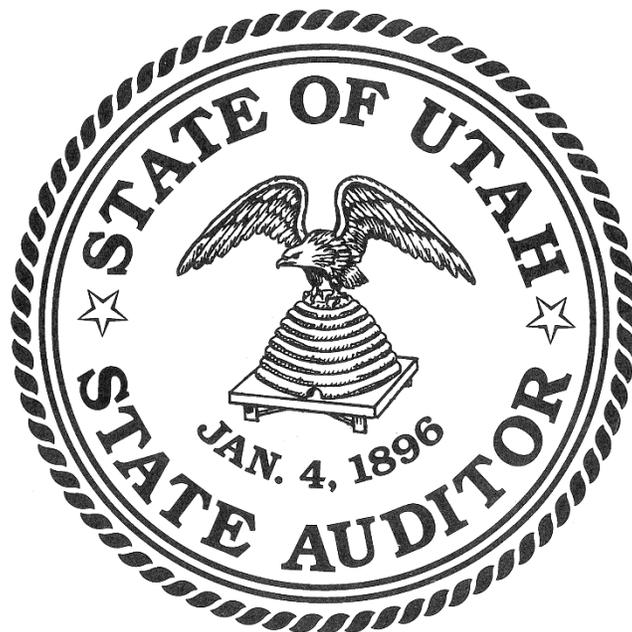


Department of Environmental Quality

Interim Management Letter
For the Year Ended June 30, 2021

Report No. 21-12



**Office of the
State Auditor**

AUDIT LEADERSHIP:

John Dougall, State Auditor
Hollie Andrus, CPA, Deputy State Auditor
Caleb Tindall, CPA, Audit Senior

Department of Environmental Quality

For the Year Ended June 30, 2021

Table of Contents

			<u>Page</u>
Interim Management Letter			1
Findings and Recommendations:	<u>Federal Program</u>	<u>Type/ Applicability</u>	
1. Indirect Cost Transfer Report Not Reviewed	Performance Partnership Grant	SD-f	3
2. Improper Treatment and Allocation of Direct Costs	Performance Partnership Grant	SD-f, RN-f	4

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



Office of the
State Auditor

Interim Management Letter No. 21-12

January 6, 2022

Kim Shelley, Executive Director
Department of Environmental Quality
195 North 1950 West
Salt Lake City, Utah 84116

Dear Ms. Shelley:

This management letter is provided to communicate, at an interim date, certain deficiencies identified in our audit procedures on the Department of Environmental Quality's (DEQ) *Performance Partnership Grant*. These audit procedures were performed on the Performance Partnership Grant as part of DEQ's portion of the statewide federal compliance audit (Single Audit) for the year ended June 30, 2021. This communication is based on our audit procedures performed through October 29, 2021. Because we have not completed the statewide federal compliance audit for fiscal year 2021, additional federal programs at DEQ may be tested and additional weaknesses may be identified and communicated in a subsequent management letter.

Our final reports on internal controls and on compliance required under *Government Auditing Standards* and federal *Uniform Guidance* will be issued under separate cover. We anticipate issuing these reports late Spring 2022. These reports will 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.

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.

We 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 1 and 2). We also identified Finding 2 as an instance of noncompliance which we are required to report under *Uniform Guidance*.

DEQ'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 DEQ'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 DEQ 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
801-808-0467
handrus@utah.gov

cc: Bryce Bird, Director, Division of Air Quality
Craig Silotti, Finance Director

Findings and Recommendations

Finding 1. Indirect Cost Transfer Report Not Reviewed

Federal Agency: Environmental Protection Agency
Assistance Listing Number and Title: 66.605 Performance Partnership Grant
Federal Award Number: 99847516
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

The indirect cost transfer report review did not have the appropriate documentation to support a proper review. As such there is no evidence the actual report was even reviewed. 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.”

Documentation that did not support the transfer report was incorrectly attached to the report when provided to the supervisor for review. The supervisor did not notice that the documentation did not support the report. The proper documentation supporting the cost allocations should be included with the entry. With no evidence the correct report and underlying documentation was reviewed, reasonable assurance could not be obtained that the approval to determine the report was in compliance with the terms and conditions of the award.

Recommendation:

We recommend:

- 1) Proper documentation supporting a report be provided to an approver; and,**
- 2) Indirect cost allocations be approved only when the correct supporting documentation is provided.**

DEQ's Response:

We agree that the incorrect supporting documentation was attached to the FINET transaction for an indirect cost transaction.

Corrective Action Plan:

The Department's accounting procedures include that supporting documentation should be reviewed and compared to the accounting transaction in FINET before a transaction is approved. This has been emphasized with the appropriate accounting employees that approve transactions. The Department's process in calculating and recording indirect cost is such that errors in recording a transaction would be detected and corrected in the

subsequent monthly transaction. Indirect costs are also reviewed and verified as part of our review of grants when we prepare final Federal Financial Reports.

Contact Person: Craig Silotti, Finance Director, 801-536-4460

Anticipated Correction Date: September 20, 2021

Finding 2. Improper Treatment and Allocation of Direct Costs

Federal Agency: Environmental Protection Agency

Assistance Listing Number and Title: 66.605 Performance Partnership Grant

Federal Award Number: 99847516

Questioned Costs: \$32,888

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

DEQ allocates direct costs that benefit multiple federal programs (e.g., employee leave) by identifying these costs, calculating an allocation to the respective federal programs, and then recording an adjustment on the general ledger. A person independent of this process does not review the calculation for correct treatment and allocation of said direct costs. As a result, \$32,888 in utility costs were directly charged to the PPG grant when they should have been allocated among grants. We have questioned these costs for the PPG grant. 2 CFR 200.303 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.” Staff preparing the calculation did not fully understand how to identify and treat utility costs in the calculation. Errors in and a lack of reviewing the calculation could result in overcharging a federal program for costs not directly attributed to the program.

Recommendation:

We recommend that DEQ strengthen their understanding of costs and cost principles and implement a control over such allocations.

DEQ's Response:

We do understand costs and cost principals; however, we agree that some utility costs for our air monitoring stations were not properly allocated to all benefiting programs. For any cost that was not properly charged to the PPG, there are other eligible costs that could replace them.

We also agree that we did not have an independent review of some of our other cost allocation transactions.

Department of Environmental Quality

Management Letter
For the Year Ended June 30, 2021

Corrective Action Plan:

We have revised our process for allocating utility costs for our air monitoring stations. We have reviewed each air monitoring station and determined the programs that benefit from the data collected. The utility cost for each station is now allocated based on equipment and the relative benefit that each program receives.

We have also modified our process for spreadsheet upload into FINET of some of our allocations to ensure there is an appropriate review process.

Contact Person: Craig Silotti, Finance Director, 801-536-4460

Anticipated Correction Date: AQ utility payments - September 2021; DEQ allocations November 2021. Both effective July 1, 2021