

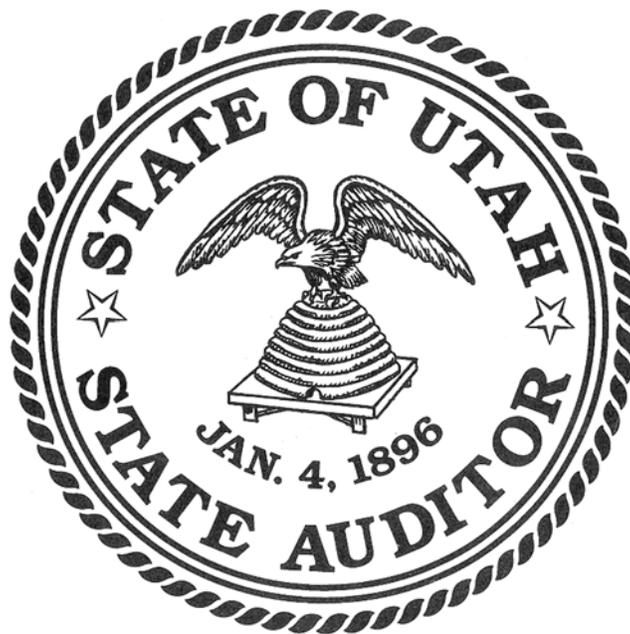
# DEPARTMENT OF COMMERCE

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Departmental Audit  
For the Period July 2017 through February 2018

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Report No. DEP-18-FP-d



## OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor  
Hollie Andrus, CPA, Audit Director  
Bertha Lui, CPA, Senior Audit Manager

# **DEPARTMENT OF COMMERCE**

FOR THE PERIOD JULY 1, 2017 THROUGH FEBRUARY 2018

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OFFICE OF THE  
**STATE AUDITOR**

May 9, 2018

Francine Giani, Executive Director  
Department of Commerce  
160 East 300 South  
SLC, Utah 84111

Dear Ms. Giani:

In accordance with *Utah Code 67-3-1(4)*, we have performed the procedures described below to certain aspects of the Department of Commerce's (Department's) internal control for the period July 2017 through February 2018. The primary focus of our review was to review general financial internal control as well as internal control over any federal programs overseen by the Department, as outlined below:

1. We reviewed the Department's separation of accounting duties.
2. We obtained a list of all Department bank accounts and reviewed the activity of the accounts. For each bank account with high activity, we reviewed 2 bank reconciliations. We also agreed the reconciliation balances to FINET.
3. We reviewed a sample of 26 cash receipts to verify that the Department is following its established processes and controls.
4. We reviewed a sample of 20 cash disbursements to verify that the Department is following its established processes and controls.
5. We reviewed 8 payroll samples to verify the supervisor listed in the State's E-Guide system is the same as that listed in the State's payroll entry system and that the supervisor would have adequate knowledge of the employee's time and efforts.
6. We reviewed the cash management and reporting internal controls associated with the Department's Pipeline Safety federal grant to verify that the Department had established appropriate controls.
7. We reviewed the Department's monitoring of nonprofit corporations.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of Department's internal control or any part thereof. Accordingly, we do not express such an opinion. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we conducted an audit of the effectiveness of Department's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance the Department's personnel extended to us during the course of the engagement, 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  
Audit Director  
handrus@utah.gov  
801-808-0467

cc: Thomas A. Brady, Deputy Director, Department of Commerce  
Peter Anjewierden, Budget & Accounting Officer, Department of Commerce  
Justin Harding, Chief of Staff, Governor's Office  
Kristen Cox, Executive Director, Governor's Office of Management & Budget  
Tani Downing, Executive Director, Department of Administrative Services  
John Reidhead, Chief Financial Officer, State Division of Finance  
Debbie Empey, Internal Control Manager, State Division of Finance

## FINDINGS AND RECOMMENDATIONS

### 1. INADEQUATE INTERNAL CONTROLS OVER CASH DRAWS AND REPORTING

The Department of Commerce (Department) has not established effective internal controls to ensure the federal SF-270 report is properly prepared and cash draws are properly calculated in accordance with program guidelines for the States Participating in the Pipeline Safety Program. For the calendar year 2017 grant, the Department improperly prepared the Mid-Year SF-270 report using budgeted amounts instead of actual expenditures incurred, as required by program guidelines, because Department personnel misunderstood the program requirements. This resulted in an overdraw of \$1,091.50 for the June 30, 2017 mid-year draw.

