

STATE OF NEVADA

Performance Audit

Department of Business and Industry
Housing Division

2017



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of performance audit report on the Housing Division issued on January 17, 2018. Legislative Auditor report # LA18-11.

Background

The Housing Division of the Department of Business and Industry was created by the Nevada Legislature in 1975 to diminish the shortage of safe, decent, and sanitary housing throughout the State for persons and families of low and moderate income. The mission of the Division is to provide affordable housing opportunities, improving the quality of life for Nevada residents.

As of December 2016, the Division had 32 approved, full-time positions, 4 of which were vacant. The Division's expenditures totaled more than \$19 million in fiscal year 2016. In fiscal year 2016, the Division received approximately \$5 million in federal funding. The Nevada Real Property Transfer Tax and the Universal Energy Charge are other significant sources of income for the Division.

Purpose of Audit

The purpose of this audit was to: (1) determine whether the Housing Division effectively monitored grant and tax credit recipients to ensure compliance with applicable laws and regulations, and (2) evaluate the internal controls, usefulness, and accuracy of the Division's performance measures. This audit included a review of monitoring activities in calendar year 2016 and performance measures for fiscal year 2016.

Audit Recommendations

This audit report contains two recommendations to improve the accuracy and usefulness of the Division's performance measures. The Division accepted the two recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on April 12, 2018. In addition, the six-month report on the status of audit recommendations is due on October 12, 2018.

Housing Division

Department of Business and Industry

Summary

The Housing Division effectively monitored low-income housing properties funded by federal tax credit and grant programs to ensure significant program, project, and financial requirements were met. Compliance monitoring staff annually inspect properties that provide housing for thousands of families. These inspections ensure numerous requirements are met on an ongoing basis, including many related to safe and sanitary conditions. The effective monitoring is the result of controls established by the Division to ensure inspections are done timely and thoroughly.

The Division needs to improve its performance measures used in the state's budget process. Specifically, better controls are needed to ensure the measures reported in the Executive Budget are accurate and reliable. In addition, the Division's measures used in the budget process need to be revised to better reflect the accomplishments of the Division's programs and key activities. Performance measures facilitate accountability and provide an opportunity to evaluate success in achieving goals. Measures must be reliable and applicable to the agency to help the Governor, Legislature, and agency officials make informed budgetary and policy decisions.

Key Findings

We tested 50 of 273 properties the Division currently monitors and found the Division timely and thoroughly monitored them in calendar year 2016. These properties are comprised of approximately 23,000 housing units. The thoroughness and quality of the Division's monitoring provide assurance that families are housed in safe conditions, charged appropriate rent, and are eligible for the programs. Timely and effective monitoring ensures problems are corrected quickly and reported to federal agencies when appropriate. Finally, monitoring properties in accordance with federal requirements helps ensure the State qualifies for future federal funding. (page 4)

The Division has developed various controls to ensure successful monitoring of properties. Its compliance and procedures manuals include expectations above federal requirements. These higher internal standards ensure federal requirements are met even if staff do not meet internal standards. In addition, compliance staff use checklists for the compliance process to help ensure all requirements are verified. Finally, the Division uses compliance auditing management software that is used to schedule upcoming audits, generate reports, document findings, and review tenant qualifications. This software is automatically updated when federal requirements change. (page 6)

The Division's controls for performance measures need improvement to ensure that the numbers reported in future executive budgets are accurate and reliable. The Governor and Legislature use agency measures to help them make budget and policy decisions. Control weaknesses include a lack of documentation, insufficient review, and inadequate written procedures for calculating measures. (page 9)

The usefulness of the Division's performance measures used in the state budget process can be improved. Specifically, five of six measures included in the 2017-2019 Executive Budget did not fully reflect the impact of the Division's efforts. The current performance measures do not provide adequate information on the progress and performance of the Division's programs. Another indication of the limited usefulness of these measures is management utilizes a different set of performance measures to manage its operations throughout the year. Development of useful performance measures can improve internal and external decision-making. (page 10)

