UTAH DEPARTMENT OF AGRICULTURE AND FOOD

Single Audit Management Letter
For the Year Ended June 30, 2018

Report No. 18-09

OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:
John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
Sean Clayton, Audit Senior

UTAH DEPARTMENT OF AGRICULTURE AND FOOD

Single Audit Management Letter

FOR THE YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

Finding Type:		Applicable To:	
MW	Material Internal Control Weakness	f	Federal Program
SD	Significant Deficiency of Internal Control		
RN	Reportable Noncompliance or Illegal Acts		

SINGLE AUDIT MANAGEMENT LETTER NO. 18-09

November 20, 2018

LuAnn Adams, Commissioner
Department of Agriculture and Food
350 North Redwood Road
SLC, Utah 84114-6500

Dear Commissioner Adams:

This management letter is issued as a result of the Utah Department of Agriculture and Food's (UDAF's) portion of the statewide single audit for the year ended June 30, 2018. 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.

In planning and performing our compliance audit of the Colorado River Basin Salinity Control program, we considered UDAF's compliance with the applicable types of compliance requirements as described in the *OMB Compliance Supplement* for the year ended June 30, 2018. We also considered UDAF's internal control over compliance with the types of requirements described above that could have a direct and material effect on the program tested in order to determine the auditing 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 UDAF's internal control over compliance.

Our consideration of internal control over compliance was for the limited purposes described in the second paragraph and would not necessarily identify all deficiencies in UDAF's internal control that might be material weaknesses or significant deficiencies as defined in the following paragraphs. However, as discussed subsequently, based on the audit procedures performed, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies for the Colorado River Basin Salinity Control program.

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.

We consider the deficiencies in internal control over compliance presented in the accompanying schedule of findings and recommendations as Findings 1 and 3 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance presented in the accompanying schedule of findings and recommendations as Findings 2, 4, and 5 to be significant deficiencies.

During our audit, we also became aware of a deficiency in internal control other than significant deficiencies or material weaknesses that is an opportunity for strengthening internal controls and operating efficiencies. This other finding is also included in the accompanying schedule of findings and recommendations.

UDAF'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. Accordingly, this communication is not suitable for any other purpose.

We appreciate the courtesy and assistance extended to us by the personnel of UDAF 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

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

cc: Scott Ericson, Deputy Commissioner
Debbie L. Lyberger, Financial Manager
Robert Hougaard, Director Plant Industry & Conservation
Mark Quilter, Program Manager

FINDINGS AND RECOMMENDATIONS

1. INTERNAL CONTROL WEAKNESSES OVER FEDERAL REPORTS

Federal Agency: **Department of the Interior**
CFDA Number and Title: **15.509 Colorado River Basin Salinity Control**
Federal Award Number: **R16AC00023**
Questioned Costs: **$0**
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

The Utah Department of Agriculture and Food (UDAF) does not have proper controls in place to verify the accuracy of reports before they are submitted. Two SF-425 reports and two performance reports submitted in fiscal year 2018 were prepared and certified by the same individual without another individual reviewing the reports prior to submission. Because there was no control over the reports, the following inaccuracies on the reports were detected:

- Line 10.e on the September 30, 2017 SF-425 report was underreported by $809,094. This understatement was due to a mathematical error in preparing the report.
- Line 10.e on the March 31, 2018 SF-425 report was underreported by $168,630. This understatement was due to a calculation error concerning indirect administrative costs.
- Amounts reported for "payments made to subrecipients and remaining balance due subrecipients" for the September 30, 2017 performance report did not agree to supporting documentation for reimbursement requests or to FINET, the state's accounting system. These inaccuracies were due to clerical errors.

Amounts reported on federal reports should be accurate and agree to FINET and other appropriate supporting documentation. To reduce the risk of inaccuracies or reporting noncompliance, an individual other than the individual preparing the reports should review the reports for accuracy. Not accurately reporting all required information results in inaccurate and/or incomplete program information being provided to users of the reports.

Recommendation:

We recommend UDAF implement internal controls to ensure that required federal reports are reviewed for accuracy by an individual other than the preparer prior to the submission of the report.

UDAF's Response:

UDAF agrees with this finding.

Corrective Action Plan:

UDAF has instituted a policy that requires programmatic and financial reports to be reviewed and approved by at least one person who is not responsible for the preparation of the report prior to submission.

Because of BOR [Bureau of Reclamation] requirements in the program report, financial information may not match financial reports. It will be noted in the program report when this occurs.

