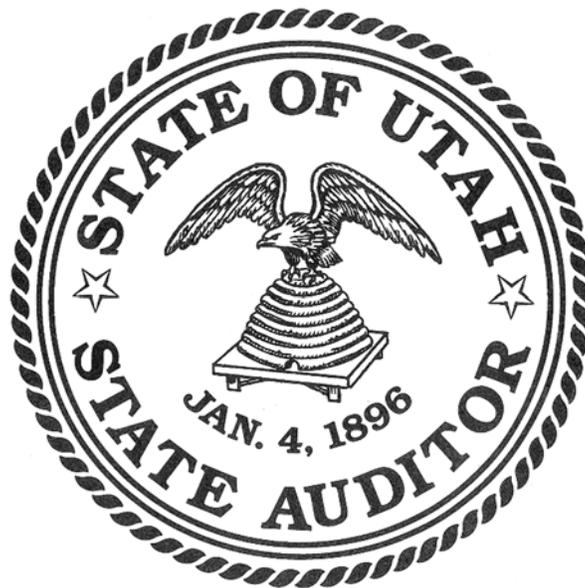


DEPARTMENT OF NATURAL RESOURCES

Single Audit Management Letter
For the Year Ended June 30, 2018

Report No. 18-07



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Jon Johnson, CPA, Audit Director
Matthew Johnson, Audit Senior

DEPARTMENT OF NATURAL RESOURCES

Single Audit Management Letter FOR THE YEAR ENDED JUNE 30, 2018

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Finding Type:

SD Significant Deficiency of Internal Control
RN Reportable Noncompliance or Illegal Acts

Applicable To:

f Federal Program



OFFICE OF THE
STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 18-07

November 5, 2018

Michael Styler, Executive Director
Department of Natural Resources
1594 West North Temple, Suite 3710
P.O. Box 145610
SLC, Utah 84114-5610

Dear Mr. Styler:

This management letter is issued as a result of the Department of Natural Resources' (the Department's) portion of the statewide single audit for the year ended June 30, 2018. Our final report on compliance and internal control over compliance issued to meet the reporting requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is issued under separate cover. We tested the following federal programs at the Department:

- Cooperative Forestry Assistance
- Fish and Wildlife Cluster

In planning and performing our audit of compliance of the programs listed above, we considered the Department's compliance with the applicable types of compliance requirements as described in the *OMB Compliance Supplement* for the year ended June 30, 2018. We also considered the Department's internal control over compliance with the types of requirements described above that could have a direct and material effect on the programs tested in order to determine the auditing procedures that were appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct on a timely basis noncompliance with a type of compliance requirement of a federal program. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purposes described in the second paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

We did not identify any deficiencies in the Department's internal control that we consider to be material weaknesses. However, we consider the deficiencies in internal control over compliance presented in the accompanying schedule of findings and recommendations as Findings 1 through 6 and 8 to be significant deficiencies.

The Department's written responses to and Corrective Action Plans for the findings identified in our audit were not subjected to the audit procedures applied in our audit and, accordingly, we express no opinion on them.

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. Accordingly, this communication is not suitable for any other purpose.

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

Sincerely,



Jon Johnson, CPA
Audit Director
(801) 538-1359
jonjohnson@utah.gov

cc: Roger Lewis, Finance Director, Department of Natural Resources
Brian Cottam, State Forester/Director, Division of Forestry, Fire, and State Lands
Stacy Carroll, Administrative Services Manager, Division of Forestry, Fire, and State Lands
Mike D. Fowlks, Director, Division of Wildlife Resources
Kenny Johnson, Administrative Services Section Chief, Division of Wildlife Resources
Linda Braithwaite, Financial Manager, Division of Wildlife Resources
Eric Hyatt, Federal Aid Coordinator, Division of Wildlife Resources

FINDINGS AND RECOMMENDATIONS

1. NONCOMPLIANCE WITH SUBRECIPIENT MONITORING REQUIREMENTS

Federal Agency: **Department of Agriculture**
CFDA Number and Title: **10.664 Cooperative Forestry Assistance**
Federal Award Numbers: **Various**
Questioned Costs: **\$0**
Pass-through Entity: **N/A**
Prior Single Audit Report Finding Number: **N/A**