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747



LEGISLATIVE COMMISSION (775) 684-6800
JASON FRIERSON, *Assemblyman, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
JOYCE WOODHOUSE, *Senator, Chair*
Mark Krmpotic, *Fiscal Analyst*
Cindy Jones, *Fiscal Analyst*

RICK COMBS, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
ROCKY COOPER, *Legislative Auditor* (775) 684-6815
SUSAN E. SCHOLLEY, *Research Director* (775) 684-6825

Legislative Commission
Legislative Building
Carson City, Nevada

This report contains the findings, conclusions, and recommendations from our performance audit of the Department of Business and Industry, Housing Division. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes two recommendations to improve the accuracy and usefulness of the Division's performance measures. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Rocky Cooper".

Rocky Cooper, CPA
Legislative Auditor

October 31, 2017
Carson City, Nevada

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Introduction

Background

The Housing Division of the Department of Business and Industry was created by the Nevada Legislature in 1975 to diminish the shortage of safe, decent, and sanitary housing throughout the State for persons and families of low and moderate income. The mission of the Division is to provide affordable housing opportunities, improving the quality of life for Nevada residents.

NRS Chapter 319 authorizes the Division to develop financing mechanisms that encourage the investment of private capital and stimulate governmental entities in the creation of affordable housing for low- and moderate-income Nevadans. These efforts are made possible through the Division's Low-Income Housing Tax Credit (LIHTC) and Multi-Family Bond (MFBP) programs. Through the Division's LIHTC program, the Division annually receives a population based allocation of 9% Federal Income Tax Credits from the Internal Revenue Service (IRS). The Division then allocates those credits to developers selected on a competitive basis to receive the tax credits. The selection criteria gives preference to projects serving low-income populations and projects serving qualified tenants for the longest periods. The Division also is able to allocate 4% Federal Income Tax Credits through its MFBP Program. Project owners can use the tax credits directly, but often sell them, using the proceeds of the sale to help finance their projects.

Two other Division programs are: 1) the HOME Investment Partnership Program (HOME) and 2) the Low-Income Housing Trust Fund Program (LIHTF). These two programs provide funds to State recipients, subrecipients, community housing development organizations, developers, owners and contractors to support affordable housing initiatives. These funds may be used for homebuyer programs, homeowner rehabilitation

programs, rental housing acquisition or rehabilitation, and tenant-based rental assistance.

In addition to its financing efforts, the Division has the responsibility to ensure these projects comply with applicable program rules found in federal and state statutes and regulations, and the Division's policies. These rules require the Division to periodically monitor each recipient to ensure tenant incomes meet applicable eligibility requirements, appropriate rents are charged, and decent, safe, and sanitary conditions are maintained at each project, and various other requirements. The Division currently monitors 273 properties with 23,093 units designated for low-income and moderate-income individuals and families.

The Division has other programs that provide services to prevent homelessness and foreclosure, assist first-time homebuyers, and weatherize homes.

As of December 2016, the Division had 32 approved, full-time positions, 4 of which were vacant. The Division's expenditures totaled more than \$19 million in fiscal year 2016. In fiscal year 2016, the Division received approximately \$5 million in federal funding. The Nevada Real Property Transfer Tax and the Universal Energy Charge are other significant sources of revenue for the Division.

Scope and Objectives

The scope of our audit included a review of the Division's monitoring activities in calendar year 2016, and performance measures for fiscal year 2016. Our audit objectives were to:

- Determine whether the Division effectively monitored grant and tax credit recipients to ensure compliance with applicable laws and regulations.
- Evaluate the internal controls, usefulness, and accuracy of the Division's performance measures.

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's

oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

Low-Income Housing Properties Were Monitored Effectively

The Housing Division effectively monitored low-income housing properties funded by federal tax credit and grant programs to ensure significant program, project, and financial requirements were met. Compliance monitoring staff annually inspect properties that provide housing for thousands of families. These inspections ensure numerous requirements are met on an ongoing basis, including many related to safe and sanitary conditions. The effective monitoring is the result of controls established by the Division to ensure inspections are done timely and thoroughly.

