

**DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1990**

APRIL 1991

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

91-23

DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1990

Public Release Date: April 12, 1991

No. 91-23

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Payroll, Urban Revitalization Action Program, Celebrate Minnesota 1990, Community Development Block Grant, Small Business Development Centers, Outdoor Recreation Grant, and Division of Tourism.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

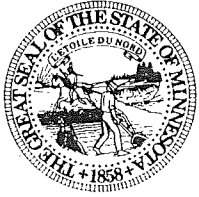
CONCLUSIONS:

We found two areas where the internal control structure needed improvement:

- Celebrate Minnesota 1990 application scoring process, grant payment authorizations, and grant closeout procedures needed improvement.
- Community Development Block Grant grantees did not submit required progress reports timely.

We found that the department had complied with finance-related legal provisions.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

E. Peter Gillette Jr., Commissioner
Department of Trade and Economic Development

Audit Scope

We have conducted a financial related audit of selected fiscal activities of the Minnesota Department of Trade and Economic Development as of and for the fiscal year ended June 30, 1990. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Minnesota Department of Trade and Economic Development, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Minnesota Department of Trade and Economic Development in effect at June 30, 1990.

We did not audit the financial activities and statements of the Minnesota Public Facilities Authority. Those statements were audited by other independent auditors. The results of their work were issued in a report dated September 26, 1990. We reviewed the audit working papers to satisfy ourselves as to the adequacy of audit coverage.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Minnesota Department of Trade and Economic Development are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Minnesota Department of Trade and Economic Development's compliance with certain provisions of laws, regulations, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Minnesota Department of Trade and Economic Development is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Due to inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Payroll;
- State Grant Programs:
 - Urban Revitalization Action Program (URAP)
 - Celebrate Minnesota 1990
- Federal Grant Programs:
 - Community Development Block Grant (CFDA #14.228)
 - Small Business Development Centers (CFDA #59037)
 - Outdoor Recreation (CFDA #15916)
- Division of Tourism - Disbursements

For the grant programs listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk. We did not evaluate internal controls or test any transactions relating to the payroll except for that included in the programs and divisions listed above.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1-4 involving the internal control structure of the Minnesota Department of Trade and Economic Development. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in

Representative Ann Rest, Chair
Members of the Legislative Audit Commission
Mr. E. Peter Gillette Jr., Commissioner
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the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.


A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We do not believe the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control structure that we reported to the management of the Department of Trade and Economic Development at the exit conference held on February 21, 1991.

The results of our tests indicate that, with respect to the items tested, the Minnesota Department of Trade and Economic Development complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Department of Trade and Economic Development had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Minnesota Department of Trade and Economic Development. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 12, 1991.

We thank the Department of Trade and Economic Development staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: January 31, 1991

REPORT SIGNED ON: April 8, 1991

DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT

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AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared the report:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Steve Pyan, CPA	Audit Supervisor
Dan Quandt, CPA	Audit Staff
Ron Mavetz, CPA	Audit Staff
Eric Jacobson	Audit Staff

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Trade and Economic Development on February 21, 1991:

E. Peter Gillette	Commissioner
Bob Benner	Deputy Commissioner
Terry Pohlkamp	Director of Fiscal Services
Judy Charron	Assistant Director of Fiscal Services
Mike Auger	Manager, Economic Development Division
Louis Jambois	Director, Community Development Division

DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT

I. INTRODUCTION

The Department of Trade and Economic Development was established in July 1986. David Speer served as commissioner from December 1986 through January 1991. E. Peter Gillette succeeded Mr. Speer on February 1, 1991.

Major activities of the department include:

- administering various community and economic development grants to local units of government;
- providing economic development loans and management and marketing assistance to small business;
- conducting advertising and other marketing activities to increase travel expenditures in the state; and
- promoting international trade opportunities for Minnesota businesses.

The department serves as administrative staff for various boards and authorities. Activities of the Minnesota Agricultural and Economic Development Board, the Rural Development Board, and the Minnesota Export Finance Authority were included in the scope of this audit. The Minnesota Public Facilities Authority was not included in the scope of this audit.

