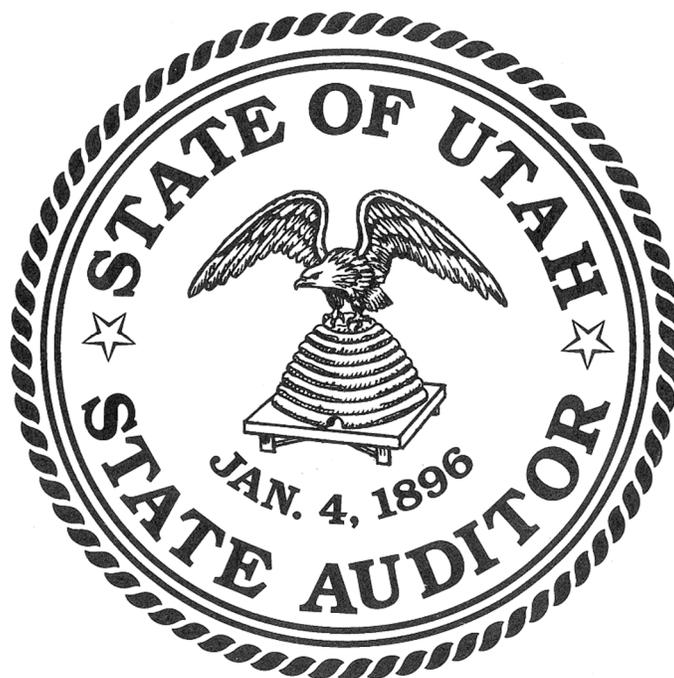


DEPARTMENT OF WORKFORCE SERVICES

Single Audit Management Letter
For the Year Ended June 30, 2019

Report No. 19-09



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
Andrew Driggs, Audit Senior

DEPARTMENT OF WORKFORCE SERVICES

Single Audit Management Letter FOR THE YEAR ENDED JUNE 30, 2019

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Finding Type:

SD - Significant Deficiency of Internal Control
RN - Reportable Noncompliance or Illegal Acts
Other - Opportunity for Internal Control Improvement

Applicable To:

f - Federal Program



OFFICE OF THE
STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 19-09

December 13, 2019

Mr. Jon Pierpont, Executive Director
Department of Workforce Services
140 East 300 South
SLC, Utah 84111-0000

Dear Mr. Pierpont:

This management letter is issued as a result of the Department of Workforce Services' (DWS) portion of the statewide single audit for the year ended June 30, 2019. Our final report on compliance and internal control over compliance issued to meet the reporting requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is issued under separate cover. We tested the following federal programs at DWS:

- CCDF (Child Care) Cluster (CCDF)
- Unemployment Insurance (UI)
- Vocational Rehabilitation (VR)

In planning and performing our compliance audit of the programs listed above, we considered DWS's compliance with the types of compliance requirements subject to audit as described in the *OMB Compliance Supplement* for the year ended June 30, 2019. We also considered DWS's internal control over compliance with the types of requirements described above that could have a direct and material effect on the programs tested in order to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of DWS's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct on a timely basis noncompliance with a type of compliance requirement of a federal program. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness, yet important enough to be reported under Uniform Guidance.

Our consideration of internal control over compliance was for the limited purposes described in the second paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in DWS's internal control over compliance that we consider to be material weaknesses. We did identify certain deficiencies in internal control over compliance (Findings 1, 2 and 3) that we consider to be significant deficiencies.

We also identified these findings, as well as Finding 4, as instances of noncompliance which we are required to report under the Uniform Guidance. Additionally, Finding 4 is considered an opportunity for strengthening internal controls and operating efficiencies.

DWS's written responses to and Corrective Action Plans for the findings identified in our audit were not subjected to the audit procedures applied in our audit and, accordingly, we express no opinion on them.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing and not to provide an opinion on the effectiveness of DWS's internal control over compliance. Accordingly, this communication is not suitable for any other purpose.

We appreciate the courtesy and assistance extended to us by DWS's personnel during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,



Hollie Andrus, CPA
Audit Director
801-808-0467
handrus@utah.gov

cc: Casey Cameron, Deputy Director, Department of Workforce Services
Greg Paras, Deputy Director, Department of Workforce Services
Nate McDonald, Assistant Deputy Director, Department of Workforce Services
Nathan Harrison, Director, Administrative Support Division
Jennifer Roth, Financial Manager, Administrative Support Division
Debi Carty, Financial Manager, Administrative Support Division
Steven Nelson, Accounting Manager, Administrative Support Division
Van Christensen, Director, Internal Audit
Tracy Gruber, Director, Office of Child Care
Kevin Burt, Unemployment Insurance Director
Sarah Brenna, Director, Office of Rehabilitation
Dale Ownby, Director, Eligibility Services Division
Muris Prses, Assistant Director, Eligibility Services Division

