



DEPARTMENT OF COMMUNITY AND CULTURE

Management Letter
For the Year Ended June 30, 2006

Report No. 06-26

*Keeping Utah
Financially Strong*

AUSTON G. JOHNSON, CPA
UTAH STATE AUDITOR



Auston G. Johnson, CPA
UTAH STATE AUDITOR

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MANAGEMENT LETTER NO. 06-26

March 20, 2007

Palmer DePaulis, Executive Director
Utah Department of Community and Culture
324 South State Street, Suite 500
Salt Lake City, UT 84111-2388

Dear Mr. DePaulis:

We have completed our audit of the financial statements of the State of Utah for the year ended June 30, 2006. Our report thereon, dated October 27, 2006, is issued under separate cover. We have also completed the Department of Community and Culture's (the Department's) portion of the statewide federal compliance audit for the year ended June 30, 2006. The federal programs tested as major programs at the Department were the Low-Income Home Energy Assistance Program (LIHEAP), the Community Services Block Grant (CSBG), the Community Development Block Grant (CDBG), and the HOME Investment Partnerships Program (HOME). Our report on the statewide federal compliance audit for the year ended June 30, 2006 should be issued by April 2007.

In planning and performing our audits, we considered the Department's internal control over financial reporting and the administration of major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on the State's financial statements and 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 the Department's internal control over financial reporting and 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.

Reportable conditions are defined as matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting and compliance that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements or 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 *Government Auditing Standards*, issued by the Comptroller General of the United States and Federal OMB Circular A-133.

During our audit, we also noted other matters involving the internal control over financial reporting and compliance of the Department and its operations. We are submitting for your consideration related recommendations designed to help the Department 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 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 the Department and is not intended to be and should not be used by anyone other than this specified party. However, the report is a matter of public record and its distribution is not limited.

We appreciate the courtesy and assistance extended to us by the personnel of the Department during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please call Jon Johnson, Audit Director, at 538-1359.

Sincerely,

Auston G. Johnson, CPA
Utah State Auditor

cc: Allyson Isom, Deputy Director
Kimbal W. Hale, Finance Director
Man Diep, Internal Auditor
Gordon D. Walker, Director, Division of Housing and Community Development
Glenn McMurtrey, Financial Manager, Division of Housing and Community Development
Sherman Roquero, LIHEAP Program Manager, Division of Housing and Community Development
Mike Glenn, HOME Program Manager, Division of Housing and Community Development
Keith Heaton, CDBG Program Manager, Division of Housing and Community Development
Jonathan Hardy, CSBG Program Manager, Division of Housing and Community Development

DEPARTMENT OF COMMUNITY AND CULTURE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP)

1. **LIHEAP ELIGIBILITY DETERMINATION AND CALCULATION ERRORS** (Reportable Condition)

Federal Agency: **DHHS, ACF**

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

Federal Award #: **G-06B1UTLIEA**

Questioned Cost: **\$555**

Pass-through Entity: N/A

We reviewed the case files for 60 Low-income Home Energy Assistance Program (LIHEAP) benefit payments, and noted errors with 3 (5%) of the cases, as described below:

- For one case, the eligibility worker did not verify all countable income for the applicant household. The error occurred because the applicant could only locate three of her four weekly pay stubs for the month prior to the application date. Instead of working with the applicant to obtain acceptable documentation, the eligibility worker used the gross income for the month prior to the application date as recorded on the Public Assistance Case Management Information System (PACMIS) to determine eligibility. We noted that the gross income on PACMIS that was used by the eligibility worker was less than the sum of the gross income on the three pay stubs obtained by the eligibility worker. Section 320.H. of the Department's H.E.A.T Policy Manual states, "If the client does not verify ALL income received by the current household members in the calendar month prior to the application date, the application will be denied." Therefore, we have questioned \$165 for this case, which represents the amount paid on behalf of the applicant during State fiscal year 2006.
- For one case, the eligibility worker calculated the benefit amount incorrectly. This error occurred because the worker did not use correct amounts from the energy bills received from the client. We have questioned \$77 for this case, which represents the difference between the actual benefits paid and the correct benefit amount.
- For one case, the Department was unable to locate the case file. Therefore, we were unable to determine that the household was eligible to receive benefits and that the benefits were calculated correctly. As such, we have questioned \$313 for this case, which represents the amount paid on behalf of the applicant during State fiscal year 2006.

The 60 benefit payments tested, totaling \$12,207, were selected from a population of \$11,593,571.

