DEPARTMENT OF WORKFORCE SERVICES

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

Report No. 18-06

OFFICE OF THE
STATE AUDITOR

AUDIT LEADERSHIP:
John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
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DEPARTMENT OF WORKFORCE SERVICES

Single Audit Management Letter

FOR THE YEAR ENDED JUNE 30, 2018

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

OFFICE OF THE
STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 18-06

November 19, 2018

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, 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. We tested the following federal programs at DWS:

- CCDF (Child Care) Cluster (CCDF)
- Temporary Assistance for Needy Families (TANF)

In planning and performing our compliance audit of the programs listed above, we considered DWS'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 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 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 DWS'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 DWS'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 to the CCDF and TANF programs.

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 deficiency in internal control over compliance presented in the accompanying schedule of findings and recommendations as Finding 1 to be a material weakness.

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, 3, and 4 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 to strengthen internal controls and operating efficiencies. This other finding is also included in the accompanying schedule of findings and recommendations.

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

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

COPIES SENT TO:

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
Tracy Gruber, Director, Office of Child Care
Stephen Lisonbee, Director, Workforce Development Division
Elizabeth Carver, Director, Workforce Development Division
Sisifo Taatiti, Assistant Director, Program and Training, Workforce Development Division
Dale Ownby, Director, Eligibility Services Division
Van Christensen, Director, Internal Audit
Muris Prses, Assistant Director, Eligibility Services Division
Debi Carty, Financial Manager, Administrative Support Division
Steven Nelson, Accounting Manager, Administrative Support Division

FINDINGS AND RECOMMENDATIONS

1. INADEQUATE INTERNAL CONTROLS OVER CCDF ELIGIBILITY

Federal Agency: **Department of Health and Human Services**
CFDA Numbers and Titles: **93.575 Child Care and Development Block Grant**
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Federal Award Numbers: **G1501UTCCDF, G1601UTCCDF, G1701UTCCDF, G1801UTCCDF**
Questioned Costs: **$8,723**
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

We tested DWS case files for 60 households receiving Child Care benefit payments and noted errors related to 3 of the 60 cases (5.00% error rate). The sampled expenditures totaled $49,137 and were taken from a total population of $67,176,963. We have questioned costs of $8,723 described in the weaknesses noted below:

a. For two cases, the caseworkers re-established eligibility without having the customers complete an annual case review. As a result, benefits were paid to these customers for a period of time in which eligibility had not been properly determined. We have questioned the $930 related to one sample item and the additional costs paid on behalf of this customer while ineligible during the fiscal year, totaling an additional $5,512. We have also questioned the payment of $2,281 to the second customer for the time period in which eligibility had not been determined.

b. For one case, the caseworker re-established eligibility for a period greater than 12 months. This could have resulted in benefits being paid to the customer outside of the allowed eligibility period. Since this error would have affected future payments, we have not questioned any costs associated with this case.

According to 42 USC 9858(c)(2)(N) and DWS Policy 730 & 735, DWS is required to re-determine eligibility every 12 months through a case review. These errors occurred because the caseworkers misinterpreted the information in eRep and re-established eligibility without the proper case reviews. Failure to re-determine eligibility every 12 months using a case review can result in inappropriate child care benefit payments and noncompliance with grant agreements.

Recommendation:

We recommend DWS use proper case reviews to re-establish eligibility every 12 months.

DWS's Response:

We agree with the first and third errors noted in the finding. We agree, in part, with the second error; however, we do not believe the error resulted in costs of $2,281 that should be disallowed.

The Department recognizes a procedural error occurred with the second case referenced in the findings of section 1(a) because the Department effectively shortened the original 12-month child care review period. However, the Department did, in fact, complete a case review for all programs using an acceptable form in accordance with DWS policy and re-established a new child care review period. The subsidy was re-determined using current income at the time the case review was completed and the new review period was set. The child care need was addressed based on current employment hours. The customer was using the same provider. The customer was eligible for the child care payments, and therefore, the money expended for child care on their behalf was appropriate.