FINDINGS AND RECOMMENDATIONS

1. CCDF BENEFIT OVERPAYMENTS DUE TO ELIGIBILITY SYSTEM UPDATES

Federal Agency: **Department of Health and Human Services**

CFDA Numbers and Titles: 1) **93.575 Child Care and Development Block Grant**
2) **93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund**

Federal Award Numbers: 1) **G-1901UTCCDD**
2) **G1701UTCCDF, G1801UTCCDF, G1901UTCCDF, G1901UTCCDM**

Questioned Costs: **\$1,518**

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

The Department of Workforce Services' (DWS) eligibility system, eRep, incorrectly calculated Child Care benefit payments for 2 of 60 sample cases—a 3.3 percent error rate. The sampled case expenditures totaled \$44,789 and were taken from a total population of \$68,345,793. We have questioned the overpayments of \$60 related to the sample cases and the additional costs of \$1,458 paid on behalf of these two clients during fiscal year 2019, totaling \$1,518.

Federal regulations (45 CFR 98.45) require DWS to establish and periodically revise a sliding fee scale based on income, family size, and other factors to create a range of child care options. Department policy considers income, family size, and participant work hours as factors in determining benefits. DWS implemented code changes in eRep that inadvertently caused the system to use the wrong sliding fee scale to calculate benefits for work training program participants. DWS did not test updates to eRep in its general change management to ensure the system properly integrated the changes. Incorrect calculations of benefit payments can result in benefit overpayments and noncompliance with grant requirements.

Recommendation:

We recommend DWS test updates to eRep prior to deployment.

DWS's Response:

We agree with the finding and recommendation.

Corrective Action Plan:

The Department of Workforce Services reviewed the errors identified and determined the cause and population of cases potentially subject to the error. From the population identified, we found that 31 cases totaling \$11,397 were issued in error. Notification and adjudication processes have been initiated on those cases that fell above the overpayment threshold for child care. Also, a system fix for these cases was deployed on July 13, 2019 and all open ongoing child care cases were reassessed on September 14, 2019.

We have also reviewed controls designed to ensure that benefits are paid for the correct amount. These controls include a Program Review Team that reviews cases to ensure the correct determinations have been made and the correct benefits have been issued. The Department also has a Quality Control team that is currently on cycle that reviews cases to determine if there are any element or payment errors. Both of these processes help us to determine what worker or system errors are occurring.

Currently, we have an eREP system testing procedure in place that allows us to test the eREP environment of the system before it is implemented to staff. There are multiple levels of testing that occur prior to release of changes to the system before a fix or change is implemented to include unit, integration, system and acceptance testing. Each potential change is processed manually by program specialists, information analysts, business analysts and designated testers to ensure the system is issuing benefits correctly. Our review has found that controls are properly designed and implemented to provide reasonable assurance that benefits are paid for the correct amount and that the cost of implementing additional controls would exceed the benefit. Therefore, we have reviewed the errors noted with individuals responsible for performing these controls to increase their awareness. We have determined that this will sufficiently correct this error going forward.

*Contact Person: Chris Williams, Manager, Eligibility Services Division, 801-626-0273
Anticipated Correction Date: September 14, 2019*

2. WORK HOURS AND EARNINGS DISREGARDED IN UNEMPLOYMENT INSURANCE BENEFIT OVERPAYMENT DETERMINATION

Federal Agency: **Department of Labor**

CFDA Number and Title: **17.225 Unemployment Insurance**

Federal Award Number: **UI-32629-19-55-A-49**

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

For 1 of 60 potential overpayments tested, DWS did not properly consider claimant work hours and earnings when determining whether Unemployment Insurance benefits were overpaid. Federal regulations defer overpayment identification to state policies and procedures, which dictate that DWS personnel consider all claimant work hours and earnings as part of the benefit overpayment determination. DWS personnel did not follow procedures or perform mitigating quality reviews to sufficiently prevent or detect and correct the errors. Failure to properly determine benefit overpayments results in misuse of program funds and overpayment penalties not being assessed.

Recommendation:

We recommend DWS:

- **ensure personnel follow established policies and procedures; and**
- **strengthen mitigating quality reviews of benefit overpayment determination.**

DWS's Response:

We agree with the finding and recommendation.

Corrective Action Plan:

DWS takes the responsibility of program integrity very seriously, and in this case the existing policy and procedure were not followed properly. The team responsible for this work is scheduled to review the findings of this audit, as well as existing policy and procedures for future compliance. Quality reviews will continue to be used to monitor program compliance for this and other scenarios moving forward.

