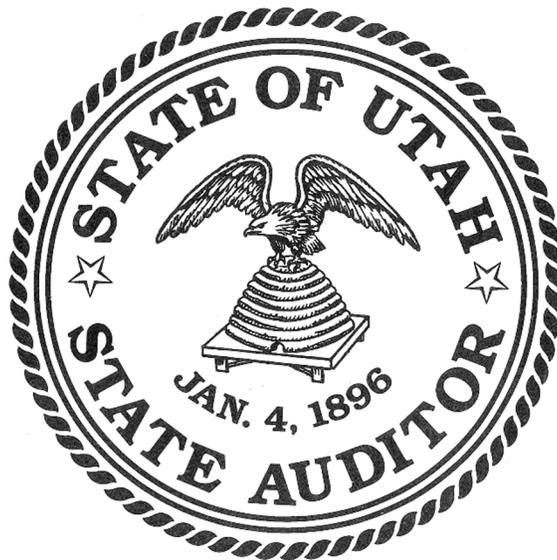


GOVERNOR'S OFFICE OF PLANNING & BUDGET

Management Letter
For the Year Ended June 30, 2020

Report No. 20-43



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Hollie Andrus, CPA, Deputy State Auditor
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GOVERNOR'S OFFICE OF PLANNING & BUDGET

Management Letter

FOR THE YEAR ENDED JUNE 30, 2020

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Finding Type:

MW Material Internal Control Weakness
SD Significant Deficiency of Internal Control
MN Material Noncompliance
RN Reportable Noncompliance or Illegal Acts

Applicable To:

s State Financial Statements
f Federal Program
e Entity Financial Statements



OFFICE OF THE
STATE AUDITOR

MANAGEMENT LETTER NO. 20-43

June 2, 2021

Sophia DiCaro, Executive Director
Governor's Office of Planning & Budget
Utah State Capitol Building
350 North State Street, Suite 150
Salt Lake City, Utah 84114

Dear Ms. DiCaro:

We have completed our audit of the State of Utah's federal compliance (Single Audit) for the year ended June 30, 2020. This management letter is issued as a result of the Governor's Office of Planning and Budget's, formerly known as the Governor's Office of Management and Budget (GOMB), portion of the Single Audit. 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 Governor's Office 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 a certain deficiency in internal control which we consider to be a material weakness (Finding 2). We also identified certain 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 1 & 3). We also identified Finding 2 as an instance of noncompliance which we are required to report under *Uniform Guidance*.

GOMB'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 GOMB'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 GOMB 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,

A handwritten signature in cursive script that reads "Hollie Andrus".

Hollie Andrus, CPA
Deputy State Auditor
801-808-0461
handrus@utah.gov

cc: Governor Spencer J. Cox
Lieutenant Governor Deidre Henderson
Nate Talley, Deputy Director and Chief Economist, Governor's Office of Planning & Budget
Duncan Evans, Managing Director of Budget and Operations, Governor's Office of Planning & Budget

FINDINGS AND RECOMMENDATIONS

1. Oversight of Federal Program Should be Strengthened

Federal Agency: Department of the Treasury
CFDA Number and Title: 21.019 Coronavirus Relief Fund
Federal Award Number: N/A
Questioned Costs: \$0
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

The Governor's Office of Management and Budget (GOMB) did not have adequate federal grant management experience when the State received \$935 million in Coronavirus Relief Fund (CRF) monies to aid in the State's response to the pandemic. As a result, during fiscal year 2020 (FY20), its internal controls over compliance with CRF requirements were insufficient. 2 CFR 200.303(a) states that all federal grant recipients must establish and maintain effective internal controls to effectively manage a federal grant program.

Elements of a sound internal control system (e.g., adequate knowledge or experience of key managers to discharge their responsibilities, adequate and effective training, written policies and procedures) were insufficient. For example,

- GOMB, which does not typically manage federal programs, was charged with quickly disbursing the grant monies to state agencies and local governments, such as counties and cities.
- Guidance provided to state agencies was inconsistent with guidance provided to participating local governments regarding how these entities could spend CRF monies.
- The state agencies' use of required account coding when recording CRF transactions was not consistently enforced.
- Written policies and procedures outlining how its staff would manage the grant did not exist, particularly with regards to its monitoring of participating local governments, or subrecipients (see Finding No. 2 for further discussion).