Operations of the department are financed primarily through General Fund appropriations and federal grants. Fiscal Year 1990 departmental expenditures, including encumbrances, and excluding the Public Facilities Authority were as follows:

<u>Function or Activity</u>	<u>General Fund</u>	<u>Federal Fund</u>	<u>Other Funds</u>	<u>Total</u>
Tourism Division	\$ 6,944,017		\$1,198,111	\$ 8,142,128
Community Development Grant	281,450	\$18,042,646		18,324,096
Celebrate Minnesota Program	793,614			793,614
Urban Revitalization	5,000,000			5,000,000
Small Business Development Centers	101,910	1,320,409		1,422,319
Outdoor Recreation Program		356,800		356,800
Other Functions	<u>24,294,343</u>	<u>6,229,343</u>	<u>6,269,600</u>	<u>36,793,286</u>
Total Expenditures	<u>\$37,415,334</u>	<u>\$25,949,198</u>	<u>\$7,467,711</u>	<u>\$70,832,243</u>

Source: *Statewide Accounting Managers Financial Report*, as of September 1, 1990.

DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Celebrate Minnesota 1990 application scoring processes contained inequities and suffered from weak internal controls.

The procedures used to award Celebrate Minnesota 1990 grants were insufficient to assure consistent and accurate scoring of all applications. Thus, scoring errors as well as possible inequitable treatment of applicants occurred.

Celebrate Minnesota 1990 was designed to celebrate Minnesota's past, present, and promise for the future. Governor Perpich conceived the idea for the program and the Legislature appropriated initial funding during the 1988 Legislative Session. As part of Celebrate Minnesota 1990, the Legislature established a grant program. Its intent was "... to provide grants to local communities to assist and encourage them to undertake cleanup, beautification, and community improvement activities."

While the governing legislation provided general guidance, the Community Development Division was primarily responsible for establishing specific grant application and award standards. The staff generated an application package which contained instructional materials with a standardized application form. Also, an informational and educational seminar was conducted for interested parties. Each returned application was reviewed by one member of the division's staff. The reviewer assigned a numerical score to the application based on judgments about how well the proposal met program criteria. The division's program manager led a group discussion of all reviewers. A numerical ranking list was generated and available funds were awarded based on that list.

The enabling legislation provided that grants:

... must be matched by the recipient community from nonstate sources...at a rate of at least \$3 of nonstate money or contribution for each \$1 of state money.

The Community Development Division designed grant program requirements accordingly. The application manual specifically stated:

...each applicant's request will depend on the scope of the project and the amount of matched funds that they are able to raise and document.

It also stated:

Incomplete applications (i.e. missing supporting documents, etc.) will not be considered for funding.

According to the staff, the division designed the application requirements to eliminate having to make judgments about an applicant's ability to meet legislative match provisions.

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The grant award process was substantially flawed by the following procedural weaknesses:

- Application provisions requiring documentation of local match were not enforced.
- Procedures were not sufficient to detect scoring errors. The scoring and rating system allowed only one thorough review of each application.

The Community Development Division recognized these weaknesses but believed that they did not have an adverse effect on the award process. Additionally, when it became known a second round of awards would be funded, the division took steps they thought would mitigate these weaknesses.

The original \$700,000 appropriation was sufficient to fund only 85 of the 328 applications submitted and reviewed. Thus, the department requested additional funds. The 1989 Legislature appropriated another \$1,000,000 with the provision that funds be used only for existing applications.

The department contacted all high ranking unfunded applicants. Standard letters asked these applicants if projects had been completed, if matching funds remained available, and if interest was still present. In general, the department did not solicit additional information clarifying the original application. Many unfunded applicants did, however, volunteer additional or clarifying information in their response to the department.

The department revised the original ranking list to reflect all revisions made. The funds available in the second appropriation were distributed according to the revised list.

In our opinion, score revisions made while awarding the second appropriation were improper in two respects.

- Most revisions were not sufficiently documented in program files.
- Not all unfunded applicants were given equal consideration or opportunity for score revisions.

The department was aware of weaknesses in the original scoring process. Due in part to that awareness, applications were reviewed for errors when an applicant asked for reconsideration or when staff happened to locate errors during the normal work routine. Score revisions were made when they determined that scores did not adequately reflect the project's relative merits. Primarily due to time and staff constraints, the division did not attempt to review all unfunded applicants, even though several errors had been noted.

In conclusion, we believe the errors indicate that the original scoring process was unreliable. The department should have improved the original process or conducted a comprehensive review of all applications.

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RECOMMENDATION

- The Community Development Division should review its grant methodology and consider weaknesses in the Celebrate Minnesota 1990 process when designing future grant-in-aid programs. Special attention should be given to documenting local match and reasons for score revisions.

2. Celebrate Minnesota grant payments were not properly authorized.

Grant payments were authorized by DTED staff unfamiliar with progress on grant projects. Celebrate Minnesota grant provisions allowed the department to withhold payments of grants until satisfactory progress had been documented. The provision was designed to serve as an incentive for grantees to fulfill the grant agreement. Also, state funds are to be retained in the state treasury until evidence of local expenditure or obligation had been made.