Contact Person: Kevin Burt, Unemployment Insurance Director, kburt@utah.gov, 801-526-9575

Anticipated Correction Date: November 2019

3. ERRORS IN RANDOM MOMENT TIME STUDY (RMTS)

Federal Agency: **Various**

CFDA Numbers and Titles: **Various**

Federal Award Numbers: **Various**

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

DWS did not properly execute the random moment time study (RMTS) as developed and approved for its cost allocation plan. As a result, the following errors occurred in fiscal year 2019's first quarter:

- a. Payroll costs for 18 employees, or 1.9% of pool employees, were inappropriately included in the RMTS pool to be allocated.
- b. Payroll costs for 2 employees, or 0.21% of pool employees, were inappropriately excluded from the RMTS pool to be allocated.
- c. Four employees, or 0.42% of pool employees, were inappropriately excluded from taking the RMTS survey.

DWS's federally-approved cost allocation plan indicates the intended goal of the RMTS is to provide a simple, efficient, and reasonable methodology to appropriately allocate costs to the programs/activities that benefit from the costs within the requirements of Uniform Guidance. DWS's plan outlines the proper inclusion of employee RMTS surveys to determine appropriate allocation percentages. Improper RMTS and payroll coding resulting from employee turnover and employee misunderstanding of job duties caused these errors to occur. The incorrect inclusion and exclusion of costs to be allocated in the pool, compounded with disproportionate allocation percentages from the RMTS, could result in unallowable costs charged to federal programs.

Recommendation:**We recommend DWS:**

- **ensure its internal controls operate as designed to prevent, or to detect and correct, RMTS and payroll coding errors;**
- **maintain the integrity of its internal controls with mitigating controls, especially during periods of transition; and**
- **provide adequate staff training and communication for RMTS policies and procedures.**

DWS's Response:

We agree with the finding and recommendation.

Corrective Action Plan:

The Department of Workforce Services has an established system of internal controls to ensure that time and effort costs that are allocated to programs/activities that benefit from the costs using the random moment time study (RMTS) methodology, as delineated in the department's federally-approved Public Assistance Cost Allocation Plan, are recorded in the appropriate cost centers. It appears that the established internal controls that should have prevented and/or detected the errors cited by the auditors did not function as designed. The department is conducting a comprehensive review of its RMTS procedures and the associated internal controls to identify the cause of the errors noted in the audit. The results of the review will be utilized to make needed adjustments to RMTS procedures, internal controls, staff training, and communication of RMTS policies and procedures.

Contact Person: Nathan Harrison, Finance Director, 801-526-9402

Anticipated Correction Date: December 31, 2019

4. CHILD CARE PROVIDER OVERPAYMENTS DUE TO INSUFFICIENT REVIEWS

Federal Agency: **Department of Health and Human Services**

CFDA Numbers and Titles: **1) 93.575 Child Care and Development Block Grant**
2) 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund

Federal Award Numbers: **1) G-1901UTCCDD**
2) G1701UTCCDF, G1801UTCCDF, G1901UTCCDF, G1901UTCCDM

Questioned Costs: **\$392,682**

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

As part of the department's annual risk assessment, the Director of DWS's Office of Child Care identified provider subsidy overpayment and provider agreement noncompliance as risks of

noncompliance and communicated these risks to the Internal Audit Director. DWS had recently transitioned provider payments from participant benefit cards to direct provider payments.

DWS Internal Audit conducted audits of child care providers who received federal benefit subsidy payments between September 2016 and June 2019. Internal Audit identified providers with insufficient participant attendance records to support the subsidy payments, resulting in questioned costs totaling \$392,682. Utah Administrative Code (R986-700-706) and DWS's *Payment to Provider Terms and Conditions* agreements require providers to "keep accurate records of subsidized child care payments, and time and attendance" to which DWS "has the right to investigate...and audit."

Internal Audit determined it was upon DWS's transition to the direct provider payment process that the authorized providers began failing to maintain accurate time and attendance records or accurately certify attendance records on a monthly basis. Additionally, the Office of Child Care did not adequately obtain, process, and evaluate the voluminous and varied provider records. Inadequate monitoring of provider agreements, including original attendance records and certifications, could cause DWS to incur undetected unallowable costs. Subsequent to the issuance of its reports, Internal Audit determined that DWS had initiated overpayment recovery through its overpayment division.

Recommendation:

We recommend DWS implement appropriate reviews of provider agreements, including original attendance records, to substantiate federal subsidy payments.

DWS's Response:

We agree with the finding and recommendation.

Corrective Action Plan:

As noted in the finding, all questioned costs have been referred to the department's overpayment division. Some questioned costs have been repaid and repayment is being pursued for the remaining verified questioned costs. The Office of Child Care has worked with the department's internal audit division to have them conduct ongoing reviews of original provider attendance records.

Contact Person: Ann Stockham Mejia, Program Manager, 801- 526-9362

Anticipated Correction Date: October 1, 2019