A lack of effective controls over compliance with CRF federal regulations may allow unallowable items to be charged to the program. See Findings 2 and 3 for further discussion.

Recommendation:

GOMB could strengthen its grant management oversight by:

- a. Delegating the management of large federal programs to a state agency where managers have adequate experience with managing federal programs;
- b. Hiring personnel with federal grant management experience; or
- c. Gaining an understanding of the federal "Green Book" or "COSO Framework" to then design effective internal control, including the establishment of a sound control environment.

View of Responsible Officials:

The Governor's Office of Planning and Budget (GOPB) agrees with this finding. As the COVID-19 pandemic escalated in March 2020 and Congress quickly enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Utah, along with other states, responded with urgency. Given the compressed timing of the enactment of the CARES Act, and the necessary timely distribution of aid, GOPB, then going by the name of the Governor's Office of Management and Budget (GOMB), was not structured with a compliance framework to execute an unprecedented federal grant program of that magnitude. Where possible, GOMB delegated grant distribution and management to agencies with grant management experience, including the Department of Health. However, since the State of Utah was the prime recipient of CRF funds, GOMB was ultimately responsible for managing these funds. Given the scope period of this audit, ending in June 2020, we agree that GOMB did not have federal grant management experience commensurate with the extraordinary responsibilities with which it was charged at that time.

Corrective Action Plan:

GOPB will hire a Fiscal Grants Manager to strengthen a grants management program that will include written policies and procedures providing guidance on monitoring subrecipients based on risk. Additionally, GOPB will continue to delegate grant distribution and management to agencies with grant management experience where appropriate. Additionally, GOPB's policies and procedures will include monitoring and testing delegated agencies' internal controls.

*Contact Person: Duncan Evans/Managing Director of Budget & Operations/801-538-1592
Anticipated Correction Date: October 31, 2021*

2. Weaknesses in Monitoring of Local Governments' Coronavirus Relief Fund Activity

Federal Agency: Department of the Treasury
CFDA Number and Title: 21.019 Coronavirus Relief Fund
Federal Award Number: N/A
Questioned Costs: \$14,415,392
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

As the prime recipient for \$935 million in CRF funding, GOMB did not completely fulfill its responsibilities in monitoring the participating local governments' CRF spending as of June 30, 2020. These responsibilities, as outlined in 2 CFR 200.332, include communicating key federal grant information to participating local governments, evaluating each local government's risk of not complying with grant requirements, and monitoring each local government's compliance with CRF requirements.

Communication of Key Federal Grant Information

GOMB required each local government to complete a "State of Utah Coronavirus Relief Fund Local Government Allocation Agreement" (Agreement) prior to subaward. However, the Agreement did not contain all information required to be communicated, nor was the missing information subsequently communicated. The requirements that were not communicated in the subaward include the Subrecipient's DUN's number (which must match registered name in DUNS); pass-through entity, and contact information for awarding official; and identification of whether the award is R&D (see 2 CFR 200.332(a)).

Risk Evaluation & Monitoring Compliance

During FY20, GOMB and the Department of Administrative Services (DAS) informally assessed these local governments as high risk. While funds were not disbursed until mid-June and monitoring of activity would have been minimal for FY20, GOMB and DAS did not establish formal monitoring procedures based on the risk evaluation. 2 CFR 200.332(b) required GOMB to establish a risk assessment process and to determine the appropriate level of monitoring based on risks.

The Agreement with each local government identified key terms and conditions as to 1) the use of funds, and 2) the reporting of expenditures using the State's financial transparency website. As no monitoring had been performed, we reviewed the expenditures for 17 local governments. These local governments reported the highest amount of CRF spending through June 30, 2020.

