

MONTANA

Department of Commerce

HOUSING DIVISION

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September 5, 2006

Guadalupe M. Herrera, Director
Office of Community Planning and Development
U.S. Dept of housing & Urban Development
Region VIII, Denver
1670 Broadway St.
Denver, CO 80202-4801

RE: State of Montana Annual Community Assessment for April 1, 2005 – March 31, 2006 (Plan Year 2005)

Dear Ms. Herrera:

We have reviewed the Annual Community Assessment for Plan Year 2005 for the state of Montana and have the following comments.

A-133 SINGLE AUDIT FINDINGS

The HUD office had a concern about the most recent A-133 single audit on file with the Audit Clearinghouse for the State of Montana. According to the Assessment, the information through the Clearinghouse indicates that the audit resulted in findings for the CDBG, HOME, and ESG programs in the areas of cash management, allowable costs/cost principles, procurement/suspension/debarment, and the Davis-Bacon Act. After researching the state's most recent A-133 audit and obtaining some additional information about the findings from Renae Blair, we were able to identify the following audit findings that are related to the three formula grants administered by the Montana Departments of Commerce (HOME and CDBG) and Public Health & Human Services (ESG). A summary of the findings, along with the applicable Corrective Action Plans is attached (Attachment A).

- **Finding 2-19: Procurement and suspension and debarment (ESG program):**
The ESG program's contract monitor annually checks the debarment list for ESG contractors, the Human Resource Development Councils (HRDC). A standardized debarment form (available upon request) is placed in each master contract file to document that the check was performed. This has been standard procedure since 2003.

- **Finding 2-31: Procurement and suspension and debarment (HOME program):**
The HOME program now conducts debarment checks on cities, towns, counties, public housing authorities, and community housing development organizations awarded HOME funds prior to the

department entering into contracts with those entities. The results of the debarment checks are documented in the project file.

Finding 2-32: Reporting (CDBG program): Finding 2-32 was determined by the auditors during the summer of 2005. The finding was in regards to amounts entered into the PER for periods ending March 31, 2004 and March 31, 2005. The CDBG programs did have discrepancies related to dates recorded for withdrawals from the Integrated Disbursement and Information System (IDIS), and when requests for payments (draws) were processed by program staff. The dates program staff processes draws are not always the same as the dates the accounting department issues payments.

The PER also reflected total awards made within a program year. Awards included the state's annual allocation and any reallocated funds from previous program years. This caused great confusion for the auditors.

The CDBG program has made a Corrective Action Plan (CAP) that includes reconciliation of program expenditure records with the state's accounting system (SABHRS). Implementation of the CAP has already taken place and was used when the PER was submitted June 2006.

➤ **Finding 2-46: Cash Management (CDBG program):** This finding was directed at the Montana Department of Administration (MDOA), which handles the overall accounting for the state of Montana, including the Montana Department of Commerce. The MDOC has no direct control over MDOA accounting practices.

According to the MDOA's Corrective Action Plan: "The Department of Administration will review its policies and procedure to ensure proper documentation is maintained, the interest liability calculations support the agreement and changes properly communicated to the federal government." (Paul Christofferson, Admin. Fin. Serv. Div.; 2005 CMIA Agreement amended to reflect changes 9/21/05; Written procedures will be revised during January 2006.)

➤ **Finding 2-52: Allowable costs/cost principles (CDBG, ESG and HOME programs):** This finding was also directed at the Montana Department of Administration, which handles the overall accounting for the state of Montana, including the Montana Departments of Commerce and Public Health & Human Services. The MDOC and MDPHHS have no direct control over MDOA accounting practices.

According to the MDOA's Corrective Action Plan: "The Department of Administration will review its policies and procedures to ensure compliance with federal indirect cost requirements." (Paul

Christofferson, Admin. Fin. Serv. Div.; Procedures will be completed by February 2006)

MDOC accounting staff routinely checks for allowable costs when bills are paid and follows cash management procedures for MDOC programs.

- **Finding 2-3: Davis-Bacon Act** (*Community Development Block Grants / Brownfields Economic Development Initiative and Grants for School Repair and Renovation*); Responsible Entity: Department of Administration's Architecture and Engineering Division.

According to our research, the finding related to the **Davis-Bacon Act** for Community Development Block Grants / Brownfields Economic Development Initiative is NOT applicable to any of the three formula grants, CDBG, ESG and HOME, administered by the MDOC and/or MDPHHS. Neither the MDOC nor the MDPHHS has been the recipient of a Brownfields Economic Development Initiative (BEDI) grant.

