

# Department of Commerce

Summary of Audit Work in Support of Statewide and Single Audits  
Audit Periods Ending June 30, 2023

To: Legislative Audit Committee

From: Shandell VanDonsel, Financial – Compliance Audit Supervisor

Cc: Paul Green, Director  
Mandy Rambo, Deputy Director  
Cheryl Cohen, Housing Division Administrator  
Ingrid Mallo, Financial Manager

Date: September 2024

Re: Single Audit and Statewide Audit Support Work: Montana Department of Commerce





## **Introduction**

The Montana Department of Commerce (department) provides financing for businesses, homeownership, and rental assistance; promotes tourism, travel, and filmmaking in Montana; manages the state's investment activity; manages and preserves historical cultural properties and artifacts; and regulates the live and simulcast horse racing industry. The department includes the Board of Housing, Board of Investments, and Facility Finance Authority. The financial statements for these entities are audited by Legislative Audit Division under separate stand-alone engagements.

## **Summary of Audit Work in Support of Single Audit**

*The department's internal controls and compliance with federal program requirements needs improvement. We identified six material weaknesses in internal controls and five instances of material noncompliance in three federal programs.*

We audited four federal programs administered by the department. The following describes the purpose of each federal program and depicts normal grant expenditures in comparison to Covid-related expenditures for the audit period.

Federal Program	Federal Expenditures		Purpose	% COVID-related
	FY2022	FY2023		
Section 8 Project-Based Cluster reference: ALN 14.195, 14.856	\$28M	\$29M	Aid low, very-low, and extremely low income families in obtaining decent, safe, and sanitary rental housing by providing assistance payments to participating owners on behalf of eligible tenants.	
Housing Voucher Cluster reference: ALN 20.509	\$23M	\$24M	Provide rental assistance to help very low-income families afford decent, safe, and sanitary rental housing.	
Emergency Rental Assistance reference: ALN 21.023	\$60M	\$73M	Provide assistance to eligible households with financial assistance for rental and associated utility costs and provide housing stability services.	
State and Local Fiscal Recovery Fund reference: ALN 21.027	\$18M	\$34M	The significant programs administered by the department included Gap Financing and the Down Payment Assistance program.	

We identified the following issues related to the department’s administration of three of the audited federal programs.

Section 8 Project-Based Cluster

**AUDITOR’S OPINION – QUALIFIED**

**Finding 2023-008**

*Material Weakness in Internal Control and Material Non-Compliance*

The department did not process payments in the timeframe required by the Treasury State Agreement (TSA). Since the department made payments outside of the schedule in the TSA agreement, the department’s controls are insufficient to ensure they are following the TSA agreement. Additionally, the department’s controls were insufficient to ensure the TSA agreement matched business practice in fiscal year 2022.

**Department response: Concur**

**Finding 2023-006**

*Material Weakness in Internal Control*

The department uses the Housing Assistance Payment Plan Yearly (HAPPY) system to assist in administering both the Housing Vouchers Cluster program and the Lower Income Housing Assistance - Moderate Rehabilitation Program, which is part of the Section 8 Project-Based Cluster. The department’s controls over HAPPY are insufficient to ensure state information security policy requirements are followed.

**Department response: Concur**

Housing Voucher Cluster

**AUDITOR’S OPINION – QUALIFIED**

**Finding 2023-006**

*Material Weakness in Internal Control*

The department uses the Housing Assistance Payment Plan Yearly (HAPPY) system to assist in administering both the Housing Vouchers Cluster program and the Lower Income Housing Assistance - Moderate Rehabilitation Program, which is part of the Section 8 Project-Based Cluster. The department’s controls over HAPPY are insufficient to ensure state information security policy requirements are followed.

**Department response:** **Concur**

**Finding 2023-004**

*Material Weakness in Internal Control and Material Non-Compliance*

The department’s controls were insufficient to ensure monthly reports submitted through the federal Voucher Management System (VMS) were accurate during the audit period. The department submitted inaccurate VMS reports during the audit period.

**Department response:** **Concur**

**Finding 2023-005**

*Material Weakness in Internal Control and Material Non-Compliance*

The department’s internal controls did not ensure rental property inspections were completed as required in fiscal years 2022 and 2023.

**Department response:** **Concur**

**Finding 2023-007**

*Material Weakness in Internal Control and Material Non-Compliance*

The department did not select participants for the Vouchers program from the waiting list as specified in their administrative plan, indicating the department’s controls were insufficient to ensure compliance with federal regulations.

