



STATE OF DELAWARE
OFFICE OF AUDITOR OF ACCOUNTS
DOVER, DELAWARE 19903

DENNIS E. GREENHOUSE
AUDITOR OF ACCOUNTS

STATE OF DELAWARE
DEPARTMENT OF COMMUNITY AFFAIRS
LETTER AUDIT REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 1984, AND JUNE 30, 1985



STATE OF DELAWARE
OFFICE OF AUDITOR OF ACCOUNTS
DOVER, DELAWARE 19903

DENNIS E. GREENHOUSE
AUDITOR OF ACCOUNTS

October 28, 1985

The Honorable Michael N. Castle
Governor
Legislative Hall
P.O. Box 1401
Dover, Delaware 19903

The Honorable Frances M. West
Secretary
Department of Community Affairs
156 South State Street
Dover, Delaware 19903

Dear Governor Castle and Secretary West:

In accordance with the requirements of the Delaware Code, State, federal, and/or local laws and regulations, we have conducted a financial and compliance examination of the available records of the Department of Community Affairs for the period July 1, 1983, through June 30, 1985. The examination was conducted in accordance with generally accepted government auditing standards as prescribed in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions published by the Comptroller General of the United States; Guidelines for Financial and Compliance Audits of Federally Assisted Programs published by the United States General Accounting Office; Circular A-128, published by the United States Office of Management and Budget; and appropriate Block Grant guidelines; accordingly, we have conducted such tests and other auditing procedures as we considered necessary under the circumstances. We have also applied, where appropriate, the United States Office of Management and Budget (OMB) Circulars A-21, A-73, A-87, A-88, A-102, A-110, A-122, and A-124; and such other laws, regulations, and guidelines as we found appropriate in the circumstances encountered.

The objectives of our examination of the Department of Community Affairs were to examine and report upon: (1) the entity's compliance with laws and regulations which, if not followed, could materially affect its financial statements; (2) the Department's compliance with its mandated responsibility under Titles 29 and 31, Delaware Code, the State of Delaware Budget and Accounting Manual, OMB Circulars A-102, and A-128, and other State and federal guidelines; (3) the Department's compliance with federal assistance agreements and their related directives and laws; (4) the Department's internal controls procedures and evaluate their effectiveness; (5) the adequacy of federal

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financial reporting and review the monitoring of subgrant activities; (6) the accuracy and reliability of payroll and personnel transactions; and to render an opinion on the above represented objectives.

Our examination of the Department of Community Affairs was based on information obtained from a preliminary job survey and our review of internal controls. Statistical, random, and judgmental samples were used to accomplish audit objectives and test compliance requirements of federal grants. The procedures that were performed are summarized as follows: (a) test Department expenditures for allocable costs, and (b) test activities and records for indications of prohibited practices relating to Political Activity, Davis-Bacon Act compliance, Civil Rights complaints, Cash Management, Relocation Assistance and Real Property Acquisition, and Financial Reporting. Our tests were performed at both the Department and Division levels. Two Advisory Letters were issued during the course of the audit. The issues addressed in the two Advisory Letters were: federal matching share documentation, bid contracts, community development block grant audits, community development technical assistance, site visits by the Division of Housing, Departmental policies, and one questioned cost. The audit team encountered no impairments during the course of the audit.

The following is a listing of federal grants received by the Department of Community Affairs:

DELAWARE DEPARTMENT OF COMMUNITY AFFAIRS
 SCHEDULE OF ACTIVE FEDERAL GRANT AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1984