Corrective Action Plan:

In September 2018, the Department met with all eligibility supervisors that support the child care program to review policy requirements and a new procedure. The new procedure instructs staff on how to deal with cases in the system when changes are reported within the 12-month review period. Program staff will also be attending child care staff meetings in October 2018 to discuss policy and the new procedure to ensure staff are aware of the requirements.

Additionally, the Department has worked with the Department of Technology Services to implement a system lock-in for the review period of child care cases. This will help support the 12-month review requirement by not allowing the system to change a review period when action is taken on a case. Lock-in review periods will be in place effective October 13, 2018.

Contact Person: Tilila Taulanga, Program Specialist, 801-833-2007
Anticipated Correction Date: October 31, 2018

2. INADEQUATE INTERNAL CONTROLS OVER TANF CHILD SUPPORT NON-COOPERATION

Federal Agency: **Department of Health and Human Services**
CFDA Numbers and Titles: **93.558 Temporary Assistance for Needy Families (TANF)**
93.714 ARRA – Emergency Contingency Fund for TANF State Program
Federal Award Numbers: **1502UTTANF, 1601UTTANF, 1701UTTANF, 1801UTTANF**
Questioned Costs: **$3,980**
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

We reviewed 60 cases of child support non-cooperation notices and noted 2 cases (3.33% error rate) where DWS did not appropriately reduce or deny benefits. Federal requirements (42 USC 608(a)(2)) and DWS policy (Policy WDD 825-2G) dictate termination of benefits for non-cooperating recipients within 60 days of notice from the Office of Recovery Services (ORS). Inadequate communication of ORS notifications between DWS divisions that oversee case reviews caused these errors to occur. Inadequate communication regarding child support non-cooperation may allow continuation of federal support to customers to whom support should be reduced or denied. We have questioned the payments related to the cases where benefits should have been reduced or denied, totaling $3,980.

Recommendation:

We recommend DWS improve communication of ORS notifications between divisions to ensure timely reduction or termination of benefits for child support non-cooperation.

DWS's Response:

We agree with the finding and recommendation.

Corrective Action Plan:

DWS will work with ORS to identify a solution to this data sharing inadequacy to ensure that DWS receives timely communication of ORS no-cooperation so that appropriate action can be taken on cases timely.

Contact Person: Sisifo Taatiti, Assistant Director, Program and Training, 801-526-4370
Anticipated Correction Date: May 31, 2019

3. INADEQUATE INTERNAL CONTROLS OVER REPORTING

Federal Agency: **Department of Health and Human Services**
CFDA Numbers and Titles: **93.558 Temporary Assistance for Needy Families (TANF)**
93.714 ARRA – Emergency Contingency Fund for TANF State Program
Federal Award Numbers: **1502UTTANF, 1601UTTANF, 1701UTTANF, 1801UTTANF**
Questioned Costs: **$0**
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

We reviewed the ACF 199 and 209 quarterly performance reports and the ACF 204 annual special report submitted by DWS during fiscal year 2018 and noted the following:

- DWS relied on the Federal Government's review of the ACF 199/209 reports rather than designing and implementing an adequate internal control over the reports' preparation.
- Line 8, "total number of families served," on the ACF 204 annual report did not agree to supporting documentation and was overstated by 1,026,000 families due to a clerical error. This error was not detected during the review process.

Federal regulations (2 CFR 200.303) require non-federal entities to "establish and maintain effective internal control…that provides reasonable assurance that the non-federal entity is managing [the program] in compliance with…terms and conditions of the federal award."

Internal review of performance and special reports, including key line items with direct and material effect on federal programs, should occur prior to submission and should identify incomplete, inaccurate, and inconsistent information and should ensure reported information agrees to supporting documentation. Failure to establish controls and appropriately review the performance and special reports prior to submission can result in incomplete, inaccurate, and inconsistent data being reported and relied upon for other key grant metrics.

Recommendation:

We recommend DWS establish appropriate controls over reports that: 1) are internal to DWS, and 2) ensure that key information is complete, accurate, consistent, and agrees to supporting documentation.

DWS's Response:

We agree with the finding and recommendation.

Corrective Action Plan:

A procedure will be created to establish internal controls prior to completion of reporting.