The Montana Department of Administration's (MDOA) Architecture and Engineering Division does NOT have any involvement with or oversight of any of the three formula grant programs received by the state of Montana; nor do the MDOC or MDPHHS have any involvement with or oversight of the BEDI grant funds administered by the MDOA.

Therefore, we respectfully request that all references to audit findings related to the Davis-Bacon Act be removed from the Annual Community Assessment.

PROGRAM REVIEWS – CDBG REVIEW

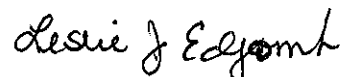
The CAPER review stated, "*Economic Development through the State creates or retains jobs with a percentage of the jobs retained or available to low/mod income persons. Montana's PERs do not give an aggregate benefit however the IDIS PR26 reports show a 100% benefit to low/mod persons.*"

The PER has never shown a percentage of overall benefit to low- and moderate-income persons (LMI) for each public facilities, housing, or economic development projects. The CDBG Economic Development program has never recorded created jobs, retained jobs, or number of jobs made available to LMI on the PER.

IDIS does not allow states to record actual number of jobs made available to LMI for economic development projects. It was the recommendation from HUD to include information on "made available to" in the narrative portion of accomplishments for each project in IDIS. **If HUD requires this information to be reported on the PER, the CDBG program can provide it.**

If I can be of any further assistance, please let me know.

Sincerely



Leslie J. Edgcomb
Consolidated Plan Coordinator

C: Renae Blair, HUD

Gus Byrom, Manager, CDBG Housing & Public Facilities Program, MDOC
Karyl Tobel, Manager, CDBG ED Program, MDOC
Ethan Stapp, Manager, HOME Program, MDOC
Jim Nolan, Manager, ESG Program, MDPHHS

Tony Preite, Director, MDOC
Bruce Brensdal, Administrator, Housing Division, MDOC
Dave Cole, Administrator, Community Development Division, MDOC
Andy Poole, Administrator, Business Resources Division, MDOC
Hank Hudson; Administrator, Human & Community Services Division, MDPHHS

ATTACHMENT A

Excerpts from
Legislative Audit Division
State of Montana
October 2005
Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 2005

CFDA # Program	Audit Finding / Compliance Requirement	Finding
14.231 ESG Program	2-19: Procurement and suspension and debarment	<p>Various Federal Agencies</p> <p>CFDA #: Various</p> <p>Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain control over federal programs that provides reasonable assurance the department is managing federal awards in compliance with laws, regulations, and grant provisions. The March 2004 Compliance Supplement, page 3-1-1, prohibits the department from contracting with parties that are suspended or debarred from participating in federal programs. The May 2005 Compliance Supplement did not modify this requirement. The department adopted a policy to prevent contracting with parties that have been suspended and debarred. The policy specifies that department contract managers are to sign and date a form certifying the official federal listing of debarred parties was reviewed prior to executing the contract.</p> <p>Condition: The department did not implement procedures designed to prevent it from contracting with suspended or debarred parties. Contractor files lack documentation that staff checked the federal debarred party website prior to executing a contract.</p> <p>Questioned Costs: No questioned costs identified.</p> <p>Context: None of the 15 contract files reviewed contained the required certification form.</p> <p>Effect: The department is at risk of contracting with a suspended or debarred party.</p> <p>Cause: Although the department adopted its policy in March 2003, department personnel have not implemented it.</p> <p>Recommendation: We recommend the Department of Public Health and Human Services implement its policy to prevent contracting with parties that have been suspended and debarred from participating in federal programs.</p> <p>Corrective Action Plan: The Fiscal Office will re-disseminate the policy to a broader audience. To help ensure the appropriate staff receive, understand and apply the policy, the Internal Auditor will perform a performance review of contract files across the agency. (Marie Matthews, Fiscal Policy Advisor, DPHHS, January 31, 2006)</p>

