DEPARTMENT OF WORKFORCE SERVICES

Management Letter
For the Year Ended June 30, 2020

Report No. 20-34

OFFICE OF THE
STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Jason Allen, CFE, CPA, Audit Director
Andrew Driggs, Audit Senior

DEPARTMENT OF WORKFORCE SERVICES

Management Letter

FOR THE YEAR ENDED JUNE 30, 2020

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

OFFICE OF THE
STATE AUDITOR

MANAGEMENT LETTER NO. 20-34

April 29, 2021

Ms. Casey Cameron, Executive Director
Department of Workforce Services
140 East 300 South
SLC, Utah 84111-2305

Dear Ms. Cameron:

This management letter is issued as a result of our audit of the State of Utah's basic financial statements as of and for the year ended June 30, 2020. It is also issued as a result of Department of Workforce Services's (DWS's) portion of the statewide federal compliance audit (Single Audit) for the year ended June 30, 2020. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Our final reports on internal controls and on compliance required under *Government Auditing Standards* and federal *Uniform Guidance* will be issued under separate cover. These reports will also provide further detail as to considerations made during the course of the audit regarding internal controls and compliance, both at the financial statement and at the federal program level, and the limited purposes of those considerations. The purpose of this letter is to communicate with Department management concerns identified during the course of our audit.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees to prevent or to detect and correct on a timely basis misstatements, errors, or instances of noncompliance. A *material weakness in internal control* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatements, errors, or noncompliance are not prevented or are not detected and corrected on a timely basis.

Based on the audit procedures performed, we identified certain deficiencies in internal control which we consider to be material weaknesses (Findings 1–4 and 6). We also identified deficiencies in internal control which, while not considered material, we consider to be significant enough to merit the further attention of management and those charged with governance (Findings 5 and 7–14). We also identified Findings 2, 3, 6, 7, and 11–13 as instances of noncompliance which we are required to report under *Uniform Guidance*.

DWS's written responses to and Corrective Action Plans for these findings will be included in the final reports identified in the second paragraph above.

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 the Department's internal control over compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to *Utah Code* Title 63G Chapter 2, this report is a matter of public record, and as such, its distribution is not limited.

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

Sincerely,

Jason Allen, CFE, CPA
Audit Director
801-808-0716
jasonallen@utah.gov

cc: Greg Paras, Deputy Director, Department of Workforce Services
Nate McDonald, Deputy Director, Department of Workforce Services
Nathan Harrison, Finance Director, Administrative Support Division
Debi Carty, Financial Manager, Administrative Support Division
Steven Nelson, Assistant Director, Administrative Support Division
Van Christensen, Director, Internal Audit
Kevin Burt, Unemployment Insurance Director
Dale Ownby, Director, Eligibility Services Division
Jennifer Edwards, Assistant Director, Housing and Community Development Division
Marty Henrie, Chair, Olene Walker Housing Loan Fund Board
Muris Prses, Assistant Director, Eligibility Services Division
Keith Heaton, Assistant Director, Housing and Community Development Division
Rebecca Anderson, Information Security and Facilities Director, Administrative Support Division

FINDINGS AND RECOMMENDATIONS

1. Oversight of Federal Programs Administered in the HCD and ASD Divisions Should Be Strengthened

Federal Agencies: 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 Numbers: N/A

The Housing and Community Development Division (HCD) at the Department of Workforce Services (DWS) did not manage the Home Investment Partnership program (HOME) and the Low-Income Home Energy Assistance program (LIHEAP) in accordance with federal regulations, potentially jeopardizing future funding and/or reducing HCD's ability to assist those supported by its programs throughout the State of Utah.

2 CFR 200.303 (*Uniform Guidance*) identifies four key areas HCD must implement to effectively manage federal programs. These areas include:

a. Establishing and maintaining effective internal controls;
b. Complying with federal statutes, regulations, and federal award terms and conditions;
c. Evaluating and monitoring compliance with (b); and,
d. Taking prompt action when instances of noncompliance are identified, including those identified in audit findings.

<u>Establishing & Maintaining Effective Internal Controls</u>

HCD and its financial managers in the Administrative Support Division (ASD) have not established or maintained effective internal controls, which include a sound control framework or "tone at the top." Deficient critical elements of a sound control framework include:

a. Clearly defined program and financial management responsibilities;
b. Adequate knowledge, experience, and supervision for program and financial management to perform their responsibilities and adhere to program requirements and established policies;

The table below identifies instances in which HCD and its financial managers in ASD did not have a sound internal control framework to ensure compliance with federal statutes, regulations, and terms and conditions. Findings 2, 3, 4, and 6 are considered material, or more severe, weaknesses while Findings 5, 7, 8, and 14 are considered significant deficiencies in internal controls.

Finding	Program/Division	Significance		Compliance Requirement Area(s)	Questioned Costs
		Internal Control	Compliance		
2	HOME— HCD/ASD	Material	Material	Sub-recipient monitoring	None
3	HOME – HCD/ASD	Material	Reportable	Allowable Activities/Costs	$32,081
4	HOME – HCD	Material	Other	Eligibility, Special Tests	None
5	HOME – HCD/ASD	Significant deficiency	N/A	Program Income	None
6	LIHEAP – HCD	Material	Material	Allowable Activities, Allowable Costs, Eligibility – COVID-19	$6,606
7	LIHEAP – HCD	Significant deficiency	Reportable	Allowable Costs, Eligibility – Regular	$170
8	LIHEAP – HCD	Significant deficiency	Other	Reporting	None
14	HOME – HCD/ASD	Significant deficiency	N/A	SEFA Reporting	None

Complying with Federal Statutes, Regulations, & Federal Award Terms and Conditions

As identified in the table above, HCD and its financial managers in ASD did not comply with federal statutes, regulations, and terms and conditions, as well as the Department's own policies for the fiscal year ended June 30, 2020. Findings 2 and 6 are considered material noncompliance while Findings 3 and 7 are required to be reported under *Uniform Guidance*. Findings 4 and 8, while not required to be reported under *Uniform Guidance*, indicate other instances of noncompliance.

