

UTAH LABOR COMMISSION

Departmental Audit
For the Period July 2017 through February 2018

Report No. DEP-18-FP-b



OFFICE OF THE STATE AUDITOR

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UTAH LABOR COMMISSION

FOR THE PERIOD JULY 1, 2017 THROUGH FEBRUARY 2018

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OFFICE OF THE
STATE AUDITOR

May 7, 2018

The Honorable Gary R. Herbert
Governor, State of Utah

and

Jacson Maughan, Commissioner
Utah Labor Commission

In accordance with *Utah Code 67-3-1(4)*, we have performed the procedures described below to certain aspects of the Utah Labor Commission's (Commission'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 Commission, as outlined below:

1. We completed a review of the Commission's separation of accounting duties.
2. We obtained a list of all Commission bank accounts and reviewed the activity of the accounts. For each bank account with high activity, we reviewed 4 bank reconciliations. We also agreed the reconciliation balances to FINET.
3. We reviewed a sample of 5 cash receipts to verify the Commission is following its established processes and controls.
4. We reviewed a sample of 25 cash disbursements to verify the Commission is following its established processes and controls.
5. We reviewed 8 payroll samples to confirm 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 Commission's OSHA federal grant to determine whether the Commission had established appropriate controls.
7. We reviewed the Commission's processes for both monitoring non-profit organizations that receive federal pass-through and state funding and reporting of those organizations to the Office of State Auditor.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the Commission'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 the Commission'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. We feel that finding Numbers 1 and 2 are key internal control weaknesses to the Commission.

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 Commission'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,



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cc: Phu Le, Administrative Services Director, Labor Commission
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 SEPARATE OF DUTIES OVER CASH RECEIPTS

We noted the following separation of duties weaknesses associated with cash receipts at the Utah Labor Commission (Commission):

- a. The Executive Assistant:
 - 1) handles cash and checks after front desk employees log the daily receipts;
 - 2) processes credit card receipts, and
 - 3) records receipt transactions in the subsidiary ledger.The Commission does not have an independent reconciliation of receipts recorded in the subsidiary ledger to the initial log of daily receipts.
- b. The Financial Analyst records receipts of federal grant monies in the general ledger and performs the bank reconciliation. The Commission does not have an independent review of the reconciliation.

Inadequate separation of duties exists when the same individual has custody of assets, records transactions in the accounting records, and/or reconciles the general ledger to the bank statement and might allow misappropriation, errors, and/or fraud to occur without detection.

While the Labor Commission is responsible for designing its internal controls, it operates under the direction of the Governor's Office, whose lack of appropriate oversight contributed to the separation of duties weaknesses noted above remaining undetected for the first 8 months of fiscal year 2018. The Governor's Office, with the assistance of the State's Division of Finance (State Finance), should monitor state agencies, including the Commission, to ensure the agencies establish appropriate separation of duties and internal controls. While State Finance may provide the expertise needed in evaluating separation of duties at state agencies, it is a support organization and does not have governing oversight of state agencies.

Recommendation:

We recommend the Commission:

- a. **Eliminate the Executive Assistant's ability to handle cash and checks and to process credit card receipts;**
- b. **Establish an independent reconciliation of the subsidiary ledger to the initial log of daily receipts; and**
- c. **Establish an independent review of the bank reconciliation ensuring that the review includes agreeing the balance on the reconciliation directly to the general ledger.**

We recommend the Governor's Office, with the assistance of State Finance, monitor the Commission's (and other state agencies') establishment of separation of duties and internal control structures.

Response from the Labor Commission:

- a. *The Commission has limited resources and eliminating the Executive Assistant's ability to handle cash and checks and to process credit card receipts is not feasible. However, the Commission has eliminated the Executive Assistant's access to the original log and the Financial Analyst's reconciliation of the bank and FINET, including the reconciliation to the original log prepared and signed by the front desk.*
- b. *The Commission has established an independent reconciliation of the subsidiary ledger to the initial log of daily receipts.*
- c. *The Commission has also established an independent review of the bank reconciliation to general ledger.*
- d. *The Commission will be working more closely with both GOMB and State Finance on these separation of duties and internal control structures.*

Response from the Governor's Office:

The Governor's Office agrees that the Labor Commission and all state entities must maintain strong internal controls, including the separation of accounting duties. While the Governor is ultimately charged with seeing that the laws of the State of Utah are faithfully executed, most day-to-day state government responsibilities are delegated to state agencies through executive authority or statute. Utah Code 63A-3-103 provides the director of the Division of Finance the authority and responsibility to define fiscal procedures relating to approval and allocation of funds and provide for the accounting control of funds. As such, the Governor's Office believes the Division of Finance is in the best position to help agencies monitor and strengthen internal controls. In fulfilling these responsibilities, the Division establishes written policies and procedures that the Labor Commission and other state agencies are required to comply with, including administrative rules (Title R25) and Financial and Accounting Policies and Procedures (FIACCT). The Division primarily monitors compliance through internal control questionnaires and the post-audit process. To further strengthen this process, GOMB will meet on a more regular basis with the Division of Finance to discuss any potential compliance issues and provide support as needed.