CFDA # 14.239	HOME Program	Audit Finding / Compliance Requirement 2-31: Procurement and suspension and debarment	<p>Finding U.S. Department of Housing and Urban Development CFDA #14.239, Home Investments Partnership Program Criteria: OMB Circular A-133, Subpart C, Section 300(b) requires the Department of Commerce (department) to maintain internal control over federal programs that provides reasonable assurance the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. The March 2004 Compliance Supplement, page 3-1, prohibits the department from contracting with parties that are suspended or debarred from participating in federal programs. The May 2005 Compliance Supplement did not modify this requirement.</p> <p>Condition: The department does not have controls in place to ensure subgrantees are not debarred or suspended from participating in federal programs.</p> <p>Questioned Costs: No questioned costs identified.</p> <p>Context: During fiscal years 2003-04 and 2004-05, the department subgranted a total of \$5,259,412 to 14 local governments and \$4,029,409 to 10 non-profit organizations.</p> <p>Effect: There is increased risk the department could subgrant to a debarred or suspended entity.</p> <p>Cause: Department personnel stated they primarily grant funds to local governments and did not believe there was a risk these entities would be debarred or suspended. Personnel also noted the local governments and non-profit organizations have procedures in place to ensure recipients ultimately receiving the funds are not debarred or suspended.</p> <p>Recommendation: We recommend the Department of Commerce develop and implement procedures to ensure it complies with federal requirements prohibiting contracting with suspended and debarred entities.</p> <p>Corrective Action Plan: The HOME Program currently requires all of its grantees to conduct debarment checks prior to entering construction, architecture, engineering or consulting contract in order to fulfill this requirement. This procedure will now be implemented to conduct debarment checks on cities, towns, counties and Community Housing Development Organizations, prior to the Department entering into contracts with those entities. (Maureen Martin, Bureau Chief of the Housing Assistance Bureau, Dept. of Commerce. The Department will have this process in place for the next round of funding in the spring of 2006, no later than July 1, 2006).</p>
14.228	CDBG-States Program	2-32: Reporting	<p>U.S. Department of Housing and Urban Development CFDA #14.228, Community Development Block Grants/State's Program Criteria: Federal regulation, 24 CFR 91.520(a), requires the Department of Commerce (department) to annually report the resources made available, the investment of available resources, and the geographic distribution and location of investments on a performance report. Condition: The department did not accurately prepare the Performance and Evaluation report.</p>

CFDA # Program	Audit Finding / Compliance Requirement	Finding
		<p>Questioned Costs: No questioned costs identified.</p> <p>Context: The reports due March 30, 2004 and 2005 contained a combined total of 469 lines. Of these, 31 lines reported the incorrect amount.</p> <p>Effect: Noncompliance with federal reporting requirements.</p> <p>Cause: Department personnel included transactions that should have been included on the previous or subsequent report in error.</p> <p>Recommendation: We recommend the Department of Commerce accurately report current year distributions on the Community Development Block Grant Performance and Evaluation Report.</p> <p>Corrective Action Plan: The Montana CDBG Program is responsible for maintaining five different reporting systems, primarily to meet the requirements of the US Department of housing and urban Development (HUD). The complexity and inherent duplication involved in the multiple reporting systems invites the problems identified in the audit.</p> <p>The CDBG program is creating an electronic system linked to the accounting system (SABHRS) to automatically collect PER data as opposed to the manual system currently used. The CDBG program hopes to have the electronic system in place by June 30, 2006. (Dave Cole, Administrator, Community Development Division, Dept. of Commerce, June 30, 2006)</p>
14.2;28	CDBG-States Program	<p>Various Federal Agencies</p> <p>CFDA #: Various</p> <p>Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Administration(department) to maintain internal control over federal programs that provides reasonable assurance the federal awards are managed in compliance with laws, regulations, and the provisions of the contracts or grant agreements that could have a material effect on each of its federal programs. Federal regulation, 31 CFR 205.7(c), requires the Treasury-State Agreement be amended as needed to change or clarify its language when the terms of the existing agreement are either no longer correct or no longer applicable. It also requires the department to notify the U.S. Department of the Treasury within 30 days of becoming aware of a change. Federal regulation, 31 CFR 205.29(b), requires the department to maintain records supporting interest calculations, clearance patterns, interest calculation costs, and other functions directly pertinent to the implementation and administration of the Cash Management Improvement Act (CMIA). The department is to maintain these records for at least three years after the submission of its annual report. The Treasury-State Agreement states no interest liability will be incurred on cash drawn on federal programs if they are drawn in accordance with the agreement.</p> <p>Condition: The department prepares the Treasury-State Agreement and administers the CMIA for the state of Montana. The department does not have adequate controls in place to ensure compliance with federal regulations regarding the CMIA. We identified instances where the department was aware of information contained in the fiscal year 2003-04 Treasury-State</p>