Evaluating and Monitoring Compliance

Division management for HCD and its financial managers did not perform evaluation and monitoring activities or these activities were insufficient, as identified in Findings 2, 4, 6, and 8. Findings 2–6, and 8 illustrate circumstances where evaluation and monitoring activities did not ensure adherence to established policies and/or established internal controls.

Taking Prompt Action to Resolve Noncompliance

Communication of noncompliance through reports, findings, etc., with all responsible parties allows for prompt and complete action towards resolution. Findings 2 and 5 identify facts and circumstances that were not communicated or resolved in a timely manner by HCD and its financial managers.

Recommendation:

We recommend HCD and its financial managers:

1. Gain an understanding of the federal "Green Book" or "COSO Framework" to then design effective internal control including the establishment of a sound control environment and effective risk assessment procedures;
2. Comply with federal statutes, regulations, federal award terms and conditions, and internal policies;
3. Perform evaluation and monitoring activities to assess operational quality and on-going performance of internal controls to ensure reasonable compliance; and
4. Promptly take action to address instances of noncompliance and deficiencies of internal controls.

DWS's Response:

The department has an established system of internal controls which is designed to provide reasonable assurance, not absolute assurance, that the department's objectives will be achieved. 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.

Corrective Action Plan:

The department will conduct a review of its procedures and the associated internal controls to identify the cause of the errors cited by the auditors. The results of the review will be utilized to make adjustments to policies, procedures, and internal controls, as considered necessary, with the goal of ensuring that the five components of internal control (and relevant principles) are properly designed, implemented, and operate together in an integrated manner.

Contact Person: Nate McDonald, Deputy Executive Director, 801-694-0294
Anticipated Correction Date: June 30, 2021

2. Failure to Comply with HOME Sub-Recipient Monitoring Requirements

Federal Agency: Department of Housing & Urban Development (HUD)
CFDA Numbers and Titles: 14.239 HOME Investment Partnership Program
Federal Award Numbers: M19-SG490100
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

As part of our audit of the Home Investment Partnership Program (HOME) sub-recipient agreements at the DWS's Housing and Community Division, we identified the following:

- Program and financial managers failed to ensure a complete contractor/sub-recipient determination existed for six of eight agreements. For the remaining two agreements, both original determinations were incorrect or incomplete. The program and financial managers subsequently identified and completed one of these determinations nine months after execution, but the determination remained incorrect. Division management, the party charged with agreement execution, did not detect or correct any missing, incorrect, or incomplete determinations prior to executing agreements.

- Program contracting processes failed to ensure all agreements included key pieces of information, such as the date of the federal award, the total amount of federal funds obligated to the entity (including the amount awarded by the current contract), and the indirect cost rate for the awards. Four of these eight agreements were missing the awardee's unique entity identifier/DUNS.
- Pre-award risk assessments were not performed by Internal Audit because of the improper determination of subrecipients.
- Program managers did not have effective internal controls to ensure proper identification, communication, and monitoring activities were performed for HOME sub-recipients.

2 CFR 200.331 indicates "A pass-through entity must make case-by-case determinations whether each agreement it makes for the disbursement of Federal program funds casts the party receiving the funds in the role of a subrecipient or a contractor." Additionally, 2 CFR 200.332 sets forth requirements that a pass-through entity must clearly identify certain federal award information in its subawards, evaluate each sub-recipient's risk of noncompliance for regular monitoring, and perform monitoring activities to ensure the award is used for authorized purposes. Lastly, 2 CFR 200.303 requires non-federal entities to establish and maintain effective internal control over federal awards to provide reasonable assurance it manages its federal awards in compliance with federal requirements.

Program and financial managers did not follow or consider DWS's updated sub-recipient policies (dated July 1, 2018) to ensure compliance with *Uniform Guidance*. Division managers did not ensure adherence to policies or monitor internal controls for design, implementation, and on-going performance to effectively ensure compliance. Additionally, these errors occurred due to lack of clear understanding of sub-recipient determinations and monitoring requirements using HOME-program specific guidelines (24 CFR 92.504), blurred determination and decision review responsibilities, and siloed contracting procedures.

Misidentification of sub-recipients, incomplete or missing sub-award information, and failure to monitor sub-recipients could lead to noncompliance for DWS and its sub-recipients, as well as improper recording and reporting of federal expenditures.

<u>Recommendation</u>:

We recommend the following:

1. Program and financial managers gain an understanding of and document sub-recipient policies to comply with *Uniform Guidance*, HOME federal regulations (24 CFR 92.504), and DWS policies;
2. Program managers design and implement effective internal controls for sub-recipient compliance requirements, with division management oversight;

3. Program, financial, and Division managers work together to define sub-recipient determination and decision review responsibilities; and,
4. Merge division contracting into DWS central contracting.

DWS's Response:

The department will implement the recommendations.

Corrective Action Plan:

The department will address the recommendations by merging the division contracts team into the department's central contracts team. The appropriate internal controls are in place within the department's central contracts team to ensure Uniform Guidance and federal regulations are followed more closely. This move will provide additional oversight and align contract management responsibilities with the rest of the department.