| <u>FEDERAL DEPARTMENT/GRANT TITLE</u> | <u>OMB CATALOG NUMBER</u> | <u>FEDERAL IDENTIFICATION NUMBER</u> | <u>GRANT MONEYS RECEIVED</u> |
|---|-----------------------------------|--|--------------------------------------|
| <u>ACTION AGENCY</u> | | | |
| Volunteer Citizen Participation | 72.011 | 437-3010/1 | \$ 25,099 |
| Volunteer Citizen Participation | 72.011 | 437-3010/3 | 25,350 |
| Foster Grandparents Program | 72.001 | 439-3279/2 | 106,505 |
| Foster Grandparents Program | 72.001 | 439-3279/3 | 159,750 |
| Retired Senior Volunteer Program - Wilmington | 72.002 | 440-3613/3 | 46,746 |
| Retired Senior Volunteer Program - Sussex | 72.002 | 440-3614/3 | 37,391 |
| <u>DEPARTMENT OF ENERGY</u> | | | |
| Weatherization Assistance - 1982 | 81.042 | DE-FG-43-81-R038016 | 2,463 |
| Weatherization Assistance - 1983 | 81.042 | DE-FG-43-81-R038016 | 620,000 |
| Weatherization Assistance - 1984 | 81.042 | DE-FG-43-81-R038016 | 17,500 |
| <u>DEPARTMENT OF EDUCATION</u> | | | |
| Library Services and Construction Act - Title III - 1983 | 84.034 | W008301107 | 2,100 |
| Library Services and Construction Act - Title III - 1984 | 84.034 | W008301107 | 39,447 |
| Library Services and Construction Act - Title I - 1983 | 84.034 | W008301107 | 84,493 |
| Library Services and Construction Act - Title I - 1984 | 84.034 | W008301107 | 239,678 |
| <u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | |
| Developmental Disabilities - Administration | 41.150 | 6507483 | 37,500 |
| Developmental Disabilities - Planning | 41.150 | 6507483 | 108,080 |
| Developmental Disabilities - Administration | 41.150 | 650740 | 42,180 |
| Developmental Disabilities - Contingency | 41.150 | 650740 | 81,415 |
| Low Income Energy | 13.818 | 82BIDELIEA | 106,543 |
| Low Income Energy | 13.818 | 83BIDELIEA | 1,035,000 |
| Low Income Energy | 13.818 | 84BIDELIEA | 4,281,000 |
| Community Service Block Grant | 13.665 | 01-82-BIDECOSR | 7,010 |
| Community Service Block Grant | 13.665 | 01-83-BIDECOSR | 476,000 |
| Community Service Block Grant | 13.665 | 01-84-BIDECOSR | 397,000 |

| <u>FEDERAL DEPARTMENT/GRANT TITLE</u> | <u>OMB CATALOG NUMBER</u> | <u>FEDERAL IDENTIFICATION NUMBER</u> | <u>GRANT MONEYS RECEIVED</u> |
|--|-----------------------------------|--|--------------------------------------|
| <u>DEPARTMENT OF AGRICULTURE</u> | | | |
| Rural Development | 10.826 | DE-A-1480 | \$ 6,776 |
| <u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> | | | |
| Fair Housing | 14.401 | HA-10857 | 23,616 |
| Fair Housing | 14.401 | HA-10930 | 57,932 |
| Community Development and Technical Assistance | 14.219 | B-83-SK-10-0001 | 50,000 |
| Community Development and Technical Assistance | 14.219 | B-84-SK-10-0001 | 25,000 |
| Community Development Block Grant | 14.228 | B-82-DC-10-0001 | 565,213 |
| Community Development Block Grant | 14.228 | B-83-DC-10-0001 | 801,689 |
| Community Development Block Grant | 14.228 | B-83-DJ-10-0001 | <u>54,585</u> |
| TOTAL FEDERAL GRANTS | | | <u>\$9,563,061</u> |

DELAWARE DEPARTMENT OF COMMUNITY AFFAIRS
 SCHEDULE OF ACTIVE FEDERAL GRANT AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1985