#### Recommendation:

**We recommend the Department prepare the SF-270 report and make cash draws based on actual expenditures, as required by program guidelines.**

#### Response from the Department of Commerce:

*Commerce agrees that the Office of the State Auditor has properly identified the finding regarding an estimated mid-year payment request and recommended the proper action to remedy this inadequate control issue. Commerce will have the Finance Director compile expenses for every draw on the Pipeline Safety Grant and review them with the program manager. This additional scrutiny will ensure that midyear payment requests conform to the same scrutiny of actual auditable expenses that is placed on the year end request. The SF-270 report submitted for reimbursement for both the mid-year and year-end payment will follow the same process as implemented by the Finance Director.*

### 2. LACK OF PROCEDURES FOR MONITORING AND REPORTING NONPROFIT CORPORATIONS

*Utah Code 51-2a-201.5* requires state agencies that disburse federal pass-through money or state money to nonprofit corporations to notify the Office of the State Auditor (OSA) of any of these nonprofit corporations whose revenues or expenditures of grant money exceed \$25,000 and who, therefore, must submit a financial report to the OSA. However, the Department has not established procedures to annually identify nonprofit corporations with whom the Department contracts that are subject to reporting to OSA. As a result, the Department does not have the needed information and does not provide the proper notification to the OSA.

The Governor's Office is responsible to work with state agencies to ensure they are aware of state laws affecting them. When this initial law was passed, the Governor's Office of Management & Budget (GOMB) worked with the agencies to develop standard terms agencies could use in their contracts with nonprofit corporations. Since then, GOMB 1) has focused its efforts on helping agencies comply with the reporting requirements of *Utah Code 63j-1-220*, which require an agency to report to GOMB the portion of its budget it expects to pass or

provide to nonprofit corporations and 2) has not provided guidance to state agencies on an agency's responsibility to report to the Office of the State Auditor.

**Recommendation:**

**We recommend the Department:**

- **Establish procedures to annually identify nonprofit corporations with whom the Department contracts that are subject to reporting to OSA.**
- **Annually notify the OSA of those nonprofit corporations required to submit a financial report, in accordance with *Utah Code 51-2a-201.5*.**

**We recommend the Governor's Office improve its efforts to ensure state agencies are regularly made aware of state laws affecting them.**

**Response from the Department of Commerce:**

*Commerce appreciates the clarification provided by the Office of the State Auditor in complying with the relatively new requirements outlined in UCA 51-2a-201.5. Commerce had previously identified three grant payments in current fiscal year that were subject to the reporting requirements and reported the vendor payments through the Office of the State Auditors portal. However, Commerce will develop a procedure and amend its current application for funds to ensure that pertinent entities follow the year end reporting requirements of all state funds received.*

**Response from the Governor's Office:**

*During the April 2015 Budget and Accounting Officers Meeting, the Division of Finance and the Governor's Office of Management and Budget (GOMB) reviewed newly-passed legislation with a financial or budget impact, including new pass through funding reporting requirements in HB 312 and SB 132. Under HB 312 (Utah Code 63J-1-220) agencies have to submit pass through funding reports to GOMB when certain conditions are met. During the meeting GOMB indicated that they would issue further guidance on HB 312 reporting requirements. Under SB 132 (Utah Code 51-2a-201.5) state agencies have to notify the State Auditor when a nonprofit entity has informed them that they exceeded defined reporting thresholds. The meeting handout provided the report due date and the contract information for the person receiving the SB 132 reports in the State Auditor's Office.*

*GOMB issued its HB 312 guidance in May 2015. The guidance was distributed to agency budget and finance staff again when GOMB issued guidance for the preparation of the FY 2017 to FY 2019 Governor's Budget Recommendations. As part of the budget development process, GOMB collected agency reports in October 2015, 2016, and 2017. Because SB 132 requires state agencies to report to the State Auditor, GOMB assumed the Office of the State Auditor would continue to remind agencies of the reporting requirements and process on an annual basis, similar to how GOMB had reminded agencies about HB 312 requirements.*

*Moving forward, GOMB will concurrently remind state agencies of SB 132 requirements when it reminds agencies of HB 312 requirements. GOMB anticipates that the next three reminders will occur (1) when the Division of Finance reviews the FY 2018 close-out process with budget and accounting personnel; (2) when GOMB reminds agencies of pass through funding obligations and reporting requirements at the beginning of FY 2019; and (3) when GOMB compiles the pass through reports that will be included with the FY 2020 Governor's Budget Recommendations.*

*We also recommend that the State Auditor's Office engage directly with state agencies to remind them about the reporting requirements and process for SB 132.*