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Recommendation:

We recommend that the Department strengthen existing internal controls to ensure that eligibility determinations and benefit calculations are correct and comply with policy. In addition, we recommend that the Department work with subrecipients to ensure that all case files are properly maintained and accounted for.

Department's Response:

We concur with the recommendations. The Division of Housing and Community Development (DHCD) works consistently with the intake service providers to reduce their case file error rate. Policy and procedure training, which includes training on eligibility verification and compliance, is conducted each year and is customized for each regional provider. DHCD's LIHEAP program specialists also conduct annual on- and off-site monitoring at each office and randomly select case files for review. During the monitoring, additional training and technical assistance is provided to those workers who appear to need further guidance. Additional monitoring is subsequently scheduled and new samples of case files are reviewed, with additional training and technical assistance provided as necessary. This pattern continues throughout the year.

In an effort to increase our on-site review, the Division of Housing and Community Development recently hired a third field monitor to conduct in-house review of the regional LIHEAP intake offices. The field monitor will work in concert with DHCD's LIHEAP program specialists to ensure that policies and procedures are adequately observed and implemented, and that case files and documentation are in order. In addition, an on-site monitoring plan will be outlined and a new monitoring tool/report will be created and used to advise regional office managers of case file discrepancies that need to be corrected.

While regional providers and LIHEAP program specialists are aware of the importance of proper case file maintenance, we will take measures to ensure that files are stored and transported appropriately to prevent documents from getting lost or damaged. In addition, to prevent the loss of any case files in the future, we will ask that files reviewed in off-site monitoring be photocopied versions and that originals be maintained at the regional office.

*Contact Person: Sherm Roquero, LIHEAP Program Manager, (801) 538-8644
Anticipated Correction Date: June 30, 2007*

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2. INADEQUATE CONTROLS OVER ADVANCES TO SUBRECIPIENTS (Reportable Condition)

Federal Agency: **DHHS, ACF**

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

Federal Award #: **G-06B1UTLIEA**

Questioned Cost: N/A

Pass-through Entity: N/A

During fiscal year 2006, the Department contracted with subrecipients to perform activities related to LIHEAP. In December 2005, one subrecipient requested an advance of \$30,650 that was not used for program purposes until July and August 2006. Also in December 2005, another subrecipient requested an advance of \$53,000 that was not used for program purposes until September through December 2006.

Although LIHEAP is exempt from the provisions of the Office of Management and Budget (OMB) cost principles circulars, the Department is required to comply with State of Utah Accounting Policies and Procedures which state, "Even though smaller programs are not required to be covered in the agreement with the U.S. Treasury, all programs must follow fair and efficient cash management procedures. Cash advances from the federal government should be limited to the minimum amounts needed and should be timed to be in accord with only the actual, immediate cash requirements of the state to carry out a program. 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 proportionate share of any allowable indirect costs." (FIACCT 14-06-00)

Our estimates indicate that the Department's potential interest liability to the federal government for these two advances would be less than \$4,000.

Recommendation:

We recommend that the Department comply with State of Utah Accounting Policies and Procedures by implementing internal controls to minimize the time elapsing between the transfer of federal funds from the Department to the subrecipient and the disbursement of those funds by the subrecipient for program purposes.

Department's Response:

We concur with the recommendation. In the future, advance payments in this program will be kept to a strict minimum and shall be limited to no more than 10% of the contract total. Requests will be documented in writing, with a narrative indicating why the funds are needed and when they are expected to be spent. This information will be shared between the program specialists and manager, as well as the program accountant and accounting manager.

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Advanced funds not spent in a timely manner (30 days) will be returned to DHCD. Programs requesting an advance of funds will automatically be placed on the field monitor's priority site-visit list and an on-site review of those expenditures and supporting documentation will be completed.

*Contact Persons: Glenn McMurtrey, Accounting Director, (801) 538-8739 or
Sherm Roquero, LIHEAP Program Manager, (801) 538-8644
Anticipated Correction Date: June 30, 2007*

3. WEAKNESSES IN DURING-THE-AWARD MONITORING OF LIHEAP SUBRECIPIENTS (Reportable Condition)

Federal Agency: **DHHS, ACF**
CFDA Number and Title: **93.568 Low-income Home Energy Assistance Program**
Federal Award #: **G-06B1UTLIEA**
Questioned Cost: N/A
Pass-through Entity: N/A

The Department is not performing adequate during-the-award monitoring of its LIHEAP subrecipients related to case management and administration expenditures. Of 15 reimbursement requests for case management and administration expenditures sampled, 14 (93%) of the reimbursement requests did not include adequate documentation to support the breakout of the subrecipient's case management and administration costs. The Department has not performed on-site monitoring of the subrecipients and is relying on desk reviews to function as their during-the-award monitoring of these program costs.

