5-year expenditure requirements for HOME funds. Although we were able to determine that DCED was in compliance, controls should be implemented to monitor for compliance in order to prevent misuse and loss of federal funding due to noncompliance.

Recommendation:

We recommend that DCED enter projects into IDIS only after they are properly committed and substantiated. We also recommend that DCED implement controls to monitor the 24-month commitment requirement and the 5-year expenditure requirements for HOME funds.

DCED's Response:

We concur with the finding. Using the fully executed contract date as the commitment date is not feasible since there is often a time lag (up to one year) after the conditional approval. So DCED uses a commitment form signed by the Housing Board and developers at the time of board approval; however, the form did not include a contingency clause pending approval of environmental review. DCED has been working with HUD to revise the commitment form for proper language.

For the current year, DCED has implemented a significant staff reorganization including hiring an additional project monitor and consolidation of IDIS data entry responsibilities. Specific staff are responsible for compliance requirements, including that of the period of availability.

Contact Persons: Richard Walker, Programs Director, (801) 538-8730

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

Anticipated Correction Date: April 2004

3. **UNTIMELY SUBMISSION OF LOAN DOCUMENTATION** (Reportable Condition)

Federal Agency: **HUD**

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

Federal Award #: **various**

Questioned Cost: N/A

DCED does not submit loan documentation for the HOME program to the State Division of Finance (State Finance) in a timely manner. For example, some loan disbursements dating back to August 2002 had not been recorded on CLCS (the State's loan management system) as of

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June 30, 2003. As a result, State Finance cannot properly track the loans, accrue interest on the loans, or ensure that disbursements are for authorized loans. Failure to submit loan documentation to State Finance in a timely manner increases the risk of possible unauthorized loan disbursements and misstatements in the State's financial statements.

Recommendation:

We recommend that DCED submit loan documentation to State Finance in a timely manner.

DCED's Response:

We concur with the recommendation. Not submitting loan documentation in a timely manner is mainly due to the fact that outside and private title companies are late in returning recorded trust deeds and original trust deed notes to us. DCED has escrow instructions to title companies directing them to return the documents within a reasonable time frame. However, since loan documents are recorded after settlement and funding, title companies have no incentives to comply with DCED's request. Despite the challenge of dealing with these private title companies, which we have no control over, we are working with State Finance to implement a tracking system to ensure the timeliness of loan documents submission.

Contact Persons: Richard Walker, Programs Director, (801) 538-8730

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

Anticipated Correction Date: April 2004

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP)

4. EXCESSIVE ERROR RATE (Reportable Condition) (Repeat Finding)

Federal Agency: **DHHS**

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

Federal Award #: **G-03B1UTLIEA**

Questioned Cost: **\$0**

DCED has significantly improved its monitoring process. DCED monitors detected an error in 20.87% of the case files reviewed. DCED monitored their 9 contracted in-take service providers by selecting a sample of 230 cases for fiscal year 2003 and reviewing the eligibility determination and supporting documentation.

According to the Federal Compliance Supplement for split-eligibility determination functions, the department is fully responsible for federal compliance even when others perform part or all

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of the eligibility determination. This error rate appears excessive and indicates that an eligibility determination problem exists. DCED should work with their in-take service providers to reduce this error rate and to ensure that federal awards are being used in accordance with program requirements. DCED could perform on-the-job training and/or select some cases to review during the beginning stages of the seasonal awarding process in order to detect and reduce errors in eligibility determination and case file documentation.

Recommendation:

We recommend that DCED work with in-take service providers to reduce eligibility determination errors.

DCED's Response:

We concur with the recommendation. DCED is continuously working with the intake service providers to reduce their eligibility error rate. DCED conducts eligibility and policy training, customized for each regional provider. For the current year, DCED improved training quality and monitoring effort through more frequent on-site monitoring that provided immediate feedback on in-take service and technical assistance. In addition, DCED will put together a task force this summer to explore ways to reduce error rates and to streamline policy documentation requirements.

Contact persons: Sherm Roquero, LIHEAP Program Manager, (801) 538-8644

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

Anticipated Correction Date: November 2004

5. **INACCURATE FEDERAL REPORT** (Repeat Finding)

In order to prepare the LIHEAP Household Report, the program manager input the source data collected from the in-take service providers into a spreadsheet. This spreadsheet was then used to prepare the report. We noted that this spreadsheet contained a number of inputting and formula errors. As a result, the report was not accurately prepared.

Recommendation:

We recommend that DCED exercise greater care in the inputting of data and formulas in the spreadsheet to ensure that the LIHEAP Household Report is accurate.

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DCED's Response:

DCED concurs with the recommendation. DCED will implement a more effective process to ensure the accuracy of data input for the federal report.