Because many of the grantees were small volunteer organizations which were dealing with the department for the first time, this disbursement control was of particular importance. In addition to being unaware of all the intricacies of filing spending reports, they might not have had the financial capability of covering unallowed expenditures.

Presently, the Community Development Division's fiscal agent authorizes payments. This person is not familiar with progress made on individual grant projects. The grant coordinator, who would be knowledgeable on a certain project's progress, typically does not authorize payments. To provide adequate protection of state funds and to minimize the amount of time such funds are held on the local level, only the grant coordinator must authorize payments, after determining that satisfactory progress had been made.

RECOMMENDATION

- The Celebrate Minnesota grant coordinator should approve all payments after sufficient review of supporting documentation.

3. Grant closeout procedures have not been completed timely.

Celebrate Minnesota grants are not being closed out within a reasonable amount of time. The department's grant closeout procedures are designed to make a final determination of whether the grantee has met all grant requirements. If the action is not done in a timely manner, the state has increased its risk of loss regarding ineligible funds. Also, unused state funds being held in local accounts may result in an income loss for the state treasury.

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The closeout procedures involve a project invoice review to verify expenditure eligibility and local match requirements fulfillment. Currently, the staff have not finished closeout procedures in 85 percent of completed projects. In many instances, the grantee had submitted final project materials over six months ago.

Timely closeouts are necessary to allow efficient recovery of unspent state funds or reimbursement of funds spent on ineligible items. These types of procedures are often less effective when not applied timely. Committees which administered certain projects may have disbanded. Also, it may be difficult to retrieve supporting invoices and judge expense eligibility.

RECOMMENDATION

- The Community Development Division should review final reports and close Celebrate Minnesota individual projects as soon as possible.

4. CDBG grantees do not consistently submit required progress reports timely.

Community Development Block Grant (CFDA #14.228) recipients have not submitted progress reports within prescribed deadlines. The Community Development Division staff established program requirements which included an agreement that grantees would submit progress reports. The responsible grant analyst needs the reports to make reimbursement eligibility determinations.

All grant agreements include a clause which states, in part, "Grantee shall submit to Grantor a progress report... . These reports must be received by Grantor on the 25th day of the month following the report period." The report periods end on June 30 and December 31. We tested 30 grantees to determine compliance with December 31, 1989, and June 30, 1990, reporting deadlines. Eighty-one percent of these progress reports tested were not received by division staff within the required period.

The division staff realizes the problem exists and many of the grantees are not in compliance with agreements as a result. The division director sent a memorandum on January 4, 1991, to all CDBG grantees which reminded them of the need to submit timely reports. The director emphasized that a consistent failure to meet report deadlines may result in a grant fund freeze.

We believe the division could also more actively monitor the submission timeliness. Contacts should be made after deadlines have not met, particularly in cases of extreme tardiness.

RECOMMENDATION

- The Community Development Division should actively monitor all grantee files to assure the timely submission of progress reports.

March 27, 1991

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Re: Response to OLA's Draft Audit of the Department of Trade and Economic Development.

Dear Mr. Nobles:

Thank you for the opportunity to review the draft management letter based upon your financial and compliance audit of the Department of Trade and Economic Development for the year ended June 30, 1990. I appreciate the opportunity to respond for inclusion in the final management letter. The responses will focus on the findings and recommendations contained in Section II of your report.

II. Current Findings and Recommendations.

1. Celebrate Minnesota 1990 application scoring processes contained inequities and suffered from weak internal controls.

1.a. Application provisions requiring documentation of local match were not enforced.

MN Laws 1988, Ch. 686, Art. 2, Sec. 1, Subd. 2 states the "Grants made under this section: (2) must be matched by the recipient community from nonstate sources in the form of money, materials, services, or volunteer labor, at a rate of at least \$3 of nonstate money or other contribution for each \$1 of state money, with the amount and the kind of match for each grant determined by the commissioner."

There are several points to be made about this citation. First, the law states that grants must be matched three to one, not applications. We chose to ask applicants to document their match in the applications for two reasons. First, it would provide us with an indication that some community project organizing had taken place and the applicant was serious about their project. Second, it provided us with a measure of confidence that the applicants could actually conduct their project as proposed if their local match was in place. In that respect, we attempted to factor match into application scoring -- if the local match was insufficiently documented, the applicants scored lower in the ranking system because we questioned their ability to do their projects.