Recommendation:

We recommend that the Department improve the during-the-award monitoring procedures, either by improving the desk reviews or by establishing appropriate on-site monitoring, to ensure that case management and administrative expenditures reimbursed to subrecipients are adequately supported by financial records or other appropriate supporting documentation and are for allowable activities.

Department's Response:

We concur with the recommendation. DHCD is currently evaluating its processes and procedures for conducting desk-top and on-site review of subrecipient expenses. While we have been confident in the past that our desk-top review was adequate for the review of administrative costs and met monitoring requirements, efforts to make processes more efficient, as well as the introduction of automated reporting tools, have prompted changes in the documentation standards for desk-top monitoring.

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In that regard, DHCD will be revising its approach to subrecipient expense monitoring. The first step to be completed in the process is the migration to a new automated reporting system, scheduled to be completed in June, 2007. Beta-testing of the system is currently underway.

As the new reporting system becomes fully functional and subrecipient payment requests are submitted electronically, instead of in hard copy, business rules, as well as policies and procedures for monitoring subrecipient expenses, will be rewritten to accommodate documentation being retained on-site. We anticipate that these processes will be fully functional by September 30, 2007.

In anticipation of the new documentation standards that will be implemented in desk-top review, a field monitor has already been hired to conduct on-site fiscal reviews of subrecipient expenditures, as well as cash management and expenditure processes and internal controls. He is currently creating a monitoring plan and will evaluate those agencies deemed a priority, including those participating in the LIHEAP program.

We are confident that the new documentation standards and monitoring procedures will ensure that subrecipient administrative expenditures are adequately documented and monitored.

*Contact Person: Gordon Walker, Director, Division of Housing and Community Development,
(801) 538-8723*

Anticipated Correction Date: September 30, 2007

4. REPORTING ERRORS ON FINANCIAL STATUS REPORT (Reportable Condition)

Federal Agency: **DHHS, ACF**

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

Federal Award #: **G-06B1UTLIEA**

Questioned Cost: N/A

Pass-through Entity: N/A

We noted the following errors in our review of the LIHEAP Financial Status Report (SF-269A report) prepared by the Department for the reporting period October 1, 2005 to September 30, 2006 for grant award number G-06B1UTLIEA:

- a. The Department reported outlays for the current period (column II) as the amount drawn during the reporting period rather than actual cash disbursements. The SF-269A report general instructions for line 10.a. (total outlays) state, "For reports prepared on a cash basis, outlays are the sum of actual cash disbursements for direct costs for goods and services, the amount of indirect expense charged, the value of in-kind contributions

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applied, and the amount of cash advances and payments made to subrecipients.” Therefore, the amount on lines 10.a. (total outlays) and 10.c. (Federal share of outlays) in column II of the report should have been \$17,431,089 rather than \$17,368,996 as was reported.

- b. The Department reported no unliquidated obligations on line 10.d. and reported \$5,514,529 of unobligated federal funds on line 10.i. of the report. The SF-269A report general instructions for line 10.d. (total unliquidated obligations) state, “Unliquidated obligations on a cash basis are obligations incurred, but not yet paid.” Because the Department obligates program funds when it enters into contracts with subrecipients, the amount of unliquidated obligations should have been reported on line 10.d. (total unliquidated obligations). We calculated the amount of unliquidated obligations at September 30, 2006 to be \$2,201,924. This amount should have also been shown on line 10.f. (Federal share of unliquidated obligations), the amount on line 10.g. (total Federal share) should have been increased by this amount, and the amount on line 10.i. (unobligated balance of Federal funds) should have been decreased by this amount.

Recommendation:

We recommend that the Department improve controls over the preparation of SF-269A reports, prepare the reports in accordance with applicable federal instructions, and submit corrected reports, as applicable.

Department's Response:

We concur with the interpretation of these rules and will prepare our SF-269A reports accordingly.