Contact Person: Nate McDonald, Deputy Executive Director, 801-694-0294
Anticipated Correction Date: June 1, 2021

3. Unallowable HOME Loan Write-Off and Other Improper Accounting Errors

Federal Agency: Department of Housing & Urban Development (HUD)
CFDA Number and Title: 14.239 HOME Investment Partnership Program
Federal Award Number: M19-SG490100
Questioned Costs: $32,081
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

During fiscal year 2020, the HOME program financial managers wrote off a $32,081 single-family loan, which went into foreclosure in 2012, and inappropriately charged the write-off to the HOME Federal Entitlement Fund. We also identified incorrect accounting errors for two of six sampled project transactions—a 33.3 percent error rate. One part of the accounting error indicated that the transaction pertained to the HOME program and another part of the error indicated the transaction pertained to a non-federal program. These errors were not corrected by financial managers approving the transactions.

HOME policy requires that program loans considered for write-off from the HOME loan, HOME program income loan, State match loan, or State match program income loan funds "be 'purchased' by state funds then the write-off will be in the state funds and not federal funds in order to recapture the entire federal funds." Additionally, 2 CFR 200.426 explicitly identifies bad debts as unallowable costs for federal programs and requires states to be "[consistent] with policies and procedures that apply uniformly to both federally financed and other activities of the non-Federal entity."

Although program managers processed the write-off through the appropriate channels, financial managers relied on unsupported historical bad debt write-off practices that did not conform to the program's own policy. Financial managers also disregarded established costing and account coding structure applicable to the HOME program. Improper expensing, costing, and coding of program (and non-program) transactions without proper internal controls can result in improper charging of unallowable activities or unallowable costs to the federal program, incorrect recording of loans and subsequent program income, and erroneous reporting. The $32,081 write-off loss, which we have questioned, was taken from a sample population of $1,782,025 and a total population of $10,210,579.

Recommendation:

We recommend HOME program financial managers:

1. Follow established loan write-off policy or receive written federal authorization for the historical practices and update HOME policy accordingly;
2. Communicate updated policies to the necessary parties, which could include the Olene Walker Housing Loan Fund Board and the State Division of Finance; and,
3. Revise and follow the account coding and costing structure.

DWS's Response:

The write-off of the single-family loan cited by the auditors was a conversion of a homebuyer project loan to a grant, as authorized by the Olene Walker Housing Loan Fund Board, for the amount that was unable to be recaptured due to insufficient net proceeds available from the sale of the associated property. The department believes that the treatment of this foreclosure situation is in accordance with applicable federal regulations, guidance in HUD Notice CPD 12-003, and our 2019 Annual Action Plan which was approved by HUD. The State Division of Finance classified the transaction recorded in the State's general ledger system (FINET) for the conversion of the homebuyer project loan to a grant as a "special grant" which the auditors cited as an accounting error. The other accounting error cited by the auditors was a result of the department's financial manager using only the last two digits of the program codes that were recorded in FINET to classify certain HOME Investment Partnerships Program transactions. The department acknowledges that the utilization of the program codes in this way could potentially cause confusion for non-finance personnel looking at the program codes in their entirety for these transactions, but this treatment did not result in any HOME Investment Partnerships Program transactions being classified incorrectly or being recorded in an incorrect fund.

Corrective Action Plan:

The department will work with appropriate officials at the Department of Housing & Urban Development (HUD) to ensure that the department's treatment of the foreclosure situation cited by the auditors is proper and will make necessary corrections HUD requires, if any.

The "write-off policy" for the Olene Walker Home Loan Fund (OWHLF) has been re-titled as a "recapture policy" and has been updated to ensure that it aligns with applicable HUD guidance, the approved Annual Action Plan, and applicable accounting policies. The updated policy was approved by the OWHLF Board at their meeting held on April 22, 2021.

To eliminate any potential confusion with regards to how transactions are recorded, the department will begin using the same program code for all entitlement funds, regardless of source, and will also begin using the same program code for all program income, regardless of source (this will be a different program code, however, than the program code utilized for entitlement funds). The funding source will be identified on the State's general ledger system (FINET) based on the fund where the transactions are recorded. The program code changes will be effective for the State fiscal year which begins on July 1, 2021.

Contact Person: Jess Peterson, Housing Program Manager, 385-235-2975
Nathan Harrison, Finance Director, 801-526-9402
Anticipated Correction Date: June 30, 2021

4. HOME Eligibility and Housing Quality Inspections Not Performed in Accordance with Policy

Federal Agency: Department of Housing & Urban Development (HUD)
CFDA Numbers and Titles: 14.239 HOME Investment Partnership Program
Federal Award Numbers: M19-SG490100
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

HOME did not perform on-site inspections for 2 of 40 sampled inspections (a 5 percent error rate) within a two-year interval in accordance with the Olene Walker Housing Loan Fund (OWHLF) Program Guidance and Rules. In addition, the new program manager was unaware of the responsibility to establish internal controls as required by *Uniform Guidance*.

OWHLF Program Guidance and Rules, as supported by 24 CFR 92.504(d)(1)(ii), requires frequent inspection based on units in the property (i.e., 5–25 units inspected every 2 years). 2 CFR 300.303 requires 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."

Program staff did not perform the on-site inspections in accordance with OWHLF policy because they tracked inspections manually and incorrectly established future inspection dates, which should have been detected by an internal control. The program manager relied on external reviews and staff experience to ensure compliance with requirements. Division management did not monitor internal controls to identify the missing internal control when staff turned over.
A lack of internal controls over single family eligibility determinations and multi-family on-site inspections increases the risk that ineligible recipients receive federally subsidized housing, poor housing conditions, or noncompliance of federal housing subsidies by housing owners or management.

Recommendation:

We recommend HOME:

1. Design and implement internal controls over single and multi-family eligibility determinations and on-site inspections to ensure compliance; and,
2. Follow OWHLF written policies and procedures regarding the frequency of multi-family inspections.

DWS's Response:

The department will implement the recommendations.

Corrective Action Plan:

The Olene Walker Home Loan Fund (OWHLF) has already updated the homebuyer procedures to include internal controls over eligibility. The program will also include the use of HUD's income calculator for eligibility determinations. Once the process has been updated, internal policies and procedures will also be updated to reflect those changes.

