

Summary of DECD Audit Report

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Issue

Summarize the February 16, 2017 [audit](#) of the Department of Economic and Community Development (DECD) for FYs 13 and 14, focusing specifically on the findings concerning specific economic development programs, such as Small Business Express (EXP).

Summary

The auditors found 18 "reportable matters" in the way DECD managed funds (3); oversaw its housing (3) and economic development programs (4); managed property and control inventory (2); and complied with various personnel (2), administrative (3), and Freedom of Information (1) requirements. The auditors also recommended how DECD should address each matter. In doing so, they repeated or restated 12 recommendations from the previous audit.

The auditors reported that DECD accepted most (14) of their findings and included in the report DECD's statements describing the steps it took to address a problem or explaining why it disagreed with a reportable matter. DECD disagreed with four findings, three of which concern housing programs transferred from DECD to the Department of Housing on July 1, 2013. The other finding concerned DECD's oversight of organizations it retained to make and service Small Business Express (EXP) program loans (i.e., lending partners).

Economic Development Program Audits

Among other things, PAs [17-219](#) and [17-226](#) require the auditors to assess the performance of business assistance and incentive programs and report the results to the Appropriations; Commerce; and Finance, Revenue and Bonding committees, which must hold hearings on the reports. The auditors must do this whenever they audit DECD, either as part of a regularly scheduled audit or as a stand-alone audit.

Table 1 summarizes the reportable matters that specifically pertain to EXP and DECD's other economic development programs. As the table shows, three of the findings concern DECD's oversight of the organizations and businesses that administer or receive DECD funds; one concerns an error DECD made in setting the terms for calculating administrative fees.

Table 1: Auditors' Report for DECD FYs 2013 and 14: Summary of Findings Pertaining to Economic Development Programs

<i>Issue</i>	<i>Finding</i>	<i>DECD Response</i>
Inadequate Monitoring of Unused Bond Allocations (pp. 12-13)	DECD did not implement formal policies and procedures for monitoring unexpended fund balances for canceled or completed projects, which increased the chances that these unexpended funds are returned to their original funding source in a timely manner	DECD reported that it completed the implementation of the auditors' recommendations on July 1, 2015
Inadequate Monitoring of Manufacturing Assistance Act (MAA) and Urban Act (UA) Programs (pp. 30-33)	DECD did not keep close tabs on several MAA and UA projects: <ul style="list-style-type: none"> • Several projects missed deadlines for submitting various reports, including job creation audits • DECD did not review several project audits until 10 to 13 months after it received them 	DECD agreed with the finding and updated its procedures, including eliminating unnecessary and duplicative requirements that triggered the audit finding
Inadequate EXP Compliance Monitoring (pp. 33-35)	DECD did not adequately enforce program requirements or monitor expenditures, resulting in potential overpayments, penalties, untimely application of job-related loan forgiveness credits, and overstated interest accruals	DECD agreed with the finding, which it attributed to a backlog in project close outs and audits that resulted from a significant increase in loan transactions and decreased staffing
EXP Lending Partner Agreements include Unreasonable and Excessive Administrative Fee (pp. 35-37)	DECD paid unreasonable and excessive administrative fees to lending partners under the original assistance agreement	DECD recognized this problem and corrected it, as described in the report (p. 36)
Failure to Use Standard Accounting Method to Assess EXP Lenders' Loan Management Controls (pp. 37-39)	DECD has not required lending partners to demonstrate effective internal controls of loan applications and processes according to a specified accounting industry method (i.e., Service Organization Controls (SOC 1) Report)	DECD disagrees with the finding and recommendation to require lending partners to prepare SOC 1 Reports because it would unnecessarily burden them. DECD said it oversees lending partners loan application and accounting systems

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