We noted the following weaknesses related to the Department of Natural Resources' (Department's) Division of Forestry, Fire, and State Lands (FFSL) monitoring of subrecipients:

- a. At the time FFSL subawarded program funds, it failed to provide the subrecipients with the required federal award information including the CFDA name and number, Federal Award Identification Number (FAIN), and other applicable terms and conditions required by 2 CFR 200.331(a). Because the subrecipients were not made aware of the award information, the pass-through awards have likely not been included in the subrecipients' Schedules of Federal Financial Assistance and subject to single audit testing at the subrecipient level.
- b. FFSL is not 1) verifying that every subrecipient is potentially audited as required by Uniform Guidance, Subpart F—Audit Requirements, 2) reviewing the subrecipient single audit reports and 3) taking follow-up or enforcement actions to ensure that subrecipients take timely and appropriate action on all deficiencies noted in single audit reports as required by 2 CFR 200.331(f-h).

FFSL failed to provide all necessary award information and perform the additional monitoring because they were not aware of these subrecipient monitoring requirements. Failure to comply with these subrecipient monitoring requirements could result in inadequate monitoring of federal expenditures and potential noncompliance at the subrecipient level. This, in turn, could result in inappropriate use of federal funds without detection, possible failure to collect questioned costs identified in audit reports, and questioned costs at the state level due to the insufficient monitoring and enforcement actions.

Recommendation:

We recommend FFSL implement a system of internal controls to ensure compliance with all subrecipient monitoring requirements detailed in Uniform Guidance sections 200.330 and 331.

FFSL's Response:

The Utah Division of Forestry, Fire, and State Lands concurs with the audit finding.

FFSL's Corrective Action Plan:

The Division has been in contact with the Forest Service and has received guidance along with a template that is currently being modified for our specific purposes. This will be implemented in the current fiscal year.

Contact Person: Stacy Carroll, Financial Manager, (801) 538-7307

Anticipated Correction Date: January 1, 2019

2. NONCOMPLIANCE WITH REPORTING REQUIREMENTS

Federal Agency: **Department of Agriculture**

CFDA Number and Title: **10.664 Cooperative Forestry Assistance**

Federal Award Numbers: **Various**

Questioned Costs: **\$0**

Pass-through Entity: **N/A**

Prior Single Audit Report Finding Number: **N/A**

For the Cooperative Forestry Assistance Programs the Department's Division of Wildlife Resources (DWR) failed to submit the proper federal reports, as follows:

- a. DWR did not submit any required SF-270 reports during fiscal year 2018. According to individual grant award documentation, DWR was required to submit SF-270 reports for most of the program awards during the fiscal year. This error occurred because DWR believed they were not required to submit the SF-270 for all awards due to a few award documents not requiring it and due to not receiving any further notifications from the awarding federal agency about missing reports.
- b. For 3 of the 4 awards tested for which SF-425 reports were required, DWR failed to submit the reports for fiscal year 2018 as required by the individual grant agreements. This error occurred because DWR thought the SF-425 reports were due on the same date for each grant within the consolidated grants; however, many reports have different due date requirements.

Appropriately filing SF-270 and SF-425 reports is necessary to comply with the federal requirements. Furthermore, it is pertinent that reports are filed timely and accurately to document that DWR is fulfilling its matching requirements for the applicable grants.

Recommendation:

We recommend DWR develop and implement a system of internal controls to identify grants that require the SF-425 and SF-270 reports and ensure the reports are submitted in a timely manner.

DWR's Response:

The Utah Division of Wildlife Resources concurs with the audit finding.

DWR's Corrective Action Plan:

Previous to fiscal year 2018, the Forest Service requested individual invoices rather than an SF-270 form. Due to an over-sight, these forms were not submitted properly as we continued to submit invoices to receive payment. We will rectify this problem by including the agreements associated with this award on our tracking spreadsheet.