Contact Person: Debbie Lyberger, Administrative Services Director, 801-538-7110
Anticipated Correction Date: Immediately (10/09/2018)

2. INADEQUATE CONTROLS OVER AND NONCOMPLIANCE WITH ALLOWABLE PAYROLL-RELATED CHARGES

Federal Agency: **Department of the Interior**
CFDA Number and Title: **15.509 Colorado River Basin Salinity Control**
Federal Award Number: **R16AC00023**
Questioned Costs: **$10,546**
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

During our review of payroll transactions charged to the Program at UDAF, we noted the following errors:

a. UDAF did not equitably allocate between state- and federally-funded activities an employee's leave taken (e.g. annual leave, sick leave, holidays, etc.), as required by 2 CFR 200.431 (b)(2). It currently has no process for subsequently reviewing and allocating leave charges to the appropriate activities. Failure to properly allocate leave costs has resulted in inequitable charges to federal activities. We have questioned the costs related to the misallocation of leave time, totaling $10,488.

b. UDAF charged FICA and Medicare withholdings to the grant for an employee whose time and efforts were not directly charged to the grant. Fringe benefits (including associated payroll taxes) should only be billed directly to the grant for those employees working on the grant. According to 2 CFR 200.404(e), costs are considered unreasonable if the non-federal entity deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal award's costs. This error occurred due to UDAF's miscoding of payroll information and could result in overcharging the federal program. We have questioned the costs related to the mischarged fringed benefits, totaling $58.

Recommendation:

We recommend UDAF:

a. Implement appropriate procedures and internal controls to ensure that leave costs charged to federal awards are equitably allocated to all related activities in accordance with 2 CFR 200.431(b)(2).

b. Strengthen internal controls over the billing of payroll-related costs to the grant.

UDAF's Response:

UDAF agrees with this finding.

Corrective Action Plan:

a. UDAF is implementing a process to equitably allocate holiday and leave expenses between state and federally funded programs. The reallocation process will be applied to all expenses beginning 7/1/2018.

b. The referenced benefit expenses were generated from a glitch in the SAP programming. The system is currently allocating FICA/Medicare to all income, taxable as well as non-taxable. Communication with State Payroll has indicated they will fix the glitch so this no longer happens, but are unsure of the time frame. UDAF knew the about the expenses, but because some travel is taxable, and the expenses were generated from travel, it wasn't seen as a control issue. UDAF will monitor this more closely to ensure that expenses are corrected as necessary.

Contact Person: Debbie Lyberger, Administrative Services Director, 801-538-7110

Anticipated Correction Date: Immediately (10/09/2018) applying to all payroll expenses incurred in FY 2019.

Auditor's Concluding Comment:

UDAF mentioned a glitch in the SAP programming which allocated FICA/Medicare to taxable and non-taxable income as the cause for the error identified in the audit. We acknowledge that some travel may be taxable to an employee based on IRS rules and regulations; and, upon further review of travel-related expenses, we identified $908 of travel reimbursements to a UDAF Division Director processed through the State of Utah's payroll system and charged to the Program, resulting in the $58 FICA/Medicare charge to the program. Of more concern to us, based on our further investigation, is that the same Division Director charged an additional $11,806 in travel to the Program without charging corresponding time or effort to the Program. We recommend UDAF review all expenses processed and charged to a program to ensure that all expenses charged to a federal program are appropriately recorded and reasonable in fulfilling a program's objectives.

3. INTERNAL CONTROL WEAKNESSES AND NONCOMPLIANCE WITH PROCUREMENT, SUSPENSION & DEBARMENT, AND SUBRECIPIENT PRE-AWARD REQUIREMENTS

Federal Agency: **Department of the Interior**
CFDA Number and Title: **15.509 Colorado River Basin Salinity Control**
Federal Award Number: **R16AC00023**
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

UDAF does not have adequate internal controls established to ensure compliance with State contracting policies, does not use standard contract terms and conditions that include a suspension and debarment clause, and has not included required pre-award information in its contracts with subrecipients. For 2 of the 4 contracts awarding program funds to subrecipients, the signed/executed contracts did not 1) provide the award information (e.g., a DUNS number, the CFDA number, etc.) required by 2 CFR 200.331(a) or 2) include a standard clause attesting that the subrecipient was not suspended or debarred, as required by 2 CFR Part 180 and section 10 of the grant award.

Failure to execute contracts in accordance with state policy, to communicate key award information to subrecipients, or to require subrecipients to attest to suspension and debarment requirements could result in unallowable activities or expenditures being charged to the grant.

Recommendation:

We recommend UDAF establish internal controls to ensure all contracts: 1) are properly reviewed, approved, signed, and retained, 2) include necessary pre-award information as required by 2 CFR 331 when drawing up contracts with subrecipients, and 3) include a standard clause attesting that the subrecipient was not suspended or debarred.

UDAF's Response:

UDAF agrees with this finding.