OWHLF has already updated the multi-family procedures to include a monthly review of the completed monitoring by the Multi-Family Program Specialist to ensure compliance. Internal policies and procedures reflect those changes.

The department will revise OWHLF procedures regarding the frequency of multi-family inspections to align with Uniform Guidance and HUD's requirements.

Contact Person: Jess Peterson, Housing Program Manager, 385-235-2975
Anticipated Correction Date: June 30, 2021

5. Untimely Identification and Resolution of HOME Loan Reconciliation Differences

Federal Agencies: Department of Housing & Urban Development (HUD)
CFDA Numbers and Titles: 14.239 HOME Investment Partnership Program
Federal Award Numbers: M19-SG490100
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Numbers: N/A

Finance services Home Investment Partnership Program (HOME) loans on behalf of the Department of Workforce Services (DWS). Finance did not properly identify and resolve reconciling items between the State's loan tracking system and general ledger (FINET) for the HOME loans. DWS finance managers did not adequately monitor Finance's reconciliation to ensure differences were properly identified and resolved in a timely manner. Reconciling differences from the November 2019 and/or May 2020 reconciliations included the following:

- 29 items which spanned from fiscal year 2009 to 2019 and totaled $1,169,228

- 18 unusual items which included "unknown differences" or amounts that did not appear to be HOME loan related and totaled $1,368,151
- 1 unusual current fiscal year item left unresolved for a majority of the fiscal year in the amount of $745,000.

Adequate internal controls over cash receipts, disbursements, and financial reporting rely upon the performance of monthly reconciliations between the loan system and the general ledger. This reconciliation procedure also ensures the correct use and reporting of the HOME loan principal and interest payments (program income). Reconciling differences should be investigated and resolved in a proper and timely manner.

Finance's focus on prioritizing current transactions rather than previous transactions combined with constraints of setting up loans in the loan system caused these errors to occur. Additionally, DWS finance managers, who are primarily responsible for compliance with HOME loan program income requirements, did not actively monitor loan servicing performed by Finance.

DWS uses program income to award and disburse new HOME loan funds prior to drawing additional funds from federal sources. Failure to properly identify and resolve loan fund transactions in a timely manner can result in undetected errors, fraud, or noncompliance with federal program income requirements.

<u>Recommendation:</u>

We recommend the following:

1. Finance and DWS finance managers work together to investigate and resolve the reconciling differences in a timely manner;
2. Finance and DWS finance managers resolve loan system constraints to ensure accurate and proper recording and reporting of transactions; and
3. DWS actively monitor loan servicing performed by Finance to ensure proper handling of HOME loan principal and interest payments (program income).

<u>DWS's Response</u>:

Prior to the audit, the department initiated and completed a comprehensive reconciliation of loan information for the HOME Investment Partnerships Program in the department's grant management system (Webgrants), the State's general ledger system (FINET), the State's loan management system (CLCS), and the Integrated Disbursement and Information System (IDIS). This comprehensive reconciliation spanned a period of 15 years to ensure that department personnel captured and reconciled all historical differences. The State's loan management system (CLCS) is administered by the State Division of Finance which also services the HOME Investment Partnerships Program loans for the department. The department has been working with the State Division of Finance to resolve the outstanding reconciling differences identified as a result of the comprehensive reconciliation. Resolving the reconciling items for the HOME Investment Partnerships Program is complex due to the use of multiple subaccounts for the program and a significant amount of activity between those subaccounts by both the State Division of Finance and the department. The majority of the unreconciled items noted by the *auditor occurred in years prior to the employment of current State Division of Finance staff. Many items require extensive research to resolve due to the lack of evidence and documentation on old reconciliations. The net effect of the errors identified by the auditor totaled $569,262.*

Corrective Action Plan:

The department and the State Division of Finance have made it a priority to complete and resolve any remaining fiscal year 2020 reconciliations and reconciling items while also establishing additional controls and procedures to ensure that the loan management system (CLCS) is reconciled timely to the State's general ledger system (FINET) going forward. Additional process improvements include:

- *State Division of Finance management review of monthly loan fund reconciliations.*
- *Regularly scheduled meetings between the State Division of Finance and the department's HOME program staff and financial manager to resolve outstanding items or issues.*
- *State Division of Finance staff distributing monthly reports from CLCS to the department's HOME program staff and financial manager in order to verify correct coding and amount of disbursements.*
- *The State Division of Finance continuing to modify/update/develop policies and procedures surrounding the reconciliation process.*
- *The department implementing a reconciliation process during fiscal year 2020 which is performed by the HOME program's financial manager and occurs no less often than quarterly to ensure that differences are identified and resolved in a timely manner.*

Contact Person: Nathan Harrison, Finance Director, 801-526-9402
Anticipated Correction Date: June 30, 2021

6. LIHEAP CARES Act Benefit Policy Development and Deployment Did Not Align with Award Terms and Conditions

Federal Agencies: Department of Health and Human Services
CFDA Numbers and Titles: 93.568 Low-Income Home Energy Assistance Program
Federal Award Numbers: 2001UTE5C3
Questioned Costs: $6,606
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Numbers: N/A

DWS developed a Coronavirus Aid, Relief, and Economic Security Act (CARES Act) benefit policy to rapidly issue flat benefit amounts of $550 per household for its Low-Income Home Energy Assistance Program (LIHEAP). This policy did not align with normal LIHEAP award terms and conditions, which should be effective for the CARES Act portion of funding.