Contact Person: Cathy Norris, Financial Analyst, (801) 538-4741

Anticipated Correction Date: January 1, 2019

3. NO INDEPENDENT REVIEW OF FEDERAL REPORTS AND MATCHING REQUIREMENTS

Federal Agency: **Department of Agriculture**

CFDA Number and Title: **10.664 Cooperative Forestry Assistance**

Federal Award Numbers: **Various**

Questioned Costs: **\$0**

Pass-through Entity: **N/A**

Prior Single Audit Report Finding Number: **N/A**

FFSL does not have procedures in place to ensure an independent review is performed of Cooperative Forestry Assistance (CFA) federal reports and matching requirements. This independent review is necessary to prevent and detect errors in reported amounts and deficiencies in matching requirements. This occurred because FFSL was unaware of the need for an independent review.

Recommendation:

We recommend FFSL establish an independent review of CFA federal reports and matching requirements.

FFSL's Response:

The Utah Division of Forestry, Fire, and State Lands concurs with the audit finding.

FFSL's Corrective Action Plan:

Starting in SFY 18, the federal reports and matching reports were prepared by the Division of FFSL's Financial Analyst and reviewed by the Financial Manager.

Contact Person: Stacy Carroll, Financial Manager, (801) 538-7307

Anticipated Correction Date: Completed.

4. INADEQUATE INTERNAL CONTROLS OVER CASH DRAWS

Federal Agency: **Department of Agriculture**
CFDA Number and Title: **10.664 Cooperative Forestry Assistance**
Federal Award Numbers: **Various**
Questioned Costs: **\$0**
Pass-through Entity: **N/A**
Prior Single Audit Report Finding Number: **N/A**

We noted the following weaknesses related to cash draws at the Department:

- a. Neither FFSL nor DWR have performed independent reviews over cash draws. Lack of an independent review over cash draws could result in errors occurring without detection.
- b. FFSL performs a draw down of federal funds only on an annual basis. While drawing down funds on an annual basis does not result in inappropriate advances of federal funds, more frequent draws would improve the management of State cash balances.

Recommendation:

Prior to drawing down federal funds, we recommend DWR and FFSL perform independent reviews over cash draws for propriety and ensure that cash draws are performed in a timely manner.

FFSL's Response:

The Utah Division of Forestry, Fire, and State Lands concurs with the audit finding.

FFSL's Corrective Action Plan:

During the FY18 close-out process, the Financial Manager and the Financial Analyst prepared and reviewed each other cash draws and starting in FY19 the Division will begin preparing a quarterly federal draws.

*Contact Person: Stacy Carroll, Financial Manager, (801) 538-7307
Anticipated Correction Date: Completed*

DWR's Response:

The Utah Division of Wildlife Resources concurs with the audit finding.

DWR's Corrective Action Plan:

As indicated above, we don't draw down funds for this agreement. Payment is made via wire transfer from the Forest Service after invoices (now SF-270 forms) are submitted and reviewed. Previously, we had not had a second person verify the amounts submitted for payment previous

to having the invoices sent. We will include this agreement on our tracking spreadsheet as one that needs to be reviewed before SF-270's are sent for payment. The spreadsheet will also be attached to the CR as backup documentation as to how the draw amount was determined.

Contact Person: Cathy Norris, Financial Analyst, (801) 538-4741

Anticipated Correction Date: January 1, 2019

5. INADEQUATE INTERNAL CONTROLS OVER SUSPENSION AND DEBARMENT

Federal Agency: **Department of Agriculture**

CFDA Number and Title: **10.664 Cooperative Forestry Assistance**

Federal Award Numbers: **Various**

Questioned Costs: **\$0**

Pass-through Entity: **N/A**

Prior Single Audit Report Finding Number: **N/A**

For the Cooperative Forestry Assistance program, FFSL does not have adequate internal controls to ensure that all potential subrecipients or vendors involved in covered transactions are neither suspended nor debarred from receiving federal funds. Per federal regulations (2 CFR 180), a non-federal agency is required to establish internal controls to ensure it either 1) includes an appropriate suspension and debarment clause in the contract with the entity, 2) collects a certification from the entity, or 3) checks for excluded parties in the System for Award Management (SAM) maintained by General Services Administration (SAM.gov website). This error occurred because FFSL staff were unaware of suspension and debarment requirements. Failure to implement controls over suspension and debarment could result in violation of federal grant requirements by entering into a covered transaction with an entity who is suspended or debarred, resulting in improper payments.