Testing Found Timely, Thorough Monitoring

We tested 50 of 273 properties the Division currently monitors and found the Division timely and thoroughly monitored them in calendar year 2016. These properties are comprised of approximately 23,000 housing units. The thoroughness and quality of the Division's monitoring provide assurance that families are housed in safe conditions, charged appropriate rent, and are eligible for the programs. Timely and effective monitoring ensures problems are corrected quickly and reported to federal agencies when appropriate. Finally, monitoring properties in accordance with federal requirements helps ensure the State qualifies for future federal funding.

Tax Credit Program Monitoring

The tax credit programs' monitoring requirements governed by the IRS were performed thoroughly by the Division. The Division's monitoring efforts go beyond the IRS regulations. For example, the IRS requires that low-income housing properties be inspected at least once every 3 years, whereas the Division does an annual inspection of all properties. We found nine major requirements for

the tax credit programs. These requirements ensure that buildings and units are properly maintained, tenant qualifications are reviewed, and non-compliance findings are reported timely.

There were 47 tax credit properties in our sample. Of the 47, 40 were inspected in 2016. We did not find any significant violations of major laws, regulations, or Division guidelines. Of the remaining seven, they were either not in service during 2016, or were inspected in early 2017.

Furthermore, each of the properties was billed and payment was received by the Division for their monitoring efforts. The Division charges \$40 per unit for each property it monitors. This is due at the beginning of each year for every property.

Federal Grant Fund Program Monitoring

We also found the Division thoroughly monitored properties funded by federal housing grants. The monitoring requirements for the federal grant funded programs, HOME Investment Partnership Program (HOME) and Low-Income Housing Trust Fund Program (LIHTF), are governed by the US Department of Housing and Urban Development (HUD). We found five major requirements for the federal grant funded programs. These requirements ensure properties are properly maintaining their units and buildings, tenant qualifications are reviewed, and rent levels are in accordance with federal guidelines.

There were 15 HOME and/or LIHTF properties in our sample. Of the 15, 11 were reviewed in 2016. We did not find any significant violations of major laws, regulations, or Division guidelines. Of the remaining four, two were not in service during 2016, one was inspected in early 2017, and one was no longer in the compliance monitoring period.

**Division
Controls
Ensure
Effective
Monitoring**

Financial and Other Monitoring

The Division also performed financial and other monitoring of its subgrantees of federal housing grants. Subgrantees include local government agencies and non-profit organizations. The Division's financial monitoring included a review of supporting financial documentation at subgrantees' offices, as well as required financial audits. We also identified major requirements for program monitoring which includes required documentation filed by the property owners. All of the properties in our sample had the required documents on file.

The Division has developed various controls to ensure successful monitoring of properties. Its compliance and procedures manuals include expectations above federal requirements. These higher internal standards ensure federal requirements are met even if staff do not meet internal standards. In addition, compliance staff use checklists for the compliance process to help ensure all requirements are verified. Finally, the Division uses compliance auditing management software that is used to schedule upcoming audits, generate reports, document findings, and review tenant qualifications. This software is automatically updated when federal requirements change.

Overview of Monitoring Process

The Division's compliance monitoring team is made up of five staff who monitor about 275 tax credit and federal grant funded properties on an annual basis. The compliance monitoring process is summarized as follows:

- The Division notifies the Project Owner and Management Company of an upcoming on-site review by sending a Notification of Compliance Review letter confirming the date, time, and requirements for the compliance review.
- The annual review consists of a physical inspection of buildings and units, and a file inspection to ensure requirements are met.
 - Physical Inspections – Include an inspection of at least 33% of the buildings and grounds of the

property, and an inspection of at least 20% of individual housing units.