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

Anticipated Correction Date: June 2004

COMMUNITY DEVELOPMENT DIVISION

6. INADEQUATE CASH RECEIPTING CONTROLS

We noted the following cash receipting control weaknesses in DCED's Community Development Division (Division):

- a. Incomplete Initial Receipt Records: The Division does not have a control procedure to ensure that all cash and check payments received are deposited and accounted for properly. A shared check receipting log Excel file is used by some programs within the division; however, use of this log does not appear to be required since it does not list all monies being deposited by the Division. During our review of the Community Development Block Grant (CDBG) program, we identified one check for \$9,336 that was received by a program specialist but was never deposited and subsequently misplaced within the division. Maintaining complete initial receipt records is necessary to ensure all receipts are deposited and properly accounted for.
- b. Missing Reconciliation of Deposits to Initial Receipts: No one is using the check log or any other initial receipt records to reconcile receipts to validated deposit slips. State Finance Policy (FIACCT 13-00.00) requires each department to have someone who is independent of cash receipting duties review documentation to ensure that all monies have been properly receipted, deposited, and recorded. An independent reconciliation is necessary in order to detect any checks that are received by the Division but not deposited or recorded in FINET.
- c. Inadequate Safeguarding of Cash Receipts: We observed that checks were left on desks or in bins until the employee had time to review and/or process them. Proper safeguarding of cash receipts is necessary in order to prevent misappropriation and/or mishandling of funds.
- d. Noncompliance with Three Day Deposit Law: We compared the check log receipt dates to the deposit date for two selected months and identified five checks that were not deposited

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within three business days of the receipt date. *Utah Code 51-4-1* requires departments and divisions to deposit all collections of state money on a daily basis whenever practical but no less than every three days. Compliance with this law ensures that monies are accounted for properly and processed in a timely and responsible manner.

FIACCT 13-00.00 requires each department to “establish written departmental procedures that provide for good internal controls to ensure that all monies received are properly receipted, safeguarded, deposited, and recorded in the State’s accounting system (FINET).” Adequate cash receipting controls are necessary in order for individuals who have access to cash or checks received to be accountable for the propriety of processing those funds, to prevent and/or detect the defalcation of funds, and to comply with State policy.

Recommendation:

We recommend that DCED comply with State policy to establish written departmental procedures that provide for good internal controls, including maintaining accurate initial receipt records, performing an independent reconciliation of validated deposits to initial receipt records, safeguarding cash receipts, and complying with depository requirements.

DCED’s Response:

DCED concurs with the recommendation. DCED will enhance the controls over cash receipting by implementing a more effectual system, including revising cash receipting policy and maintaining an accurate and up-to-date check log.

*Contact persons: Kimberley Scheming, DCD Budget/Accounting Director, (801) 538-8627
Emily Sang, Internal Auditor, (801) 538-8624*

Anticipated Correction Date: May 2004

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)

7. UNTIMELY ISSUANCE OF SUBRECIPIENT MONITORING RESULTS

DCED is not issuing the results of their contract monitoring, including any noted deficiencies requiring corrective action, within a reasonable amount of time. Of six contracts we reviewed for subrecipient monitoring procedures, we noted one contract where the results of the monitoring performed in April 2003 had not been issued to the subrecipient as of the end of December 2003. There is no specific department policy or federal requirement detailing the timing for issuing monitoring results; however, they should be issued within a reasonable amount of time in order to enable subrecipients to take corrective action on any deficiencies noted during the review and to ensure compliance with grant requirements.

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Recommendation:

We recommend that DCED implement procedures to ensure the timely issuance of subrecipient monitoring results.

DCED's Response:

DCED performed 100% of subrecipient on-site monitoring and issued monitoring results after each monitoring visit within a reasonable amount of time. The one case where the monitoring results were not issued in a timely manner was an isolated incident. The program specialist did perform immediate telephone follow-up after the visit but did not document the phone conversation. DCED will continue to implement the monitoring protocol and improve the monitoring process.

Contact persons: Keith Heaton, CDBG Program Manager, (801) 538-8732

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

Anticipated Correction Date: March 2004

8. **INADEQUATE SUPPORTING DOCUMENTATION FOR CONTRACT PAYMENTS**

DCED is not obtaining adequate supporting documentation for CDBG grant reimbursement requests. One out of 60 sampled contract payments did not have adequate supporting documentation to substantiate the expenditures requested for reimbursement. The Request For Funds (RFF) form instructs grantees to "attach copies of applicable documentation including invoices and canceled checks." Obtaining adequate supporting documentation prior to approving and processing reimbursement requests is necessary in order to ensure proper disbursement of federal funds and compliance with program requirements. Program specialists were able to obtain requested documentation subsequent to our review. Nevertheless, adequate supporting documentation should be obtained prior to approving RFF forms and disbursing funds for reimbursement.

Recommendation:

We recommend that DCED obtain adequate supporting documentation prior to approving RFF forms for payment.

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DCED's Response:

DCED requires subrecipients to submit adequate documentation with the RFF's. The one incident found was isolated and immaterial. DCED will continue its reimbursement practice and monitor the RFF process more closely.

Contact persons: Keith Heaton, CDBG Program Manager, (801) 538-8732

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

Anticipated Correction Date: March 2004