Contact Person: Glenn McMurtrey, Accounting Director, (801) 538-8739

Anticipated Correction Date: June 30, 2007

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COMMUNITY SERVICES BLOCK GRANT (CSBG)

5. **POTENTIAL UNALLOWABLE POLITICAL ACTIVITIES IN SUBGRANTEE CONTRACTS** (Reportable Condition)

Federal Agency: **DHHS, ACF**

CFDA Number and Title: **93.569 Community Services Block Grant**

Federal Award #: **G-06B1UTCOSR**

Questioned Cost: **undeterminable**

Pass-through Entity: N/A

We examined 3 Community Services Block Grant (CSBG) subgrantee contracts for compliance with Federal regulations and noted that 1 subgrantee contract included a budget for legislative advocacy in its approved scope of work. According to the scope of work, the subgrantee's advocacy was intended to increase resources for affordable housing as well as change laws and policies that affect housing for low income Utahns, increase resources for safe and affordable child care through policy development and changes, and increase the minimum wage. According to federal regulations (42 USC 9918(b)), CSBG funds may not be used to support any partisan or non-partisan political activity. The Department should examine all scope of work documents associated with CSBG contracts to ensure only allowable activities are funded. Not verifying the scope of work for subgrantees could result in unallowable political activities being charged to the CSBG grant. We were unable to determine the actual dollar amount of CSBG funds spent by the subgrantee on political activities but the potential unallowable costs would not be material to the program.

Recommendation:

We recommend that the Department authorize subgrantees to perform only activities which are allowable according to federal regulations.

Department's Response:

We concur with the recommendation and believe that we are already in compliance with this requirement.

The contract referenced in the finding uses CSBG discretionary funding in a grant to Utah Issues, an agency whose primary objectives are to research and report on poverty issues. For many years, DHCD has elected to use their discretionary funding to support these very necessary objectives, with the intent to share this information with a wide variety of constituencies. Although the scope of work in the contract may have been ambiguous, DHCD's State Community Services Office (SCSO) has received and documented the actual products provided as a result of the agency's efforts, including publication, distribution, and explanation

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of the Utah Poverty Report; coordination of Citizen's Day on the Hill; the Utah Poverty Conference to educate leaders and citizens about poverty issues in Utah; and the publication of fact sheets and research papers related to a variety of low-income issues. The intent and the products produced are supported by OMB Circular A-122 as follows:

b. The following activities are excepted from the coverage of § a: (1) Providing a technical and factual presentation of information on a topic directly related to the performance of a grant, contract or other agreement through hearing testimony, statements or letters to the Congress or a State legislature, or subdivision, member, or cognizant staff member thereof, in response to a documented request (including a Congressional Record notice requesting testimony or statements for the record at a regularly scheduled hearing) made by the recipient member, legislative body or subdivision, or a cognizant staff member thereof; provided such information is readily obtainable and can be readily put in deliverable form; and further provided that costs under this section for travel, lodging or meals are unallowable unless incurred to offer testimony at a regularly scheduled Congressional hearing pursuant to a written request for such presentation made by the Chairman or Ranking Minority Member of the Committee or Subcommittee conducting such hearing.

Furthermore, per the state CSBG statute defined in the Utah Code and Constitution, UCA 9-4-1404, SCSO is required to

“(4) receive and expend funds for the purposes outlined in this part;

(12) convene public meetings which provide citizens the opportunity to comment on public policies and programs to reduce poverty;

(13) advise the governor and Legislature of the nature and extent of poverty in the state and make recommendations concerning changes in state and federal policies and programs...”

It is according to these directives and within the context of these regulations that the contract and services rendered by Utah Issues have been performed to date, and we believe they are eligible activities within the CSBG program.

Lobbying has always been, and continues to be, strictly prohibited as an ineligible expenditure of federal funds. Every CSBG contract, including those reviewed by the State Auditor's Office, includes language specifically prohibiting lobbying.

The contract with Utah Issues that was audited is a current contract, not scheduled for closure until March 31, 2007. The process for determining ineligible expenditures is included in routine monitoring procedures that will be completed after the closure of the contract. Hence,

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we will perform a fiscal monitoring after this date and determine if any of the rules regarding lobbying were violated and if there are questioned costs as a result. Should we find this to be true, the corrective action plan will require that the subrecipient return any funds used for that purpose.

Finally, recognizing the ambiguousness of the contract language might lead to ineligible activities, we have eliminated the term "advocacy" from our RFP and will not use that term in future contracts. The RFP for the grant and the contract scope of work will focus efforts on eligible "research, reporting and education" activities.