| <u>FEDERAL DEPARTMENT/GRANT TITLE</u> | <u>OMB CATALOG NUMBER</u> | <u>FEDERAL IDENTIFICATION NUMBER</u> | <u>GRANT MONEYS RECEIVED</u> |
|---|-----------------------------------|--|--------------------------------------|
| <u>ACTION AGENCY</u> | | | |
| Volunteer Citizen Participation | 72.011 | 437-3010/3 | \$ 25,350 |
| Volunteer Citizen Participation | 72.011 | 442-3001/01 | 27,525 |
| Foster Grandparents Program | 72.001 | 439-3279/3 | 53,250 |
| Foster Grandparents Program | 72.001 | 439-3279/4 | 196,060 |
| Retired Senior Volunteer Program - Wilmington | 72.002 | 440-3613/04 | 62,868 |
| Retired Senior Volunteer Program - Sussex | 72.002 | 440-3614/04 | 33,150 |
| Vista Transportation | 72.011 | 437-3010/05 | 1,500 |
| <u>DEPARTMENT OF ENERGY</u> | | | |
| Weatherization Assistance - 1984 | 81.042 | DE-FG-43-81-R038016 | 508,000 |
| <u>DEPARTMENT OF EDUCATION</u> | | | |
| Library Services and Construction Act - Title III - 1983 | 84.034 | W008301107 | 8,400 |
| Library Services and Construction Act - Title III - 1984 | 84.034 | W008401107 | 41,533 |
| Library Services and Construction Act - Title III - 1985 | 84.034 | W008501107 | 46,750 |
| Library Services and Construction Act - Title II - 1985 | 84.034 | W008501107 | 163,900 |
| Library Services and Construction Act - Title I - 1983 | 84.034 | W008301107 | 19,000 |
| Library Services and Construction Act - Title I - 1984 | 84.034 | W008401107 | 158,225 |
| Library Services and Construction Act - Title I - 1985 | 84.034 | W008501107 | 186,900 |
| <u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | |
| Developmental Disabilities - Administration | 41.150 | 650740 | 42,006 |
| Developmental Disabilities | 41.150 | 8501DEBS07 | 128,399 |
| Developmental Disabilities - Planning | 41.150 | 6507483 | 6,917 |
| Developmental Disabilities - Contracts | 41.150 | 650740 | 80,559 |

| <u>FEDERAL DEPARTMENT/GRANT TITLE</u> | <u>OMB CATALOG NUMBER</u> | <u>FEDERAL IDENTIFICATION NUMBER</u> | <u>GRANT MONEYS RECEIVED</u> |
|--|-----------------------------------|--|--------------------------------------|
| <u>DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)</u> | | | |
| Low Income Energy | 13.818 | 83BIDELIEA | \$ 36,000 |
| Low Income Energy | 13.818 | 84BIDELIEA | 1,428,500 |
| Low Income Energy | 13.818 | 85BIDELIEA | 4,501,500 |
| Community Service Block Grant | 13.665 | 83BIDECOSR | 7,380 |
| Community Service Block Grant | 13.665 | 84BIDECOSR | 458,000 |
| Community Service Block Grant | 13.665 | 85BIDECOSR | 396,000 |
| <u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> | | | |
| Fair Housing | 14.401 | HA-10857 | 11,327 |
| Fair Housing | 14.401 | HA-10930 | (3,997)* |
| Fair Housing - Type I | 14.401 | HA-12439 | 2,500 |
| Community Development and Technical Assistance | 14.219 | B-84-SK-10-0001 | 32,194 |
| Community Development and Technical Assistance | 14.219 | B-85-SK-10-0001 | 59,000 |
| <u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT CONTINUED</u> | | | |
| Community Development Block Grant | 14.228 | B-82-DC-10-0001 | 97,187 |
| Community Development Block Grant | 14.228 | B-83-DC-10-0001 | 786,096 |
| Community Development Block Grant | 14.228 | B-84-DC-10-0001 | 943,700 |
| Community Development Block Grant | 14.228 | B-85-DC-10-0001 | 25,000 |
| Community Development Block Grant | 14.228 | B-83-DJ-10-0001 | 180,691 |
| TOTAL FEDERAL GRANTS | | | <u>\$10,751,370</u> |

*Credit Amount is as a result of funds transferred to Grant HA-10857

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The following personnel were contacted during the course of this examination:
The Honorable Frances M. West, Secretary; Mr. Eugene B. Ruane, Executive Assistant and Chief Planner; Mr. G. Gardner Shugart, Controller;
Ms. Virginia Moore, Personnel Officer I, Department of Community Affairs;
Mr. James Linehan, Administrator Developmental Disabilities;
Mr. Dennis J. Savage, Director, Division of Community Services;
Mr. Robert S. Moyer, Director, Division of Housing and Community Development;
Ms. Sylvia I. Short-Calhoun, State Librarian, Division of Libraries; and
Mr. Donald E. Williams, Director, Division of Consumer Affairs.