Match, as cited in the law however, was not required with the application. The grant had to be matched. The division has built many safeguards into the project management system to assure that funded applications documented proper match. Figures being kept by our program administrator suggest that grantees are exceeding their match at closeout by an average of 20%.

It must also be noted that if the division refused to award grants to applicants that did not sufficiently document match, we would not have awarded all of the funds. At least two thirds of our applications did not sufficiently document match. Not awarding grant funds when we received 328 applications and when the law states that grants must be matched, would have been inexcusable.

The legislature was clearly aiming the grant program at grass roots organizations. The law defined eligible applicants as cities, towns, "community improvement or development organizations" of Indian tribes. Many applicants were JC or similar clubs or were very small cities and townships. Many applicants had no experience with government programs of strict government requirements. Because of the size of the grant program (only \$700,000 when applications were being reviewed), the size of the average grant request (\$2,500), the type of applicants and the types of projects targeted for funding by the legislature, we discouraged applicants from hiring consultants to prepare grant applications. We believed that most organizations could follow our application instructions well enough to prepare passable applications. And most did. From the applications, we generally knew what the applicants planned to do, how much money was needed to do it, and that their project was connected in some way to a 1990 celebration. But most applications were short on specifics -- and given the nature of the program, that was to be expected. (This wasn't the multimillion dollar Small Cities Development Program, it was the very small CM 1990 program.) In that light we awarded grants to communities that insufficiently documented match. We also awarded grants to communities that vaguely described celebrations, and to communities that sent us unprofessional site maps. A review of our closed out projects clearly indicates that the communities conducted their own projects, more than adequately matched their grants, and held their 1990 celebrations. So it appears to us that funding less than perfect applications has had no adverse impact on final accountability for the funds.

- 1.b. Procedures were not sufficient to detect scoring errors. The scoring and rating system allowed only one thorough review of each application.

Grant applications were due on Friday, December 16, 1988. Three hundred and twenty eight (328) arrived. It took the entire following week to simply count and organize the applications. The week after that was the Christmas holiday, which disrupts workflow and slows productivity. We began our application review in earnest just before the new year.

Prior to dividing the review among seven professional staff people, we developed an application review form which was to be used by all reviewers for each application review. The purpose of the form was to attempt to have seven people review and rank 328 applications in as consistent a manner as possible. We pre-tested the review form on an actual application in an effort to determine whether the forms and the staff's use of the forms would be uniform. Both the staff and the form passed the pre-test.

The staff selected to review the CM 1990 grant applications were the staff who were responsible for the administration of the Small Cities Development Program (SCDP), the Urban Revitalization Action Program (URAP), and the County Capitol Improvement Review Program. No administrative money was provided by the legislature for the CM 1990 program and no additional staff were hired to administer the program until October, 1989. The amount of money appropriated for CM 1990 (\$700,000) was very small relative to the SCDP or URAP. Those two programs were still our top priorities administratively.

The 328 applications were divided up equally among the review staff. Each application was reviewed and scored by a single staff person. The staff was instructed to have their reviews done by January 27, 1989 - the deadline date for submission of FY89 SCDP applications. We needed to complete the CM 1990 application review by the time SCDP applications arrived. We could not jeopardize the integrity of our \$18 million SCDP program for the CM 1990 program. That means staff had only four weeks to review 328 applications while simultaneously performing their normal activities, including pre-deadline technical assistance for prospective SCDP applicants.

After the staff review and scoring was complete, the community assistance unit met as a group to conduct the application ranking. That process consumed most of the week of January 30, 1989. The purpose of the group meeting was to assure, to the extent possible, that applications were reviewed and scored consistently. We ranked the applications in priority order, one through 328.

The top and bottom 75 applications were fairly easy to rank. In the case of the top 75 or so, applications were thoroughly prepared and information was well documented. In the case of the bottom group, it was equally apparent that the applicants missed the point of the program. But those two groups represent less than half of the applications submitted. The remainder of the applications, even for experienced, professional reviewers, were very difficult to score. There was tremendous similarity of project types and application deficiencies. Had each application been reviewed by two reviewers, (the SCDP method) or more time been available to follow up with applicants to clarify information, perhaps our review would have been better. But we had SCDP applications to review, so we used our best judgement at the time and ranked the applications.

- 1.c. Most revisions were not sufficiently documented in program files.

- 1.d. Not all unfunded applicants were given equal consideration or opportunity for score revisions.

We funded the top 84 projects with the initial appropriation of \$700,000 on February 27, 1989. Staff prepared an implementation manual and a grantee implementation training session was held.