The CARES Act LIHEAP Notice of Award did not modify the normal terms and conditions applicable to LIHEAP recipients and their eligibility requirements, but it did extend the period of obligation to September 30, 2021. DWS awarded the additional benefit on a first-come, firstserved basis to households that already received benefits during the program season (October 2019 – April 2020) without determining any targeted income, energy assistance, or Coronavirus need. Normal terms and conditions for eligibility specify that benefit amounts should be determined by calculating income, energy burden, and target group, including for crisis-type payments.

We sampled 13 households and determined all 13 households were over the maximum benefit amount established under normal award terms and conditions. We calculated a sample excess benefits amount of $6,006 from a sample population of $7,150 and projected the error over the total CARES Act benefit population of $4,818,050. Based on our sampling, we consider the material portion of CARES Act benefits paid to be excessive. We have questioned the sample excess benefits of $6,006. In addition, we identified four households from our population that received $150 each in excess of the flat $550 CARES Act amount. Therefore, we have also questioned those costs of $600.

In its effort to quickly disburse the CARES Act funds, program managers overlooked the purpose and timing outlined in the terms and conditions of its federal award and disregarded normal eligibility policies and procedures. In addition, division management's inadequate oversight of policy development and rapid deployment could not only result in waste of federal funds, but also in targeted households not receiving adequate benefits.

Recommendations:

We recommend DWS program managers follow terms and conditions provided in federal notices of awards, and division management provide adequate oversight of program policy development and deployment to ensure it meets program purposes.

DWS's Response:

When the CARES supplemental funding was awarded, states were given the flexibility to determine how to disperse the funding, including the option to provide a flat benefit amount. Due to system limitations, the department decided on a flat benefit amount in order to get the benefits to families quickly and efficiently. Other states also provided flat benefit amounts to LIHEAP customers including Nebraska, Washington D.C., and Colorado. All benefits went to LIHEAP-eligible households.

Corrective Action Plan:

On October 1, 2020, the HEAT Program began using the department's Electronic Resource Eligibility Product (eREP) system for eligibility determination. This will provide more options in the future including individualized benefits.

Contact Person: Sisifo Taatiti, HEAT Program Manager, 801-468-0069
Anticipated Correction Date: October 1, 2020

7. LIHEAP Benefit Overpayments Due to Improper Eligibility Decisions

Federal Agencies: Department of Health and Human Services
CFDA Numbers and Titles: 93.568 Low-Income Home Energy Assistance Program
Federal Award Numbers: 2001UTE5C3, G-1901UTLIEA
Questioned Costs: $170
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Numbers: N/A

DWS and its sub-recipients improperly determined eligibility benefit amounts for LIHEAP. We sampled 60 households that received regular LIHEAP benefit payments and noted errors related to 2 of the 60 cases (3.33 percent error rate). The sampled expenditures totaled $31,932 from a total population of $15,167,806. We have questioned costs of $170 as described below:

a. For one case, the intake worker did not include annuity income on the client's application. This caused the client to receive a total benefit overpayment of $20, which we have questioned.
b. For another case, the intake worker inaccurately identified the client as over 60 years old and disabled. This caused the client to receive a total benefit overpayment of $150, which we have questioned.

DWS policies, as delegated by 42 USC 8624, specify that annuity income should be included in benefit calculations. Additionally, program policies identify disabled clients over age 60 as a target group for additional benefit. DWS's sub-recipient monitoring activities did not adequately consider, assess, or address risks to compliance posed by sub-recipient employee turnover, policy training, and program requirement knowledge. Improper eligibility determinations and failure to detect errors can cause inappropriate benefit payments and improper use of federal funds.

Recommendation:

We recommend DWS focus its sub-recipient monitoring activities, including risk assessment and policy communication, to address eligibility noncompliance risks from sub-recipient staff turnover, training, and ineffective internal controls.

DWS's Response:

The department will implement the recommendation.

Corrective Action Plan:

The department will expand monitoring procedures to include real-time feedback to agencies and provide case reviews on a monthly basis. We will also provide targeted training support to all HEAT agencies to address compliance and ensure accurate eligibility determinations for benefits.

Contact Person: Sisifo Taatiti, HEAT Program Manager, 801-468-0069
Anticipated Correction Date: October 1, 2020

8. LIHEAP Reporting Errors and Untimely Submissions

Federal Agencies: Department of Health and Human Services
CFDA Numbers and Titles: 93.568 Low-Income Home Energy Assistance Program
Federal Award Numbers: G-1901UTLIEA, 2001UTE5C3
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Numbers: N/A

The Department of Workforce Services did not have internal controls to prevent and detect the errors in and timely submission of its LIHEAP reports as follows:

LIHEAP Performance Data Form

- 12 of 61 lines reported incorrect information. The difference of reported average dollar amounts ranged from $43 understated to $3,869 overstated, and number of households reported ranged from 4,084 to 1,077 understated.
- The report was submitted 4 days after the report due date.

Annual Report on Households Assisted by LIHEAP

- 3 of 23 lines reported incorrect information. Inaccurate number of households ranged from 41 understated to 2,000 overstated.
- The report was submitted 42 days after the report due date.

Carryover and Reallotment Report

- This report was prepared and submitted before it was approved.

2 CFR 200.303 states, "The non-federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award." Reports, especially key line items, should be prepared and documented from complete, accurate, and consistent data, subjected to internal review, and submitted in a timely manner as required by award terms and conditions.

Program managers misunderstood new program requirements, used inconsistent data, and inadequately documented report preparation, which should be detected by internal controls. Program managers, however, relied on external review, rather than an internal review. In addition, division managers did not supervise program managers to ensure they understood program requirements or monitor internal controls for on-going performance, effects of new requirements, or maintenance of separation of duties. Failure to design, implement, and adhere to internal controls could result in incomplete, inaccurate, and inconsistent reporting.