AUDITOR'S REPORT ON INTERNAL CONTROL

We have examined the financial records of the Department of Community Affairs for the Fiscal Years ended June 30, 1984 and June 30, 1985, and hereby issue our report thereon dated October 28, 1985. As a part of our examination, the system of internal accounting controls, to the extent we considered necessary, was examined to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following categories: (1) general controls and (2) application controls.

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Department's financial records.

The objectives of internal accounting control are to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and as to the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived therefrom and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can also be circumvented by collusion. Also, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with procedures may deteriorate.

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Our study and evaluation of the system of internal accounting controls for the period examined, which was made for the purpose set forth in the first paragraph above, would not necessarily disclose all weaknesses in the system.

In our opinion, as of June 12, 1985, with the exception of the weaknesses cited hereinafter, the Department of Community Affairs' system of internal controls and accounting practices met the requirements of State and federal statutory guidelines.

PRIOR YEAR'S RECOMMENDATIONS

1. FINDING - The Petty Cash Account Number 1100-2226 was reviewed and found to be reconciled on an as needed basis. The Fiscal Year 1984 year end reconciliation could not be verified because a listing of outstanding checks could not be located by the audit team. This same issue was addressed in the Fiscal Year 1983 audit in Advisory Letter Number One dated March 22, 1984. Fiscal Year 1985 was reconciled up to April 1985 with no discrepancies noted.

IT IS RECOMMENDED THAT (a) the agency obtain the list of outstanding checks from the Division of Accounting; (b) the agency notify the Office of Auditor of Accounts when the list is obtained; and (c) the agency establish controls to retain all documentation relating to the reconciliation of bank accounts.

2. FINDING - In the Fiscal Year 1983 audit report, Finding Number 14 addressed the issue of grantor agencies not using the Standard Form 424 for reporting approval action on federal assistance programs as required by OMB Circular A-102, Attachment 'M', Paragraph 7. Our examination revealed that this situation still exists. On March 5, 1984, the Office of Auditor of Accounts requested that the Regional Inspector General's Office of the United States Department of Education (USED) address this issue with the Office of Management and Budget.

NO RECOMMENDATION.

3. FINDING - A review of the Fiscal Year 1984 Generally Accepted Accounting Principles (GAAP) Financial Report Summary indicated that the grants receivable amount was erroneously reported. The total grants account receivables (Department-wide) reported was \$10,058,196 instead of the correct amount of \$76,278. The error resulted from an apparent transposition of column totals from one report page to another which may have been prevented through closer review. Furthermore, the report did not contain a signature of approval or Departmental summary totals.

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IT IS RECOMMENDED THAT greater care be exercised in the preparation and review of the GAAP Summary of Financial Statements by the Department. The report should be reviewed for accuracy and approved by an appropriate Department official.

CASH COUNTS

4. FINDING - The Petty Cash Change Fund at the Division of Libraries was reviewed. The total of cash, checks for deposit, and expense vouchers not yet reimbursed was equal to the authorized amount of the fund. Internal control regarding the fund appeared to be adequate in practice but there was no departmental policy governing the uses of a Petty Cash Change Fund.

IT IS RECOMMENDED THAT the Department establish a written policy on the maintenance of change funds that specifically addresses the authorized and unauthorized uses of the fund.

BANK ACCOUNTS

5. FINDING - The Employee Bond Account Number 1100-2234 was found to be reconciled correctly and all funds in escrow were found to be accounted for in the Employee Bond Deduction and Balances folder.

NO RECOMMENDATION.

EXPENDITURES

6. FINDING - For Fiscal Year 1984, 200 invoices were selected by statistical sample and reviewed. The sample consisted of 34 or 17 percent General Fund expenditures, 163 or 82 percent Federal Fund expenditures, and 3 or 1 percent were Other Special Fund expenditures. For Fiscal Year 1985, a judgmental sample was used to select 49 Federal Fund invoices for review. The selected invoices appeared to be free from discrepancies. However, it must be noted that we identified one questioned cost in our review of federal grants. This questioned cost is detailed in Finding Number Nine of this report.

NO RECOMMENDATION.