Contact Person: Sisifo Taatiti, Assistant Director, Program and Training, 801-526-4370
Anticipated Correction Date: December 31, 2018

4. COST ALLOCATION IMPLEMENTATION ERRORS

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

The following errors occurred as part of cost allocation plan implementation at DWS:

- Of 25 non-payroll allocated costs sampled, 3 costs totaling $278 were inaccurately included in DWS's cost allocation pools and should have been charged to the program as direct costs. DWS's approved cost allocation plan indicates that, to the maximum extent feasible, DWS will direct charge program costs. The inappropriate inclusion of direct costs in the cost allocation pools occurred because DWS staff did not appropriately code these transactions in the general ledger and the transaction-level review did not detect the error.

- DWS inaccurately calculated random moment time strike (RMTS) distribution percentages used to allocate costs because it excluded the strikes for general administrative and multi-program support (approximately 3 percent of time strikes). This resulted in a misallocation of $1,154 of the $40,309,070 in allocated costs for our sampled quarter. According to DWS's cost allocation plan, the strikes for general administrative and multi-program support should be included in the allocation of strikes to determine appropriate distribution percentages. DWS has not established an internal control to review the calculations prior to allocation. We did not question any costs since they were appropriate costs, although misallocated.

These errors resulted in 1) an 0.85% sample error rate for non-payroll costs, which projected to $406,929 of inappropriately charged direct costs, and 2) a projected misallocation of $4,616 of the $161,236,279 of allocable costs for the fiscal year. Ineffective or inadequate internal controls over these elements of DWS's cost allocation plan could result in inappropriate costs being charged to federal programs.

Recommendations:

We recommend DWS establish effective internal controls to ensure:

- **Direct costs are appropriately charged to federal programs.**
- **RMTS distributions include all appropriate strikes, including those for general administrative and multi-program support.**

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 costs are appropriately recorded directly to federal or state programs or to allocation pools and to ensure that pooled costs are allocated to benefiting programs in accordance with the methodologies delineated in the department's federally-approved Public Assistance Cost Allocation Plan (PACAP). It appears that the established internal controls that should have prevented or detected the errors cited by the auditors did not function as designed. The department will strengthen the existing internal controls to ensure that costs are appropriately recorded directly to federal or state programs or to allocation pools and to ensure that pooled costs are allocated in accordance with the PACAP.

Contact Person: Nathan Harrison, Finance Director, 801-526-9402
Anticipated Correction Date: December 31, 2018

5. INADEQUATE INTERNAL CONTROLS OVER TANF EARMARKING

Federal Agency: **Department of Health and Human Services**
CFDA Numbers and Titles: **93.558 Temporary Assistance for Needy Families (TANF)**
93.714 ARRA – Emergency Contingency Fund for TANF State Program
Federal Award Numbers: **1502UTTANF, 1601UTTANF, 1701UTTANF, 1801UTTANF**
Questioned Costs: **$0**
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

DWS does not monitor the average monthly number of families receiving TANF assistance for more than 60 countable months as compared to the average monthly number of all families receiving TANF assistance during the fiscal year. 45 CFR §264.1(c) states that the ratio of "the average monthly number of families" receiving longer-term assistance under TANF (considered as 60 countable months) "may not exceed 20 percent of the average monthly number of all families who have received" assistance in the fiscal year, or the preceding fiscal year. This error occurred because program management did not understand the requirement for both the calculation and the frequency of the calculation. Failure to monitor long-term assistance as described above may result in noncompliance with federal earmarking requirements.

Recommendation:

We recommend DWS monitor the ratio of families receiving longer-term TANF assistance as outlined in 45 CFR §264.1(c).

DWS's Response:

We agree with the finding and recommendation.

Corrective Action Plan:

We reviewed the average monthly number of families receiving TANF assistance over 60 months for fiscal years 2014-2017 and found that the caseload never exceeded 1.5 percent. The department will prepare a report annually and calculate the average monthly number of all families who have received assistance for the preceding fiscal year. If the actual caseload approaches the 20 percent federal limit found in 45 CFR §264.1(c), the department will evaluate the annual review process.

Contact Person: Sisifo Taatiti, Assistant Director, Program and Training, 801-526-4370
Anticipated Correction Date: November 30, 2018