Corrective Action Plan:

UDAF will ensure that all contract/grant agreements are properly reviewed, approved, signed and retained. Original documents are maintained in Administrative Services. The division may have a copy of documents but these should not be construed as original documents.

UDAF will ensure that all necessary pre-award information required by 2 CFR 331 is included with original contract/grant award documents.

UDAF will ensure that suspension and debarment standard wording is included in terms of the contract. A process will also be instituted whereas the contract analyst in Administrative

Services will verify through SAM that entities with which the Department enters into a subrecipient arrangement are not suspended or debarred.

Training will be provided for all individuals negotiating contracts/grant agreements to ensure an understanding of necessary requirements.

Contact Person: Debbie Lyberger, Administrative Services Director, 801-538-7110

Anticipated Correction Date: Once training is developed and presented. No later than January 1, 2019.

4. FAILURE TO MONITOR SUBRECIPIENT SINGLE AUDIT REPORTS

Federal Agency: **Department of the Interior**
CFDA Number and Title: **15.509 Colorado River Basin Salinity Control**
Federal Award Number: **R16AC00023**
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

UDAF did not analyze whether its subrecipients were required to have a single audit performed, nor did it review the reports for those subrecipients that had a single audit. According to 2 CFR 200.331(d), UDAF must 1) Review financial and performance reports required by the pass-through entity, 2) follow-up and ensure that the subrecipient takes timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means, and 3) issue management decisions for audit findings pertaining to the federal award it provides to subrecipients as prescribed in 2 CFR 200.521. UDAF program managers misunderstood their responsibilities under these requirements, as they thought the Federal Government's review of subrecipient audit findings exempted them from reviewing single audits. Failure to properly monitor subrecipient single audits could result in noncompliance with grant requirements at the subrecipient level going undetected and/or uncorrected.

Recommendation:

We recommend UDAF implement internal controls to ensure it monitors subrecipient single audit reports in accordance with 2 CFR 200.331(d).

UDAF's Response:

UDAF agrees with this finding.

Corrective Action Plan:

UDAF will ensure that contract/grant award responsible parties are trained to understand what type of entity is a subrecipient, which subrecipients are required to submit single audit reports, and how to review those reports.

Contact Person: Debbie Lyberger, Administrative Services Director, 801-538-7110
Anticipated Correction Date: Once training is developed and presented. No later than January 1, 2019.

5. ERROR IN REIMBURSEMENT REQUEST CALCULATION

Federal Agency: **Department of the Interior**
CFDA Number and Title: **15.509 Colorado River Basin Salinity Control**
Federal Award Number: **R16AC00023**
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

On the September 30, 2017 draw request, UDAF drew $646,547 less than it could have. Total reimbursable expenditures were understated in the draw calculation due to a clerical error which was not detected during the review process. This error was subsequently corrected on the December 31, 2017 draw. Draw calculations should be reviewed in detail to prevent or to detect and correct any errors. Errors in draw calculations could result in possible noncompliance with federal cash management principles.

Recommendation:

We recommend that UDAF improve its internal control over draw calculations to ensure all reimbursable program expenditures are included.

UDAF's Response:

UDAF agrees with this finding.

Corrective Action Plan:

UDAF has instituted a policy that requires at least one person who is not responsible for the preparation of the report to review calculations and approve the report prior to submission.

Contact Person: Debbie Lyberger, Administrative Services Director, 801-538-7110
Anticipated Correction Date: Immediately (10/09/2018)

6. IMPROPER APPLICATION OF INDIRECT COST RATE IN REIMBURSEMENT REQUESTS

Federal Agency: **Department of the Interior**
CFDA Number and Title: **15.509 Colorado River Basin Salinity Control**
Federal Award Number: **R16AC00023**
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

UDAF did not properly apply the approved ten-percent indirect cost rate when requesting reimbursement. As a result, $16,109 for fiscal year 2018 indirect administrative expenditures was not calculated correctly and therefore was not drawn by UDAF. The award letter documentation did not clarify the difference between the 10 percent indirect cost rate and the 10 percent earmarking requirement. Improper application of indirect costs rates and earmarking requirements could result in noncompliance with grant requirements.

Recommendation:

We recommend UDAF work with the Bureau of Reclamation to clearly define indirect cost rates and any applicable earmarking requirements.

UDAF's Response:

UDAF agrees with this finding.

Corrective Action Plan:

UDAF will work with the Bureau of Reclamation to amend the grant document to identify the 10% allowable for Admin/Indirect to reflect the same language and indicate that the second reference is the same 10% funding as in the first reference.

Contact Person: Debbie Lyberger, Administrative Services Director, 801-538-7110
Anticipated Correction Date: Spoke with Heidi Hansen at BOR. They will amend the agreement as needed once they receive the audit documents. Date is unknown.