PAYROLL AND PERSONNEL

7. FINDING - We performed a test of job assignments at the Division of Consumer Affairs. From the interviews conducted, it was found that there was not a sufficient segregation of duties for financial transactions as is suggested by Guidelines for Financial and Compliance Audits of Federally Assisted Programs; nor did the duty assignments facilitate training to provide coverage during employees' absences.

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IT IS RECOMMENDED THAT the duty assignments and actual duties performed be more closely examined by the Department to promote familiarity with the financial aspects of key positions by more than one member of the department, division, or affected organization.

AUDITOR'S REPORT ON COMPLIANCE

In our opinion, with the exception of items of noncompliance described in the findings of this report, the Department of Community Affairs complied in all material respects with the applicable compliance matters identified in this report. Further, based on procedures performed in accordance with generally accepted government auditing standards, nothing came to our attention to indicate that the Department had not complied in all material respects with all applicable items aforementioned.

Financial statements for the Department have not been made a part of this audit report. However, the financial information of the Department will be included in the Combined Financial Statements of the State of Delaware for the Fiscal Years ended June 30, 1984, and June 30, 1985, and an opinion will be rendered as to the financial position of the State being fairly presented.

SUBGRANTS AUDIT REPORTS

8. FINDING - From the review of 15 audit reports for the Community Development Block Grants (CDBG) programs from Fiscal Years 1982, 1983, and 1984, the following results were noted: from a possible 180 attributes that were tested, 26 errors were identified; 9 reports did not contain notes to the financial statement; 2 did not site the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions (Yellow Book) or the Guidelines for Financial and Compliance Audits of Federally Assisted Programs (Red Book); 2 reports failed to comment on internal control strengths and weaknesses; and 13 reports failed to give a positive assurance for items tested and negative assurance for items not tested. It appeared that the division was not enforcing the Department of Community Affairs' Policy Number 83-1, Section IIA. This failure to enforce the Department's policies has caused many CDBG programs to have accepted audits that did not meet with Departmental Policy Number 83-1, which outlines all the State and federal audit guidelines that should be followed.

IT IS RECOMMENDED THAT the Department of Community Affairs institute procedures to ensure that all divisions charged with the responsibility of reviewing and approving audit reports and/or financial statements adhere to all applicable policies and procedures promulgated by the Department.

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GRANTS ADMINISTRATION

9. FINDING - Based on the examination of the Community Development Technical Assistance (CDTA) Grant Number B-82-SK-10-0001, the audit team identified one item of questioned cost. Invoice Number 618481 for the amount of \$2,130 was coded to rental space for Fiscal Year 1982. OMB Circular A-87, Attachment C, Paragraph 2, states, "The cost for space procured for grant programs may not be charged to the program . . . without authorization of the grantor Federal agency." The budget for Grant Number B-82-SK-10-0001 was reviewed and no evidence of approval for this expenditure was found.

IT IS RECOMMENDED THAT \$2,130 be reimbursed to the fund/line from which it was disbursed, and future disbursements be made in accordance with OMB Circular A-87.

Hatch Act

10. FINDING - During the course of our examination, we found no matters that would question the Department's compliance with this issue. The payroll and personnel examination found no persons were responsible for political activities.

NO RECOMMENDATION.

Davis-Bacon Act

11. FINDING - We could not identify any activity that would require the application of this Act.

NO RECOMMENDATION.

Civil Rights

12. FINDING - The Department of Community Affairs did not receive any complaints for Fiscal Years 1984 and 1985 which would require a report to the Equal Employment Opportunity Commission.

NO RECOMMENDATION.

Cash Management

13. FINDING - The Department of Community Affairs has developed and has been operating with written procedures to assist in the drawdown of its Federal Grant Funds under Letter-of-Credit. These procedures appear to adequately minimize the length of time between cash drawdowns and the disbursement of funds while keeping federal disbursements limited to the

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government's immediate needs. As evident in the prior year's audit report, grant programs funded by U. S. Treasury checks accounted for surplus cash balances on hand. Cash drawdowns were not made until a need was substantiated.

NO RECOMMENDATION.

Federal Financial Status Reports

14. FINDING - Financial Status Reports (SF-269) were reviewed for all applicable federal grant programs. There has been a significant improvement in the timeliness of the submission of these reports for Fiscal Year 1984 up to and including March 1985. The tests conducted by the audit team did not identify any errors for the grants listed in the Schedule of Active Grants Awards, which is located within this report.