Over the next several months rejected applicants approached us to dispute our scores. In some cases, we determined they had a case. In other cases, we determined they didn't. Staff also had reservations about a few of the assigned scores. After all, a single point could make a difference between receiving a grant or receiving a rejection letter. When the legislature appropriated \$1.0 million during the 1989 session we had an opportunity to reconsider some applications. We did not re-rank the entire list. Rather, we made a few adjustments on a case-by-case basis. We acknowledge that we did not adjust the original scoring sheets. Instead, we let the additional materials submitted by the applicants stand on its own.

The draft report is also correct in its assertion that we did not contact all unfunded applicants to request additional information to clarify their original applications. We contacted those applicants whose original applications represented, in our opinion, the potential to result in an eligible project that met the program's primary intent. As stated earlier, many applicants proposed projects that clearly did not meet the program requirements. Our understanding of your concern in this area is that your staff concluded that we should have contacted more of the unfunded applicants than we did. Exactly how far we should have proceeded down the unfunded list to request additional information is certainly a judgement call. In this case, our judgement is different than yours.

Not incidentally, the staff conducting the unfunded applicant contacts and subsequently awarding the second round of grants were simultaneously reviewing SCDP applications, URAP applications, and managing the existing project caseloads for both those programs and the first round of CM 1990 grants. Your suggestion that "The department should have improved the original process or conducted a comprehensive review of all applications" was simply not possible given the availability of staff and their existing workload.

Again, given the time available to review the applications, the method of application review, the quality of the applications themselves, the sheer volume of applications to review, and a general staff shortage, your comments regarding the program are not totally surprising. In all likelihood, seven different reviewers would have produced a different ranking list, particularly in the middle to the list. Yet, the ranking was as consistent as possible. Professional reviewers did the job, review forms were developed and utilized, and a group session was conducted to prevent individual bias from entering

the ranking process. The result, in our opinion, is that we awarded grants to the most deserving 185 applicants.

Most importantly, the grant awards were equally distributed around the state - there is no one area that received a disproportionate number of awards or rejections. Because the reviews were assigned to the reviewers on a regional basis, this strongly suggests that no reviewer was particularly lenient or critical in their review applications.

Response: If we were assigned new grant programs by the legislature, we would use our experience with the CM 1990 program to organize and manage them. First and foremost we would require an appropriation for administration staff. A program that attracts 328 applicants cannot be properly managed by part-time staff. Secondly, with each experience, we learn which procedures and techniques work under specific circumstances and which do not. We can then apply that knowledge to new programs. Finally and most importantly, the first year of managing any program is always the most difficult. While all grant programs share common characteristics, each program has many unique characteristics as well. Problem areas are not always readily apparent until after the fact. Time and experience play major roles in program management. The solid management you recognized in the SCDP and URAP programs is a reflection of both the priority we placed on these programs and the many years we've had to improve our administration of them.

2. Celebrate Minnesota grant payments were not properly authorized.

Response: Since August 1990, all grant payment requests are reviewed and approved by the Celebrate Minnesota program coordinator after review of the supporting documents.

3. Grant close-out procedures have not been completely timely.

Response: Grant close-out procedures for the Celebrate Minnesota program were accelerated in August of 1990. At the present time, 43 of the 185 grants (23%) have been formally closed. Plans and schedules have been established to ensure that virtually all Celebrate Minnesota grants will be closed by June 30, 1991.

4. CDBG grantees do not consistently submit required progress reports timely.

Response: The assertion that many grantees miss their progress report deadlines is correct. It must be noted, however, that all grantees eventually do submit progress reports which are subsequently consistently reviewed by state staff for completeness and accuracy. So the problem is not that we don't get the required reports, it's that the reports are frequently tardy.

Mr. James R. Nobles
March 27, 1991
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In an effort to prompt grantees to submit their progress reports in a more timely matter, we have begun notifying grantees prior to the submission deadline that tardy progress reports will result in a grant payment freeze. After fifteen grantees missed our January 25, 1991 deadline, we made good on our threat by freezing their payments.

We must be realistic about progress report submission expectations, however. Grantees who are not expecting to draw grant funds around the time of our progress report deadlines are not going to be affected by payment freezes. Delinquent progress report submissions from some of them is inevitable. Moreover, freezing grant payments is the most severe punishment we can deliver short of canceling the grant entirely or requiring a refund of grant monies. And both of those punishments are too severe for a relatively minor offense. Consequently, while we expect reminder notices and grant payment freezes to improve timely submission of progress reports, we know we will never get 100% compliance.

This concludes my comments. If you have any questions, please call Robert Benner at 297-2515.

Sincerely,


E. Peter Gillette
Commissioner