*Contact Person: Jonathan Hardy, Director, State Community Services Office, (801) 538-8650
Anticipated Correction Date: June 30, 2007*

6. REPORTING ERRORS ON FINANCIAL STATUS REPORTS (Reportable Condition)

Federal Agency: **DHHS, ACF**
CFDA Number and Title: **93.569 Community Services Block Grant**
Federal Award #: **G-06B1UTCOSR, G-05B1UTCOSR**
Questioned Cost: **\$-0-**
Pass-through Entity: N/A

We noted the following errors in our review of the CSBG Financial Status Reports (SF-269A reports) prepared by the Department for the reporting period October 1, 2005 to September 30, 2006 for grant awards G-06B1UTCOSR and G-05B1UTCOSR:

- a. The Department reported outlays for the current period (column II) as the amount drawn during the reporting period rather than actual cash disbursements. The SF-269A report general instructions for line 10.a. (total outlays) state, "For reports prepared on a cash basis, outlays are the sum of actual cash disbursements for direct costs for goods and services, the amount of indirect expense charged, the value of in-kind contributions applied, and the amount of cash advances and payments made to subrecipients." Therefore, the amount on lines 10.a. (total outlays) and 10.c. (Federal share of outlays) in column II of the report for grant award number G-06B1UTCOSR should have been \$2,416,443 rather than the \$2,114,040 that was reported.
- b. The Department reported no unliquidated obligations on line 10.d. and reported \$22,856 of unobligated Federal funds on line 10.i. of the report for grant award number G-05B1UTCOSR. The Financial Status Report general instructions for line 10.d. (total unliquidated obligations) state, "Unliquidated obligations on a cash basis are obligations incurred, but not yet paid." Because the Department had received and not paid a reimbursement request from a CSBG subgrantee for an amount in excess of \$22,856 as of

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September 30, 2006, the Department should have reported the \$22,856 on line 10.d. (total unliquidated obligations) instead of line 10.i. (unobligated balance of Federal funds).

Recommendation:

We recommend that the Department improve controls over the preparation of SF-269A reports, prepare the reports in accordance with applicable federal instructions, and submit corrected reports, as applicable.

Department's Response:

We concur with the interpretation of these rules and will prepare our SF-269A reports accordingly.

*Contact Person: Glenn McMurtrey, Accounting Director, (801) 538-8739
Anticipated Correction Date: June 30, 2007*

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)

7. **PROGRAM INCOME ERRORS**

At the time of our testwork in January 2007, the Department had not recorded program income earned by local Associations of Government's Revolving CDBG Loan Funds for State fiscal year 2006. Federal regulations 24 CFR 570.489(e) and 24 CFR 570.491 require all program income earned to be recorded. Not recording program income results in noncompliance with federal regulations.

Recommendation:

We recommend that the Department record all program income from the Revolving Loan Fund in accordance with federal regulations.

Department's Response:

We concur with the recommendation. In past years, we have complied with this requirement. This year, at the time the program income information is typically solicited from subrecipient agencies and reported to HUD, the program accountant responsible for this work passed away unexpectedly. Also, the accounting manager accepted a new position within DHCD. A new accounting manager and a new program accountant were hired, and while they had made every effort to work with existing staff to learn all of the rules and requirements for this program, this task did not get identified and completed.

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Program income information for the appropriate period will be solicited from subrecipient agencies and will be reported to HUD appropriately.

*Contact Person: Glenn McMurtrey, Accounting Director, (801) 538-8739
Anticipated Correction Date: June 30, 2007*

HOME INVESTMENT PARTNERSHIPS PROGRAM

8. ERRORS IN THE MONITORING LISTS

During our review of the monitoring lists used to identify applicable federal compliance requirements and track project reviews, we noted the following errors in the monitoring list information:

- a. For 14 projects on the tracking list for new projects, the total number of units and/or the number of HOME assisted units did not agree with the information on the monitoring list.
- b. For two projects on the tracking list for new projects, the total number of units and/or the number of HOME assisted units were incorrect.
- c. Three projects that should have been included on the monitoring list were not included.

Inaccurate information on the monitoring lists may lead to improper identification of applicable federal requirements, inadequate compliance monitoring, and improper reporting and accountability of program funds.

Recommendation:

We recommend that the Department implement controls over the input of information on the tracking and monitoring lists to ensure the accuracy and completeness of the lists, proper identification of applicable federal requirements, and adequate monitoring procedures.

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Department's Response:

We concur with the recommendation. Currently, the HOME staff has six different databases for tracking various aspects of the HOME process and projects. Naturally, this can lead to errors when one database is updated and another is not, or when data is transcribed from one database to another incorrectly. HOME staff is currently working with the Department's Information Technology team to consolidate four key databases into one ACCESS database. DHCD plans to complete this consolidation by April 30, 2007. We believe that this consolidation will eliminate the problem noted in the State Auditor's finding and recommendation.

Contact Person: Mike Glenn, Director, Housing Programs, (801) 538-8666

Anticipated Correction Date: April 30, 2007