Recommendation:

We recommend DWS:

1. Design and implement internal controls for performance and special reports;
2. Division managers perform supervision and monitoring activities to ensure internal controls function as designed;
3. Gain a sufficient understanding of performance report requirements;
4. Use consistent data for reporting and adequately document preparation methodology; and,
5. Submit reports on time.

DWS's Response:

The former HEAT Program eligibility system, SEALWorks, had limitations for reporting. On October 1, 2020, the HEAT Program began using the department's Electronic Resource Eligibility Product (eREP) system for eligibility determination. The eREP system will enable the department to provide more accurate data for reporting and mitigate the need for manual data collection. An extension to the deadline was requested and granted by OCS for the report to be submitted at a later date as the data was still being gathered.

Corrective Action Plan:

The department will ensure that proper internal controls are in place for reporting. We will implement internal controls and use consistent program data for reporting and adequately documenting methodologies. In preparation of the report, the program manager will ensure that all methodologies are documented. The program manager will complete the reports and the division director and assistant director will review the reports prior to submission.

Contact Person: Sisifo Taatiti, HEAT Program Manager, 801-468-0069
Anticipated Correction Date: October 1, 2020

9. SNAP Benefit Issuance Reconciliation Differences Go Unresolved

Federal Agencies: Department of Agriculture
CFDA Numbers and Titles: 10.551 and 10.561 Supplemental Nutrition Assistance Program
Federal Award Numbers: Various
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Numbers: N/A

DWS did not identify or resolve ongoing reconciling differences between eREP, its central issuance system, and Conduent, its EBT contractor postings, in a timely manner. The reconciling differences began in January 2019, averaged $143,451 per day through June 30, 2020, and ranged from $8,451,857 to ($6,431,326). Because it had not resolved the differences, DWS could not rely on its system to generate issuance data for federal reporting purposes and instead, relied upon external issuance data provided by Conduent.

7 CFR 274.4 requires State agencies to reconcile benefits posted on their central computer against benefits on issuance authorization files, to reconcile total funds entering into, exiting from, and remaining in the system each day, and to provide maintenance of audit trails that document the full cycle of benefit issuance through retailer settlement. In addition, the regulation requires benefit issuance and reconciliation information be reported from the State agency's system to USDA Food and Nutrition Service.

During its system update processes, DWS implemented changes in eREP that inadvertently caused the system to incorrectly report benefit issuance amounts for daily reconciliation purposes. Improperly implemented system updates could result in incorrect benefit calculations and issuances that remain undetected.

Recommendation:

We recommend DWS improve its internal controls over change management processes to ensure errors in application programs are prevented or detected and corrected before the changes are moved into the production environment.

DWS's Response:

The department concurs with the finding.

Corrective Action Plan:

The Eligibility Services Division will work with the Workforce Research and Analysis Division and the Department of Technology Services to identify and correct the reporting issue. We will also ensure thorough testing is completed prior to deploying.

Contact Person: Dale Ownby, Director, Eligibility Services Division
Anticipated Correction Date: August 31, 2021

10. Mandatory Benefit Overpayment Detection Matches Not Performed for Pandemic Unemployment Assistance

Federal Agencies: Department of Labor
CFDA Numbers and Titles: 17.225 Unemployment Insurance
Federal Award Numbers: Various
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Numbers: N/A

The Unemployment Insurance Division (UI) at the DWS did not perform the three mandatory overpayment detection cross-match procedures for claims under the Pandemic Unemployment Assistance program (PUA) during fiscal year 2020. Additionally, UI did not design or implement internal controls to ensure performance and compliance of such procedures.

The Department of Labor issued Unemployment Insurance Program Letter (UIPL) No. 23-20 to identify three mandatory overpayment detection functions for state programs, including PUA, to be performed in the same manner as for regular Unemployment Insurance programs. 2 CFR 200.303 requires UI to establish and maintain effective internal controls to provide reasonable assurance that it manages Federal programs in compliance with award terms and federal requirements.

UI could not meet the federal requirement in an effective and timely manner because it could not instantaneously develop the cross-match procedures effectively in its system, while addressing a historic and unprecedented claim volume. Non-performance of the mandatory cross-match procedures to identify potential and actual benefit overpayments subjects the federal program funds to fraud or error that may remain undetected.

Recommendation:

We recommend UI complete the following:

1. Design and implement appropriate cross-match procedures to ensure timely compliance with federally mandated overpayment detection requirements; and
2. Perform required cross-matches retroactively and prospectively to identify and resolve any PUA overpayments.

DWS's Response:

DWS concurs with the finding and appreciates the work of the audit team in reviewing the overpayment detection efforts in the Pandemic Unemployment Assistance (PUA) program. The PUA program was a new program created by the CARES Act and was stood up by the department on April 15, 2020. As stated in the finding, DWS was unable to comply with all program requirements in a timely manner, due to the unprecedented demand caused by the pandemic and the need to create this and many additional stimulus programs. However, DWS has since implemented the three mandatory overpayment cross-match procedures and ran them retroactively to verify the accuracy of all previously made PUA payments.

Corrective Action Plan:

DWS has successfully created and deployed the three mandatory overpayment cross-match procedures and ran them retroactively across all PUA payments to verify accuracy. DWS will continue to run all required cross-matches to ensure the ongoing integrity of the program.

Contact Person: Kevin Burt, Director, Unemployment Insurance Division, 801-526-9575
Anticipated Correction Date: October 21, 2020

11. Incorrect Calculation of Pandemic Unemployment Assistance Benefits Results in Overpayment

Federal Agency: Department of Labor
CFDA Number and Title: 17.225 Unemployment Insurance
Federal Award Numbers: Various
Questioned Costs: $1,450
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

The UI Division incorrectly calculated the weekly benefit amount for Pandemic Unemployment Assistance Program (PUA) recipients. For one claimant in a sample of 40, UI calculated the benefit on the claimant's gross income instead of the claimant's net income amount. The error resulted in an overpayment of $145 in a total sample of $32,429, which was taken from a total PUA benefit population of $128,238,515. There was an additional $1,305 in total weekly benefits incorrectly paid to this claimant for a total of $1,450, which we have questioned.