- File Inspections – Include an inspection of corresponding tenant records, including income certifications, the documentation supporting the certifications, and the rent records for the tenants in those units.
- At the end of the annual review, the compliance monitor provides the on-site manager with a summary of inspection findings along with a cure period for violations.
- The Division sends the Project Owner a Cure Letter in the event of noncompliance which identifies the condition causing the noncompliance and specifies a reasonable correction or cure period to correct the noncompliance finding.
- The Division ensures noncompliance areas are corrected and notifies appropriate federal program authorities as required. For example, for tax credit properties, the Division reports any noncompliance finding to the Internal Revenue Service (IRS) by filing IRS Form 8823 within 45 days after the expiration of the correction period.

Improvements to Performance Measures Are Needed

The Division needs to improve its performance measures used in the state's budget process. Specifically, better controls are needed to ensure the measures reported in the Executive Budget are accurate and reliable. In addition, the Division's measures used in the budget process need to be revised to better reflect the accomplishments of the Division's programs and key activities. Performance measures facilitate accountability and provide an opportunity to evaluate success in achieving goals. Measures must be reliable and applicable to the agency to help the Governor, Legislature, and agency officials make informed budgetary and policy decisions.

The Division reported six housing related performance measures in fiscal year 2016 for the 2017-2019 Executive Budget. For the audit, we focused on reviewing these six housing-related performance measures, rather than those associated with the Weatherization Program. Exhibit 1 shows the Housing Division performance measures that we reviewed and the results reported for fiscal year 2016.

Housing Division Performance Measures Fiscal Year 2016

Exhibit 1

Description	Reported Amount
1. Percent of Apartments in Regulatory Compliance	45.84%
2. Percent of Low Income Families Assisted	0.21%
3. Percent of New Single Family Mortgages Completed	36.56%
4. Low Income Population 60% of Area Median Income or Less	274,089
5. Number of Units of Housing Created	411
6. Workload for Apartments Produced	959

Source: 2017-2019 Executive Budget.

Division Lacks Controls to Ensure Measures Are Accurate

The Division's controls for performance measures need improvement to ensure that the numbers reported in future executive budgets are accurate and reliable. The Governor and Legislature use agency measures to help them make budget and policy decisions. Control weaknesses include a lack of documentation, insufficient review, and inadequate written procedures for calculating measures.

Measures Are Not Supported by Sufficient Records

Management did not retain adequate documentation for measures included in the 2017-2019 Executive Budget. The majority of supporting documentation consisted of emails requesting the specified number, instead of copies of the applicable reports. Furthermore, program managers could not recreate the performance measure data. The lack of documentation diminishes the reliability of the measures reported in the Executive Budget.

State administrative policies require the Division to retain records used in computing performance measures for at least 3 fiscal years. During our audit, the Division updated performance measure procedures to clarify the reporting process and to specify responsibilities regarding documentation retention.

Performance Measure Data Was Not Reviewed

Another control weakness is the lack of review of measures by fiscal and program personnel to verify accuracy of reported information. According to the Division's policies and procedures used during the 2017-2019 budget process, both management and staff are responsible for reviewing performance measures. We found no evidence this review occurred.

Review of measurement calculations ensures measures are relevant and quantifiable, measurement descriptions reflect reported data, calculations are mathematically accurate, and appropriate and consistent methodologies are used to calculate each measure.

Written Policies and Procedures Were Not Adequate

The Division's written procedures do not provide adequate guidance to assist staff with collecting performance measures.

During interviews with program managers, we found that some managers did not recognize the measures reported, nor were they familiar with the purpose of them in the state budget process. Program managers were also not aware of any procedures for performance measures, and did not have guidelines for calculating measures. In addition, some Division staff were not aware of expectations regarding documentation retention.

Although the Division updated their performance measurement policies and procedures during our audit, the updated version does not outline exactly how each measure is computed, nor detail which report is used to compile each measure, nor who is responsible to compile the information for each measure.

The Budget Manual of the Governor's Finance Office requires performance measure documentation to contain enough detail that anyone could recreate the measure's value exactly as they appear in the Executive Budget. The Division's written procedures do not contain these instructions, nor could staff easily recreate the measures by following instructions in the procedures.