NO RECOMMENDATION.

Matching Requirements

15. FINDING - The Department lacked adequate documentation to readily identify the nonfederal contributions claimed as the matching share of grants. We could identify matching on a grant by grant basis, but could not verify that the contributions were not included as matching for any other program as stipulated in OMB Circular A-102, Attachment F, Section 3-b(2).

IT IS RECOMMENDED THAT the Department comply with OMB Circular A-102, Attachment F, and ensure that contributions claimed as matching share are verifiable from the grantee's records.

Community Development Block Grant Numbers B-82-DC-10-0001, B-83-DC-10-0001, B-84-DC-10-0001, and B-85-DC-10-0001

16. FINDING - We reviewed the CDBG programs at the towns of Milford, Blades, Bridgeville, Laurel, and Felton. We reviewed the CDBG files of the aforementioned towns, and the correspondence files at the Division of Housing. We also reviewed the "Policies and Procedures of the Community Development Block Grant Program" promulgated by the Division of Housing and Community Development, Department of Community Affairs, which operates the CDBG programs. The evidence indicates that the policies and procedures are not comprehensive enough to govern the CDBG programs effectively as outlined in our Findings 8, 9, 17, 18, and 19 of this report. It also appeared that subrecipients are not adhering to the existing policies and procedures.

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IT IS RECOMMENDED THAT the Department of Community Affairs develop comprehensive policies and procedures to govern the CDBG programs from the initial stages of application for funds, up to and including the final close out. It should be the Department's responsibility to ensure that the subrecipients adhere to and understand these policies and procedures.

Site Visits to Selected Towns

17. FINDING - After reviewing the town files maintained at the Division of Housing and interviewing CDBG related personnel in the selected towns for Grant number B-83-DC-10-0001, the evidence indicated a deficiency in the procedures utilized in conducting site visits. It appears that the suggested monitoring checklist used by the Division of Housing is not comprehensive enough to satisfy the State's responsibilities under Volume 24, Code of Federal Regulations (CFR), Section 570.488, and the required responses to the checklist review steps lack the detail needed to substantiate a conclusion. It should also be noted that during Fiscal Years 1984 and 1985, site visits were not made on a regular basis. Time and attendance records were not being maintained by the towns to document salary costs of \$102,089 allocated to the CDBG Program in accordance with OMB Circular A-87. Had the Department included appropriate enforcement provisions in its contracts, we would have questioned the costs of \$102,089 allocated to the CDBG program. The administrative costs allocated to the CDBG projects, \$274,503, did not appear to bear a direct relationship to the benefit received. Individual projects did not progress at a reasonable rate as might be expected in the construction industry. We found several instances where contracting activity was not opened to competitive negotiation in accordance with OMB Circular A-102 and Title 29, Chapter 69, Delaware Code. It should be noted that the "Policies and Procedures" of the CDBG Program did not address this subject.

IT IS RECOMMENDED THAT (a) a work program be developed that would require the documentation of the specific items examined and the results of such tests; (b) site visits be made not only to the towns' CDBG Office but also to the actual construction site more frequently than once a year; and (c) the Division of Housing document and report on instances where towns fail to comply with the terms of the agreement with the Department, the OMB Circulars and the Delaware Code.

Technical Assistance Grants

18. FINDING - The Department of Community Affairs receives a CDTA Number B-84-SK-10-0001 to aid in the management of CDBG. Based on our review of files maintained at the Office of the Secretary, the Division of Housing, the selected towns and after performing a review of the site visits check list and personnel job specifications, the evidence

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indicates that technical assistance furnished to the towns/subgrantees was not adequate to ensure adherence to 24 CFR 570, 13 CFR 307, and the applicable OMB Circulars. The lack of technical assistance has caused insufficient financial reporting and monetary control at the subrecipient level.

IT IS RECOMMENDED THAT CDTA be made available to subrecipients in accordance with 24 CFR 570, 13 CFR 307, and the applicable OMB Circulars.