**Department response:** **Concur**

Emergency Rental Assistance

**AUDITOR’S OPINION – QUALIFIED**

\$154.6K

Known Questioned Costs

**Finding 2023-016**

*Material Weakness in Internal Control and Material Non-Compliance*

The department’s internal controls were not sufficient to ensure that only eligible individuals received assistance. This resulted in questioned costs of \$154,648.

**Department response:** **Concur**

State and Local Fiscal Recovery Fund

**AUDITOR’S OPINION – QUALIFIED**

While issues identified in this federal program at other state agencies resulted in the qualified opinion, we identified no issues related to the State and Local Fiscal Recovery Funds administered by the department.

**Other Single Audit Related Information**

At the end of fiscal year 2023 the Emergency Rental Assistance program was starting to wrap up. The last assistance payments were provided during the beginning of fiscal year 2024. This program is not anticipated to be a major federal program in future single audits.

At times during the audit, the department did not fulfill information requests in a timely manner. The delays, ranging from 2 to 4 weeks of time, were caused by department staff unfamiliarity with the audit process and single audit requirements. We consider these delays significant as they resulted in extending the period of calendar time needed to complete our audit work by nearly three months.

**Summary of Audit Work in Support of Statewide Audit**

*We did not identify recommendations over the department's audited financial activity.*

Audit work for fiscal year 2022 and 2023 focused primarily on expenditures, cash, and deferred revenue for the emergency rental assistance and state and local fiscal recovery programs. Additionally, our audit work considered local government investments balances, contributions, and distributions. The bonds issued by the Board of Investments were also considered. Audit work was also performed related to amounts reported on the Schedule of Expenditures of Federal awards (SEFA) for the major programs explained above.

We audited the following financial activity of the department in support of our audit on the state's Annual Comprehensive Financial Report (ACFR):

**Department of Commerce**

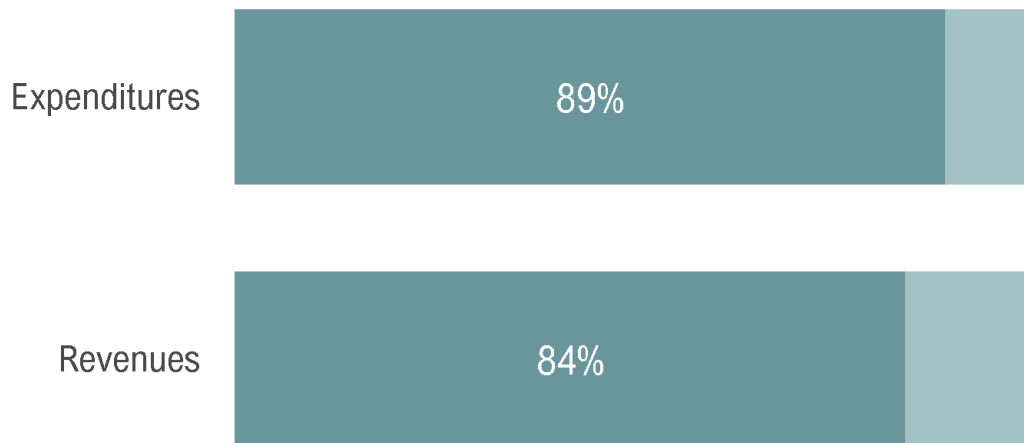
Financial Activity Audited in Support of the State's ACFR

ACFR Opinion Unit	Activity Audited	FY22 Amount Audited	FY23 Amount Audited
Federal Special Revenue Fund	Cash & Cash Equivalents	\$141.2M	\$66.8M
	Deferred Revenues	\$140.8M	\$65.0M
	Current Expenditures	\$76.8M	\$68.4M
	Federal Revenue	\$60.3M	*
State Special Revenue Fund	Current Expenditures	\$64.0M	*
Remaining Fund Information	Cash & Cash Equivalents	\$1.8B	\$1.8B
	Net Assets	\$1.8B	\$1.8B
	Contributions	\$1.3B	\$1.6B
	Distributions	\$1.3B	\$1.7B
Business-Type Activities	Short-Term Debt	*	\$68.7M
	Long-Term Loans	\$42.3M	*
	Receivables	\$7.3M	*
	Long-Term Liability	\$68.7M	*
Governmental Activities	Deferred Revenue	\$140.8M	*

\*No audit work performed in support of the State's ACFR.

The figure below depicts the portion of the department's revenues and expenditures that were considered material to the state, as a whole, for fiscal year 2023.

Over half of Commerce's revenue and expenditures was considered **risky and audited by us** for the statewide audit.



**Prior Audit Recommendations**

Our prior Financial-Compliance audit of the department (#21-16) contained four recommendations.

We determined the implementation status of these recommendations as follows:

Fully Implemented: 4

Partially Implemented: 0

Not Implemented: 0