Usefulness of Performance Measures Can Be Improved

The usefulness of the Division's performance measures used in the state budget process can be improved. Specifically, five of six measures included in the 2017-2019 Executive Budget did not fully reflect the impact of the Division's efforts. The current performance measures do not provide adequate information on the progress and performance of the Division's programs. Another indication of the limited usefulness of these measures is management utilizes a different set of performance measures to manage its operations throughout the year. Development of useful performance measures can improve internal and external decision-making.

Two of the measures that we reviewed are discussed further below.

Measure 4: Low Income Population 60% of the Area Median Income or Less

This measure reports the population of individuals or families whose income is at 60% or less of the area's median income. This measure obviously cannot be impacted by any of the

Division's programs. Measures should reflect the impact from the Division's efforts, rather than the percentage of the population that qualifies for some of its programs.

Measure 5: Number of Units of Housing Created

This measure only reports the number of housing units created specifically for homeless individuals using Emergency Solutions Grant (ESG) funds. However, the program is not mentioned in the measure's description, so a reader could assume it reflects all units of housing created from all the Division's programs.

Furthermore, this program provides other types of assistance to transition homeless individuals and families into permanent housing, which is not reflected by this measure. An example of a better measure that reflects the full objective of the program would be the number of previously homeless individuals who transitioned into permanent housing and remained in permanent housing for at least 6 months.

Although Division staff do not believe the measures fully represent the programs, management chose these numbers to reduce the workload for employees. These measures are obtained from reports required for federal grants. However, performance measures should help reflect the extent that the budget will enable the agency to achieve goals and objectives. Performance measures facilitate accountability and provide an opportunity to identify programs that work and those in need of improvement or elimination. By reporting measures that do not fully reflect the Division's efforts, decision-makers involved in the budget process have less information to make their decisions.

Recommendations

1. Develop controls to ensure performance measures reported in the budget process are accurate and reliable, including retention of supporting documentation, supervisory review by program and financial staff of calculations and methodology, and detailed written procedures for calculating each measure.
2. Revise performance measures used in the state's budget process to more fully reflect the Division's impact on goals and objectives.

Appendix A

Audit Methodology

To gain an understanding of the Housing Division, we interviewed staff and reviewed statutes, regulations, and policies and procedures significant to the Division's operations. We also reviewed financial information, legislative committee minutes, prior audits, and other information describing the Division's operations. We documented and assessed internal controls related to monitoring grant and tax credit recipients, and controls related to the accuracy of the Division's performance measures.

To determine whether the Division is adequately monitoring grant and tax credit recipients to ensure compliance with applicable laws and regulations, we obtained a list of HOME Investment Partnership Program (HOME), Low-Income Housing Trust Fund Program (LIHTF), Low-Income Housing Tax Credit program (LIHTC), and Multi-Family Bond Program (MFBP) projects. We then traced 40 projects from the source documents to the list to verify the accuracy and completeness of the list. Next, we randomly selected 50 projects from the full list of projects. We also compared significant requirements in laws, regulations, Division guidance, and contracts with the Division's monitoring records for each of the four programs.

For each randomly selected project, we reviewed the Division's compliance records and interviewed applicable personnel to determine if the Division complied with major laws, regulations, contractual obligations, and its own compliance requirements regarding monitoring for the 50 selected projects. We then identified the subgrantee for each project. For each subgrantee, we reviewed agency records and interviewed applicable agency personnel to determine if the Division complied with subgrantee compliance and financial monitoring requirements.

When inspections found problems, we interviewed personnel to determine if the Division ensured problems were corrected timely and owners and applicable federal agencies were notified appropriately. If we identified problems, we interviewed staff to understand the cause and effect of problems. Finally, we reviewed agency records to verify the Division charged and collected the correct monitoring fees.