Grant Applications

19. FINDING - We reviewed the applications for CDBG funds submitted by the towns/subrecipients to the Department of Community Affairs. Based on our review, it appears that applicants for CDBG funds are not fully disclosing income or revenue from other sources, e.g. program income, federal grants, loan repayments, or carry over funds from a previous fiscal year, so as to justify their need for funding in their applications for funds. It should be noted, however, that the Department's application procedures do not specifically require full disclosure on the part of the applicant.

IT IS RECOMMENDED THAT the Department of Community Affairs implement policies that would require full disclosure of a CDBG applicant's financial status.

20. FINDING - During our review of the CDBG, it was noted that an excessive amount of contract extensions were requested by subrecipients. The evidence indicates that extensions were being used to carry unexpended grant funds into the next fiscal year. Prior to July 1982, when Housing and Urban Development (HUD) administered the CDBG funds, contract extensions were not monitored for excessiveness. It appears that the subrecipients were considering the policies of HUD to be a precedent for current CDBG operations. It should be noted that Title XVII of the Omnibus Budget Reconciliation Act, 1981 states ". . . Congress intended that the responsibility for interpreting and implementing the Block Grant statutes be placed squarely on the states Thus the states have been given maximum discretion and flexibility for administering the programs, and the administration has adopted a policy of not intruding on the States' prerogatives to exercise this discretion."

IT IS RECOMMENDED THAT (a) the Department enforce the close out of CDBG in accordance with announced departmental policies, and (b) the Department adapt a firm policy requiring strict adherence by subordinate divisions and subrecipient to departmental policies and provisions of the Omnibus Budget Reconciliation Act of 1981.

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Bids and Contracts

21. FINDING - On October 16, 1984, the Department renewed the contract to render transportation to the Sussex County Foster Grandparent Program for \$28,486.50 that was originally signed on October 28, 1982, as Number 82-1. We could find no evidence that this contract was open to competitive negotiations. Title 29, Chapter 69, Section 6903(e), Delaware Code, requires that contracts exceeding \$20,000 be publicly advertised and sealed bids be requested. The renewal agreement has the effect of denying open competition to furnish this service. Department personnel indicated that they felt this was an acceptable practice in that only one vendor was the respondent in the past. In an effort to resolve the difference of opinion on contracting methods, this Office is requesting that the Attorney General render an opinion on the subject.

IT IS RECOMMENDED THAT the Department comply with the Delaware Code, as cited above, on advertising and bidding of contracts.

22. FINDING - We found that the Department had in use policies that were serially numbered, policies pertaining to financial matters that were undated and not numbered, and an administrative manual that did not make reference to all departmental guidelines. Under this system it would be impossible for new employees or staff members to be aware of all existing operating instructions.

IT IS RECOMMENDED THAT all departmental policies be centrally controlled through the Department's administrative manual.

The findings and recommendations presented in this Letter Audit Report were discussed and fully explained to auditee officials on July 23, 1985.

Those in attendance representing the Department of Community Affairs were The Honorable Frances M. West, Secretary, and Mr. G. Gardner Shugart, Controller.

Representing the Office of Auditor of Accounts were Mr. Ralph A. Mills, Field Audit Manager, Mr. Hampton H. Trigg, and Mr. Randell G. Coe, Audit Supervisors. Those individuals who worked on the audit but did not attend the exit conference were Mr. Frederick L. Hildebrandt II, Mr. Mario V. Spitelli, Sr., Mr. Kevin M. Baker, and Mr. John W. Marinucci, State Auditors.

We extend our appreciation to Secretary West and the entire staff for courtesies rendered during the audit examination.

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Please respond, in writing, to this report within 30 days, specifying what action has been taken to resolve discrepancies detailed in this report.

Sincerely yours,

OFFICE OF AUDITOR OF ACCOUNTS



Dennis E. Greenhouse
Auditor of Accounts

DEG/RAM/tlv

cc: The Honorable Charles M. Oberly III, Attorney General
The Honorable William E. Buxbaum, Secretary, Department of Finance
The Honorable Stephen T. Golding, Budget Director
The Honorable G. Donald Dryden, Controller General
The Honorable Ruth Ann Minner, Chairperson, Community Affairs
Committee
The Honorable George R. Quillen, Chairperson, Community Affairs
Subcommittee