Recommendation:

We recommend FFSL establish a system of controls to ensure that entities involved in a covered transaction are neither suspended, nor debarred.

FFSL's Response:

The Utah Division of Forestry, Fire, and State Lands concurs with the audit finding.

FFSL's Corrective Action Plan:

The Division has been in contact with the Forest Service and has received guidance along with a template that is currently being modified for our specific purposes. It is our intention to include as part of our award terms and condition and be implemented in the current fiscal year.

Contact Person: Stacy Carroll, Financial Manager, (801) 538-7307

Anticipated Correction Date: January 1, 2019

6. BACKDATING OF TRANSACTIONS FOR PERIOD OF PERFORMANCE

Federal Agency: **Department of Agriculture**
CFDA Number and Title: **10.664 Cooperative Forestry Assistance**
Federal Award Numbers: **16-PA-11040700-031**
Questioned Costs: **\$0**
Pass-through Entity: N/A
Prior Single Audit Report Finding Number: N/A

We tested 10 transactions for compliance with period of performance requirements, and noted 3 transactions where the expenditures were incurred after the period of performance of the contract with the U.S. Forest Service had ended. Upon further inquiry, we found that DWR had appropriately requested an extension of the contract period from the Forest Service to enable charging the transactions to the federal program. Rather than extending the contract as requested, the Forest Service, through subsequent emails, instructed DWR to backdate the transactions to a time period within the period of performance and indicated they would then approve the transactions. We acknowledge that DWR took appropriate actions to request approval to charge the funds after the period of performance. However, backdating transactions to circumvent accounting policies or regulations is not an appropriate practice. Because DWR appropriately requested and received approval for the transactions, we have not questioned any costs.

Recommendation:

We recommend DWR not inappropriately backdate transactions, even upon request from the federal granting agency. The Office of the State Auditor will also communicate directly with the U.S. Forest Service to recommend they not request agencies to backdate transactions in order to circumvent policies or regulations.

DWR's Response:

The Utah Division of Wildlife Resources concurs with the audit finding.

DWR's Corrective Action Plan:

We agree that we should not back date transactions. With approval and documentation from the Forest Service we opted to make a one time exception. Based on the results of this audit, we agree this is inappropriate and will not allow this to occur again.

Contact Person: Cathy Norris, Financial Analyst, (801) 538-4741

Anticipated Correction Date: January 1, 2019

7. INADEQUATE CONTROLS OVER ALLOCATION OF LEAVE BALANCES

Federal Agency: **Department of Agriculture**
CFDA Number and Title: **10.664 Cooperative Forestry Assistance**
Federal Award Numbers: **Various**
Questioned Costs: **\$0**
Pass-through Entity: **N/A**
Prior Single Audit Report Finding Number: **N/A**

In cases where employees worked on more than one activity, FFSL did not equitably allocate the hours charged for leave taken (e.g. annual leave, sick leave, holidays, etc.) to all of the activities on which the employees had worked. Instead, leave was charged exclusively to the State and not to the applicable federal programs. As required by 2 CFR section 200.431, the cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job should be equitably allocated to all related activities. This error occurred because the payroll system charges leave taken to a predetermined account coding and FFSL has no process to subsequently review, and allocate where necessary, leave charges to the actual activities on which the employees had worked. Failure to properly allocate leave costs may result in inequitable charges to all related activities, including federal programs. Since leave costs were charged exclusively to the State, we noted no reportable noncompliance for any of the major federal programs tested and will not question any costs.