20 CFR 625.6(a)(2) requires the weekly benefit amount for claimants to be calculated based on the claimant's net income amount. An increased caseload and evolving program guidance caused the caseworker to incorrectly calculate benefits. Incorrect benefit calculation without detection by internal controls could result in significant overpayment to program claimants and waste funds.

Recommendation:

We recommend UI perform retroactive reviews of its PUA claims to ensure proper income determination and benefit calculation occurred.

DWS's Response:

DWS concurs with the finding and appreciates the valuable information provided by the audit team.

Corrective Action Plan:

As stated, this is an issuance error that was caused by worker error. The Pandemic Unemployment Assistance (PUA) program has been specialized to a single team. This finding was reviewed in a team meeting with all applicable staff in an effort to avoid future occurrence.

Contact Person: Kevin Burt, Director, Unemployment Insurance Division, 801-526-9575
Correction Date: March 31, 2021

12. Medicaid Program Review Accuracy Rates 9 Points Below Target

Federal Agency: Department of Health and Human Services
CFDA Number and Title: 93.778 Medical Assistance Program (Medicaid Title XIX)
Federal Award Numbers: Various
Questioned Costs: $0
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

DWS's Program Review Team (PRT) process had an 88 percent accuracy rate, as compared to its 97 percent target accuracy rate, and payment errors of $45,250, as identified by the DOH Medicaid Eligibility Quality Control (MEQC) team during a recent review. The MEQC team reviewed 295 cases subject to a PRT review. In these 295 cases, the MEQC team identified 36 errors resulting in a 12 percent error rate (88 percent accuracy rate). While DWS counselors incorrectly determined applicants' initial eligibility, the PRT process did not identify or correct these errors. Examples of incorrect eligibility determinations included cases where:

- An individual was approved for an incorrect medical program;
- An individual was ineligible for the medical program issued; or
- Denial of the program was incorrect.

The MEQC team also identified areas of concerns in the PRT process contributing to its inability to identify and correct errors, including: misapplication of Medicaid policies, inadequate documentation of review, incorrect level of review, improper correction of errors, inadequate procedures and guidance, and incorrect methods in calculation of the error rate. Because there is no federal requirement to return eligibility-based overpayments, we have not questioned any costs.

The eligibility determination accuracy rate is used to determine the state's Federal Medicaid Assistance Percentage (FMAP). Thus, if the State does not meet its target accuracy rates, the federal government could potentially reduce the FMAP rate. Even minimal reductions in the FMAP rate could lead to significant reductions in the federal dollars used to fund Medicaid in the State of Utah.

Recommendations:

We recommend that:

- DWS improves its PRT case review process to remedy the concerns identified above (e.g., misapplication of Medicaid policies and incorrect level of reviews) to meet the 97 percent target accuracy rate; and,
- DOH provides assistance to DWS as needed to improve the PRT process.

DWS's Response:

The MEQC audit was completed in June 2019. The PRT case review guide was updated in September 2019. Program (policy) specialists will be attending the PRT meetings each quarter to review trends and go over policy clarifications and external audit findings. We also committed to publishing the PRT resources in the Operations Manual - including a consistency guide.

The PRT managers meet on a regular basis with the Program managers to review and discuss policy and procedure. The meeting entails discussion on how QC would look at specifics and what potentially would be cited. They also engage in conversations about error trends, individual training needs, and program specific policy that may need to be clarified or retrained. This ensures consistency in what is being trained and what is being cited by PRT.

Lastly, the PRT updated their procedures, to ensure clearer guidance.

The PRT process is designed to measure employee performance and is not intended to replace the MEQC process.

The Department of Health (DOH) has committed to working with DWS on improvement of the PRT process.

Corrective Action Plan:

Items identified have all been implemented as of early 2020. Ongoing coordination with DOH will continue.

Contact Person: Melissa Presley, Medicaid Program Manager, DWS, 801-245-4695
Anticipated Correction Date: Completed/Ongoing for coordination with DOH

13. Cost Allocation Plan Implementation Errors

Federal Agencies: Various
CFDA Numbers and Titles: Various
Federal Award Numbers: Various
Questioned Costs: $108,176
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Numbers: PY-2019-027

DWS did not properly execute the random moment time study (RMTS) as developed and approved for the implementation of its cost allocation plan (CAP).

We noted the following errors during the first quarter allocation:

a. Payroll costs for 42 employees, or 4.6 percent of pool employees, were included in the wrong RMTS allocation pool.
b. Payroll costs totaling $108,176 for 8 of the 42 employees should have been charged as federal direct costs, rather than allocated through the CAP, but were improperly included in the RMTS pool and allocated to various programs. We have questioned these costs.
c. Payroll costs for 12 employees, or 1.3 percent of pool employees, were inappropriately included in taking the RMTS survey.
d. Twelve employees, or 1.3 percent of pool employees, were inappropriately excluded from taking the RMTS survey.
e. Nine of 40 allocated payroll sample items were not subjected to review to ensure proper coding and inclusion/exclusion of allocated payroll costs.

We noted the following errors during the fourth quarter allocation:

a. From a sample of 60 RMTS surveys, one survey was inappropriately coded according to the DWS's CAP—an error rate of 1.67 percent. The survey result should have been excluded by internal control reviews. The internal control designed for this area reviews 100 percent of the surveys; however, the error remained undetected and resulted in skewed allocation rates.
b. Payroll costs for 26 employees, or 2.8 percent of pool employees, were included in the wrong RMTS allocation pool. Although internal controls detected the errors, the payroll costs were coded to the incorrect pool.