Use of Funds

According to the Agreement (and in accordance with the *2020 Compliance Supplement*), "permissible use of the funds may only be used to cover costs that [met] the following conditions:

- Are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19)
- Were not accounted for in the recipient's budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the recipient; and,
- Were incurred during the period that begins on March 1, 2020 and ends on December 30, 2020."

Of the 17 selected local governments, the following 8 did not have adequate supporting documentation to support the "necessary expenditure" (or "substantially dedicated") conclusion with respect to its employees, and all public safety and public health payroll costs were charged to the program. Therefore we are questioning the following payroll expenditures:

Entity A	\$ 2,003,765	Entity F	\$ 746,235
Entity B	4,466,451	Entity G	1,486,583
Entity C	1,579,627	Entity H	41,855
Entity D	627,505		
Entity E	3,459,838	Total Questioned Costs	\$ 14,411,859

In our scanning of the general ledger detail for the 17 local governments, we identified 7 unusual expenditures, which we are questioning.

Entity D	\$ 886
Entity H	81
Entity I	2,246
Entity J	320
Total Questioned Costs – Non-payroll	\$ 3,533

Financial Transparency Website

The Agreement's Terms and Conditions Section VI states "The recipient is required to report CRF expenditures in quarterly data uploaded to Transparent Utah. CRF Expenditures shall be identified using a Uniform Chart of Accounts Coding Block for local entities..." Of the 17 selected local governments, 3 were delinquent (not posted to transparency) and 7 had a discrepancy between their G/L and the information uploaded to Transparent Utah. Consequently, transparency amounts were underreported by \$3,174,586. We have not questioned these costs as this is not a federal grant requirement.

While GOMB considered itself a "banker," it did not consider itself a prime recipient responsible for ensuring local government compliance with CRF regulations. GOMB should communicate the necessary information to each participating local governments, establish written procedures for monitoring those local governments based on a formal risk assessment process, and should monitor the local governments for compliance with key terms and conditions in the Agreement. The lack of monitoring or oversight has resulted in and may continue to result in material amounts of CRF funding paying for non-essential expenditures.

Recommendation:

We recommend GOMB:

- a. Communicate all required federal award information to participating local governments;
- b. Establish written procedures for monitoring participating local governments; and,
- c. Enforce key terms and conditions in agreements with local governments.

View of Responsible Officials:

GOPB agrees with this finding.

We agree that GOMB and DAS did not establish formal monitoring procedures based on a risk evaluation prior to disbursements of funds. This was largely due to the expedited distribution needs of the CARES Act. While no formal written risk evaluation was developed prior to the distribution of local CRF funds, there were efforts made to contemplate risk during the audit period. GOMB discussed ways to balance risks and the extensiveness of reporting and monitoring, allowing local governments to meet emergency needs in a timely manner. For example, GOMB, the Division of Finance, and Treasurer's Office partnered to implement a payment verification process to verify that the proper amount of funding was being disbursed to accounts belonging to recipients.

When the Treasury Department disbursed CRF funds to Utah in April 2020, many elements of a typical federal grant award, including guidance on permitted use, the collection of DUNS numbers and other information about subrecipients, reporting requirements, and a Catalog of Federal Domestic Assistance number, were not made available. Additionally, other CRF information, including a formal terms and conditions document and a Federal Award Identification Number have never been provided by the Treasury Department to Utah or other states.

A great deal of care was made to communicate the information available at that time to subrecipients. Before disbursing funds to cities and counties, GOMB created the "State of Utah Coronavirus Relief Fund Local Government Allocation Agreement" (Agreement) to communicate the requirements of accepting and using CRF funds. This Agreement was reviewed by the following entities before being finalized: Office of the Legislative Fiscal Analyst, Office of the State Auditor, Office of State Treasurer, Office of the Attorney General, Division of Finance, Utah League of Cities and Towns (ULCT), and Utah Association of Counties (UAC). The Agreement contained all available information from the Treasury to local governments and indicated that local governments were responsible for complying with all future guidance.