Recommendation:

We recommend FFSL implement appropriate procedures and internal controls to ensure that leave costs are equitably allocated to all related activities in accordance with 2 CFR section 200.431. We also recommend FFSL calculate the leave allocations and charge the federal programs for their fair share of leave taken for all prior fiscal years to the extent that federal program funds are still available.

FFSL's Response:

The Utah Division of Forestry, Fire, and State Lands concurs with the audit finding.

FFSL's Corrective Action Plan:

Starting in FY19, FFSL has begun allocating leave monthly to federal programs. This will ensure that our quarterly draws are accurate.

Contact Person: Stacy Carroll, Financial Manager, (801) 538-7307

Anticipated Correction Date: Completed

8. INADEQUATE CONTROLS OVER CAPITAL ASSET INVENTORYFederal Agency: **Department of the Interior, Bureau of Land Management**CFDA Number and Title: **15.605 Sport Fish Restoration****15.611 Wildlife Restoration and Basic Hunter Education**Federal Award Numbers: **Various**Questioned Costs: **\$0**Pass-through Entity: **N/A**Prior Single Audit Report Finding Number: **N/A**

DWR did not perform a proper capital asset inventory during fiscal year 2018. Per federal regulations (2 CFR 200.313(b)), DWR is required to follow all state policies regarding the use, management, and disposition of equipment acquired under a federal award. State policies (FIACCT 09-16_02) require the inventory to be made annually by someone who does not have custodial or record keeping responsibilities over the assets. DWR did not complete the capital asset inventory during fiscal year 2018 and, based on our inquiry, the inventory procedures are not typically performed by a person who does not have custodial responsibilities over assets. Failure to complete the capital asset inventory process on an annual basis by non-custodial personnel can result in equipment which is susceptible to loss, theft, or damage without detection.

Recommendation:

We recommend DWR comply with State policy and procedures by performing the capital asset inventory on an annual basis and by ensuring that the inventory is performed by individuals without custodial or record keeping responsibilities over the assets.

DWR's Response:

The Utah Division of Wildlife Resources concurs with the audit finding.

DWR's Corrective Action Plan:

Due to turnover within the Division, a new person became responsible for the asset inventory. As such, there was a delay in this process and the reconciliation did not occur during FY'18. With additional employee training we plan on correcting this problem and performing an annual reconciliation starting with FY'19.

Additionally, DWR has identified that all inventory reconciliations will occur in Dec/Jan each fiscal year, instead of April which is a very busy time to complete the physical inventory.

Contact Persons: Kali Cochran, Financial Analyst, (801) 538-4825

Linda Braithwaite, Financial Manager, (801) 538-4853

Anticipated Correction Date: January 1, 2019

9. NONCOMPLIANCE WITH PERIOD OF PERFORMANCE REQUIREMENTS

Federal Agency: **Department of the Interior, Bureau of Land Management**

CFDA Number and Title: **15.605 Sport Fish Restoration**

15.611 Wildlife Restoration and Basic Hunter Education

Federal Award Numbers: **Various**

Questioned Costs: **\$0**

Pass-through Entity: **N/A**

Prior Single Audit Report Finding Number: **N/A**

For 1 of 40 transactions tested, DWR did not comply with Period of Performance requirements by charging a transaction incurred under a fiscal year 2017 award to a fiscal year 2018 award without authorization. According to federal regulations (2 CFR 200.309), a non-federal agency may charge to federal awards only those allowable costs incurred during the period of performance and any costs incurred prior to the period of performance *as authorized* by the federal awarding agency. This error occurred due to one of the DWR regions failing to comply with established procedures. Because the total projected errors would not exceed \$25,000, no costs have been questioned.

Recommendation:

We recommend DWR strengthen internal controls over period of performance requirements to ensure compliance with federal regulations.

DWR's Response:

The Utah Division of Wildlife Resources concurs with the audit finding.

DWR's Corrective Action Plan:

Annually we have training addressing the importance of proper documentation regarding payments and document record date. We will continue to remind both those that make payments and those that approve payments, of the importance of ensuring payments are made during the proper fiscal year and period.

Contact Person: Brandon Behling, (435) 650-2081

Anticipated Correction Date: January 1, 2019