CFDA #	Program	Audit Finding / Compliance Requirement	Finding
			<p>Agreement that was incorrect, but the department did not make the required notification to the U.S. Department of the Treasury. The department also did not have supporting documentation for these instances. The department distributes interest calculation spreadsheets to the agencies to use in tracking the timing and amount of cash draws throughout the fiscal year. The spreadsheets specify what the clearance pattern and cash draw technique is for that federal program. The spreadsheet also contains formulas that calculate the interest liability due to or from the federal government based on the timing and amount of the draws. The department then uses these spreadsheets to accumulate the total interest due to or from the federal government for the fiscal year and to prepare the annual report. We identified instances where the department distributed interest calculation spreadsheets containing clearance patterns and draw techniques that did not correspond to the fiscal year 2003-04 Treasury-State Agreement.</p> <p>Questioned Costs: No questioned costs identified.</p> <p>Context: In our review of the fiscal year 2003-04 Treasury-State Agreement we identified instances affecting six state agencies and approximately twenty programs for which there were problems in the specific terms of the agreement and related spreadsheets for which the department did not have supporting documentation.</p> <p>Effect: The department is not in compliance with OMB Circular A-133, 31 CFR 205.7(c), 31 CFR 205.29(b), and the Treasury-State agreement. The fiscal year 2003-04 interest liability for the state of Montana was not calculated in accordance with the approved fiscal year 2003-04 Treasury-State Agreement.</p> <p>Corrective Action Plan: The Department of Administration (DOA) will review its policies and procedure to ensure proper documentation is maintained, the interest liability calculations support the agreement and changes properly communicated to the federal government. (Paul Christofferson, Admin. Fin. Serv. Div.; 2005 CMIA Agreement amended to reflect changes 9/21/05; Written procedures will be revised during January 2006.)</p>
14.228 14.231 14.239	CDBG-States Program ESG Program HOME Program	2-52: Allowable costs/cost principles	<p>Various Federal Agencies</p> <p>CFDA #: Various</p> <p>Criteria: OMB Circular A-133, Section 300(b), requires the Department of Administration (department) to maintain internal control over federal programs that provides reasonable assurance the department is managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that have a material effect on each of its federal programs. Under provisions of the contract for the preparation, submission, and negotiation of the state's annual Statewide Cost Allocation Plan (SWCAP), the consultant is required to maintain records of the SWCAP and supporting information. OMB Circular A-87, Attachment C, Section D(4), requires all cost allocation plans be submitted within six months prior to the beginning of each of the state's fiscal years in which it proposes to claim central service costs. Extensions may be granted on a case-by-case basis.</p>

CFDA #	Program	Audit Finding / Compliance Requirement	Finding
			<p>Condition: We determined the department does not have an adequate control system in place to ensure compliance as required by federal regulations. Department personnel do not review the annual SWCAP prepared by the consultant or maintain documentation of control procedures performed by the consultant. We identified several errors, such as inclusion of \$200 in unallowable costs and exclusion of \$1,064 in allowable costs that could have easily been detected and corrected had adequate controls been in place. We determined 9,446 transaction lines were excluded from the data provided to the consultant, which could have been detected through a comparison of totals. In addition, the department could not provide supporting documentation for three of its allocation units. The department did not submit the SWCAPs for fiscal years 2002-03 and 2003-04 in the required timeframe. The fiscal year 2002-03 and 2003-04 SWCAPs were submitted 30 months late. The fiscal year 2004-05 SWCAP was 21 months late and the fiscal year 2005-06 SWCAP was 9 months late; however, the department subsequently received extensions.</p> <p>Questioned Costs: No questioned costs identified.</p> <p>Context: In the prior audit of the department, we recommended the department maintain records of the information provided to the consultant to document the state's compliance with terms of the SWCAP in the department's audit report for fiscal years 2002-03 and 2003-04. However, the most recently completed SWCAP that we audited for fiscal year 2004-05 had already been submitted at that time.</p> <p>Effect: The department has not complied with federal regulations applicable to its indirect cost plan. In addition, without adequate controls in place, other instances of noncompliance can occur in the preparation of the SWCAP that may not be prevented or detected in a timely manner. The untimely submission of the annual the SWCAP has not affected the review and approval process as the federal government is behind schedule on their review and approval of SWCAPs.</p> <p>Cause: During the audit period, the department experienced turnover in key positions. Employees new to these positions are unfamiliar with SWCAP process. Department personnel indicated control procedures have already been implemented to ensure compliance with federal regulations.</p> <p>Recommendation: We recommend the Department of Administration establish procedures to ensure compliance with federal indirect cost requirements.</p> <p>Corrective Action Plan: The Department of Administration will review its policies and procedures to ensure compliance with federal indirect cost requirements. (Paul Christofferson, Admin. Fin. Serv. Div.; Procedures will be completed by February 2006)</p>