A key component of the "State of Utah Coronavirus Relief Fund Local Government Allocation Agreement" was the requirement to identify CRF transactions in regular quarterly <https://transparent.utah.gov/> reporting. Because cities and counties had CRF funding for less

than a month before the end of the first reporting quarter and were also navigating consistently changing Treasury Department guidance, GOPB acknowledges that these subrecipients had difficulty meeting the initial quarterly reporting requirement. GOPB has continued to work with staff from the Office of the State Auditor's, which manages the reporting portal, to identify incomplete reporting. While the Office of the State Auditor has served as a technical resource, GOPB recognizes its responsibility to follow up on incomplete expenditure data, so complete and accurate data can be used to facilitate subrecipient monitoring.

Corrective Action Plan:

GOPB will issue an agreement addendum to each subrecipient to ensure that key federal grant information is communicated, and conduct a forum in which training will be provided. Additionally, GOPB will develop written policies and procedures that will include a subrecipient risk assessment and related procedures for monitoring for CRF funding compliance. Written policies and procedures will also include a framework for enforcing key terms and conditions in agreements with local governments.

*Contact Person: Duncan Evans/Managing Director of Budget & Operations/801-538-1592
Anticipated Correction Date: October 31, 2021*

3. Errors in Reimbursements to State Agencies

Federal Agency: Department of the Treasury
CFDA Number and Title: 21.019 Coronavirus Relief Fund
Federal Award Number: N/A
Questioned Costs: \$14,800
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

With inconsistent application of accounting coding structures and unclear understanding of which expenditures would meet CRF program objectives and compliance requirements, the Department of Heritage and Arts (DHA), as approved by GOMB, used \$14,800 of CRF funds for payroll costs that appear to not be "substantially dedicated to" the State's response to the COVID-19 pandemic. GOMB relied on state agencies using proper coding and having a proper understanding as to the appropriate use of funds as it reviewed and approved reimbursement requests. We noted the following errors with DHA's payroll costs and two additional instances where GOMB did not review and approve reimbursement requests.

Payroll Costs

GOMB approved a reimbursement to the DHA for estimated payroll costs of \$14,800. The State's Division of Finance (Finance) established account coding for all payroll costs related to the State's pandemic response. Such costs should have been coded to "COVI" but the \$14,800 was an estimation of payroll costs rather than actual costs recorded. Because DHA estimated this amount,

it could not provide documentation of how the payroll costs were used in the response to COVID-19. Appendix VII of the 2020 *Compliance Supplement* states “the relevant unit of government should maintain documentation of the ‘substantially dedicated’ conclusion with respect to its employees.” As there is no supporting documentation, we will question all of these payroll costs.

Reimbursement Review & Approval Errors

GOMB failed to review two reimbursements from state agencies. GOMB’s review of state agency reimbursement requests is considered a key control as the review looks at detailed transactions for compliance with CRF program objectives. These two reimbursement requests were sent directly to State Finance for approval without first going to GOMB for its review of underlying expenditures. The reimbursement requests included improper coding which electronically routed the transactions directly to Finance.

Recommendations:

We recommend GOMB:

- Approve reimbursements only after a state agency has used the correct account coding; and,
- Continue to educate state agencies on the proper use of CRF funding and the documentation they should maintain.

We recommend DHA:

- Use proper coding for COVID related expenditures, including payroll; and,
- Maintain supporting documentation for reimbursement requests, including how the expenditures is COVID-19 related and what the employee did that was related to COVID-19.

View of Responsible Officials:

GOPB agrees with this finding.

GOPB acknowledges the documented decision and that the confirmation of actual hours worked was not provided to GOMB during the audit period. GOPB has since confirmed the actual hours worked and has received the documentation of the decision to deem these employees as “substantially dedicated.”

Corrective Action Plan:

GOPB will approve reimbursements only after a state agency has used the correct account coding for actual costs, not estimates. In situations when coding adjustments are needed, GOPB will ensure that it reviews original expenditure transactions to verify that only eligible costs are charged to the CRF. Additionally, GOPB will send a memo to state agencies reminding them of

proper use of CRF funding and the documentation they are required to maintain, as well as a reminder of the proper account coding for actual costs.

*Contact Person: Duncan Evans/Managing Director of Budget & Operations/801-538-1592
Anticipated Correction Date: October 31, 2021*