To evaluate the internal controls over the Division's performance measures, we confirmed control weaknesses identified during survey. To evaluate the accuracy of reported performance measures, we requested supporting documentation for the performance measures reported for fiscal year 2016. We then compared performance measures reported for fiscal year 2016 to supporting documentation. For measures that had significant differences, we interviewed agency personnel to understand the causes. To evaluate the usefulness of the Division's performance measures included in the 2017-2019 Executive Budget, we selected all six measures in the Executive Budget related to low-income housing programs. We interviewed Division's personnel responsible for compiling the measures and reviewed documentation available to understand what the measures were reporting. We also interviewed management and personnel responsible for running the various housing programs to understand what information they used to monitor their operations during the year. We also contacted other states housing agencies to learn what measures were used to manage their operations.

Our audit work was conducted from January 2017 to August 2017. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Division. On October 18, 2017, we met with agency officials to discuss the results of the audit and

requested a written response to the preliminary report. That response is contained in Appendix B which begins on page 15.

Contributors to this report included:


Jennifer M. Otto, MPA
Deputy Legislative Auditor

Amanda Barlow, MPA
Deputy Legislative Auditor

Rick Neil, CPA
Audit Supervisor

Appendix B

Response From the Housing Division

<p>BRIAN SANDOVAL <i>Governor</i></p>	<p>STATE OF NEVADA</p>  <p>Department of Business & Industry NEVADA HOUSING DIVISION</p>	<p>CJ MANTHE <i>Director</i></p> <p>STEVE AICHROTH <i>Administrator</i></p>
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October 24, 2017

Rocky Cooper, CPA
Legislative Auditor
Legislative Counsel Bureau
401 South Carson Street
Carson City, NV 89701-4747

Dear Mr. Cooper:

The Department of Business and Industry, Nevada Housing Division (NHD), has reviewed the audit recommendations developed by the Legislative Counsel Bureau (LCB) which were provided to the Division on October 18, 2017. The NHD is in agreement with all recommendations and has included our responses below and will begin developing and implementing a corresponding action plan immediately.

The Division is very appreciative of the professional and thorough work of the LCB audit staff. The recommendations suggested by the audit team will help the Division better monitor its programmatic performance and assist management in making decisions for allocating limited resources to best serve Nevada's residents. Please find below responses to the specific Audit Recommendations:

Recommendation 1:
Develop controls to ensure performance measures reported in the budget process are accurate and reliable, including retention of supporting documentation, supervisory review by program and financial staff of calculations and methodology, and detailed written procedures for calculating each measure.

The Division is developing more detailed procedures for ensuring performance measures reported going forward will be reliable and accurate. These procedures include retention guidelines, staff and supervisory review processes and calculation methodology by budget account and performance measure. These procedures will be reviewed by program and supervisory staff and adopted by the Administrator.

Recommendation 2:
Revise performance measures used in the state's budget process to more fully reflect the Division's impact on goals and objectives.

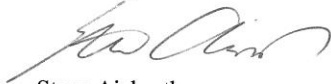
1830 E College Parkway Suite 200, Carson City, Nevada 89706 (775) 687-2240
 3300 W Sahara Av, Las Vegas, Nevada 89102 (702) 486-7220

The Division will revise existing performance measures to more fully reflect its programs impacts on goals and objectives. Programmatic staff will provide recommendations to supervisors and management as to more relevant performance measures and upon review these enhanced measures will be submitted to the state budget office for review and inclusion in the next biennial budget process.

Also, as requested, please find attached the "Housing Division's Response to Audit Recommendations" form with the appropriate responses checked.

Please let me know if you have any further questions or would like additional information in regard to this response.

Sincerely,



Steve Aichroth
Administrator

Housing Division's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Develop controls to ensure performance measures reported in the budget process are accurate and reliable, including retention of supporting documentation, supervisory review by program and financial staff of calculations and methodology, and detailed written procedures for calculating each measure.....	<u> X </u>	<u> </u>
2. Revise performance measures used in the state's budget process to more fully reflect the Division's impact on goals and objectives	<u> X </u>	<u> </u>
TOTALS	<u> 2 </u>	<u> </u>