DWS's federally approved CAP indicates the intended goal of the RMTS is to provide a simple, efficient, and precise methodology to appropriately identify, pool, and allocate costs to programs/activities that benefit from them within the requirements of *Uniform Guidance*. It also outlines the proper inclusion of allocable costs and execution of its RMTS to determine appropriate allocation percentages. Internal controls designed to prevent or detect and correct CAP implementation errors did not function as designed because of inadequate monitoring and supervision by division management.

The incorrect inclusion and exclusion of costs to be allocated in the pool, compounded with disproportionate allocation percentages from the RMTS, can cause various federal programs to be inaccurately charged for DWS costs.

Recommendation:

We recommend DWS division management perform adequate monitoring of CAP internal controls and supervision of staff to ensure the CAP is implemented as designed and approved.

DWS's Response:

The random moment time study errors cited by the auditors for the first quarter allocation (July 1, 2019 – September 30, 2019) occurred prior to the corrective actions taken by the department for prior year finding 2019-027 which were fully implemented by December 31, 2019. The audit results for the fourth quarter allocation demonstrate the department's substantial improvement in correcting the errors cited by the auditors. The department acknowledges that there was a slight delay in changing the payroll coding for the 26 employees cited by the auditors in part b of the finding for the fourth quarter allocation. The personnel costs for these employees were coded using one program code for a short time at the beginning of the quarter when they technically should have been coded instead to a different program code. However, all personnel costs recorded on the State's general ledger system for both program codes are captured in the same cost center and are allocated based on the results of the random moment time study. Therefore, there was no effect on the allocation of costs due to the delay in changing the coding.

Corrective Action Plan:

The department will conduct a review of the procedures and the associated internal controls for the random moment time study to identify the cause of the errors cited by the auditors for the fourth fiscal quarter. The results of the review will be utilized to make adjustments to internal controls, as considered necessary, with the goal of ensuring that the components of internal control (and relevant principles) for the department's random moment time study are properly designed, implemented, and operate together in an integrated manner.

Contact Person: Nathan Harrison, Finance Director, 801-526-9402
Anticipated Correction Date: June 30, 2021

14. Multiple Corrections Required to Accurately Report Schedule of Expenditures of Federal Awards and Summary Schedule of Prior Audit Findings

Federal Agencies: 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 Numbers: N/A

Schedule of Expenditures of Federal Awards (SEFA):

The State of Utah's (State) SEFA required multiple corrections to accurately reflect amounts expended under federal awards as of June 30, 2020. The State's Division of Finance (Finance) compiles the Schedule using information provided by multiple state agencies. Several agencies provided inaccurate information to the Division, information which Finance did not detect and correct. For instance,

- The Department of Workforce Services (DWS) initially did not include $447,269,147 of State-funded Unemployment Insurance expenditures.
- Finance did not report $23,512,157 of COVID-19 funding for the Supplemental Nutrition Assistance Program (SNAP) separate from the regular SNAP funding.
- The Utah State Board of Education (USBE) and DWS misreported $48,843,003 in pass-through expenditures for 6 awards.
- USBE incorrectly reported the federal award number for 6 of 70 awards reviewed.

Finance and the entities noted above did not have written procedures to assist personnel in the SEFA preparation and have not established internal controls to ensure the accuracy of the information provided and used in the SEFA. Finance and the state entities should coordinate efforts to ensure accurate information is reflected in the SEFA.

Summary Schedule of Prior Audit Findings:

The Summary Schedule of Prior Audit Findings also required multiple corrections to accurately reflect those findings which still required corrective action by various state agencies. Finance prepares this schedule which spans multiple years of audits and tracks the agencies' progress in implementing previous audit findings and recommendations. New personnel at Finance did not understand the appropriate way to compile the schedule and included 8 findings for which corrective actions had been taken. Finance had not developed written procedures or established internal controls to ensure the schedule included the proper information.

Incomplete and inaccurate information and amounts reported in the SEFA and Summary Schedule of Prior Audit Findings result in improper federal reporting.

Recommendations:

We recommend:

- Finance, DWS, and USBE develop written procedures for the SEFA preparation and establish internal controls to ensure the accuracy of the information provided to the Division of Finance;
- Finance develop written procedures and establish internal controls to ensure the proper reporting of findings in the Summary Schedule of Prior Audit Findings.

DWS's Response:

The department's written procedures for compiling the department's portion of the State's Schedule of Expenditures of Federal Awards (SEFA) were provided to the auditors during the audit. The department also provided the auditors with the department's established internal controls that were in place to ensure the accuracy and completeness of the data compiled for the State's SEFA.

The department purposefully excluded the State-funded Unemployment Insurance expenditures from the initial preparation of the department's portion of the State's SEFA because, in prior years, that particular data has always been added to the State's SEFA by the State Division of Finance. The portion of the pass-through expenditures error cited by the auditors that belongs to the Department of Workforce Services is $1,495,000 for one award (HOME Investment Partnerships Program). Based on our interpretation of 2 CFR §200.502(a), the department's approach in compiling the SEFA data was to report the receipt of program income for the HOME Investment Partnerships Program, not the use of program income. As a result, we intentionally excluded program income expenditures in the pass-through column on the program income line for the HOME Investment Partnerships Program during the initial compilation of federal expenditure data for the State's SEFA, reporting only the receipt of program income for that line instead.

Corrective Action Plan:

Personnel responsible for compiling and reviewing the department's portion of the State's SEFA will attend the training that will be provided by the State Division of Finance as part of their corrective action for this finding. Department personnel will also increase our communication with the State Division of Finance throughout the SEFA compilation process to ensure accurate and complete reporting.

Contact Person: Nathan Harrison, Finance Director, 801-526-9402
Anticipated Correction Date: August 31, 2021