For several years, the Governor's Office of Management and Budget (GOMB) and the Division of Finance have recognized issues similar to those identified by the Office of the State Auditor at the Labor Commission. In particular, smaller agencies, such as the Labor Commission, need additional resources and support for internal audit capabilities. Larger state agencies have a proportionally higher number of employees that make it much easier to maintain separation of duties. Additionally, larger agencies are typically able to employ internal audit staff to monitor

compliance. The Governor has attempted to provide additional support to smaller agencies by recommending additional funding to strengthen internal controls and internal audit support.

- In FY 2013 the Governor recommended \$282,000 in ongoing funding for a Division of Finance Internal Control Program. The Legislature appropriated \$185,000 ongoing. The Division has utilized this funding for the staff that develop and review internal control questionnaires. All agencies are required to complete and submit these questionnaires, including one on cash receipts, on a regular cycle.*
- The Governor recommended \$300,000 in ongoing funding in FY 2016 and \$200,000 in ongoing funding again in FY 2017 and FY 2018 to set up internal audit functions for small agencies. The Legislature did not appropriate any of this recommended funding.*

Because the recommended appropriations were not provided, GOMB has been working to develop a process to provide small agencies with internal audit support using existing resources. Due to the concerns raised by the Office of the State Auditor during the Labor Commission audit, GOMB will accelerate these efforts as it works with the Division of Finance and small agencies. Additionally, GOMB is hopeful that the Office of the State Auditor's recommendation will help GOMB and the Division of Finance secure additional appropriations from the Legislature for internal audit functions for small agencies

2. LACK OF ADEQUATE TRANSPARENCY AND OVERSIGHT IN PURCHASE CARD TRAVEL EXPENDITURES

During our review of purchase card (P-card) and travel reimbursement transactions, we observed that the Commission allows employees to use P-cards for travel expenses and also allows reimbursements to employees for the same trip. While our review of expenses for four trips did not indicate any misuse, the Office of the State Auditor has seen this risk materialize in other audits.

While the use of P-cards for travel is not strictly prohibited by state finance policies, the Office of the State Auditor discourages the use of P-cards for meals and other incidental travel expenses. Mixing personal reimbursements with P-card transactions for the same trip results in transparency issues and increased risk of both intentional and unintentional duplicate transactions and potential payment of personal expenses. For example, we identified \$70 in extra checked baggage fees charged to a Commission P-card with no documentation or pre-approval for the additional charges. State Travel Policy FIACCT 10-02.00(c) states, "It is the general intent to reimburse travelers for actual costs associated with travel required for state business." Had the Commission followed this policy with regard to reimbursing the traveler for actual necessary costs associated with the travel rather than using the P-card for travel expenses, the Commission could have avoided paying any unapproved extra baggage fees.

Recommendation:

We recommend the Commission:

- a. Discontinue use of P-cards for meals and other incidental travel expenses; and**
- b. Pay for or reimburse employees for only necessary travel expenses in accordance with FIACCT 10-02.(c).**

Response from the Labor Commission:

- a. The Commission will reduce the number of P-cards used for meals and incidental travel expenses. To discontinue the use of P-cards for traveling within the state often on short notice is not possible. For immediate travel, however, the use of the P-card is necessary. The Commission has eliminated the use of P-cards for travel outside of the state.*
- b. When the finance team gets advanced notice for travels, it can process a cash advance for the traveler. In most cases, the advancement eliminates the need to use the P-card. In a few cases, the advance is not possible because the travel is immediate due to industrial-related accidents or inspections. The use of the travel P-card is necessary in these few cases.*

3. INADEQUATE INTERNAL CONTROLS OVER CASH DRAWS

The Commission has not established effective internal controls to ensure that cash draws are properly calculated, timely, and performed in accordance with federal regulations. We reviewed the December 31, 2017 cash draw and corresponding SF-425 report for the Occupational Safety and Health grant and observed that these were submitted without management review. We were able to agree the amounts reported on the SF-425 to the State's general ledger. However, recipients of federal grant monies should establish adequate internal controls to ensure compliance with grant requirements. Inadequate internal controls over compliance with federal grant requirements can lead to inaccuracies in both the draw requests and the amounts reported in the quarterly reports.

Recommendation:

We recommend the Commission implement internal controls over cash draws and reporting for its federal grants.

Response from the Labor Commission:

The Commission agrees and as part of the monthly financial review, a more thorough review of the cash draws will be conducted by the Administrative/Budget Director. Once the review is conducted and approved, the Financial Analyst will draw the cash.

4. LACK OF PROCEDURES FOR MONITORING AND REPORTING NONPROFITS

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 of any of these nonprofits whose revenues or expenditures of grant money exceed \$25,000 and who, therefore, must submit a financial report. However, the Commission has not established procedures requiring nonprofits with whom it contracts to submit information regarding such disbursements; as a result, the Commission does not have the needed information and does not provide the proper notification to the Office of the State Auditor.

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 Commission:

- a. Establish procedures to monitor the total amount of grant money received and expended by the nonprofits with whom it contracts; and**
- b. Notify the Office of the State Auditor of those nonprofits 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 and comply with state laws affecting those agencies.

Response from the Labor Commission:

The Commission agrees with this finding and as a result, has developed tracking and reporting tools to comply with Utah Code 51-2a-201.5 requiring agencies that disburse federal pass-through money or state money to non-profit corporations to notify the Office of the State Auditor of any of these non-profits whose revenues or expenditures of grants exceed \$25,000 must submit a financial report. The failure to maintain current reporting requirements lies with the Commission, not the Governor's Office of Management and Budget.

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.