



OFFICE OF THE  
STATE AUDITOR



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# Governor's Office of Planning and Budget

## Interim Management Letter

For the year ended June 30, 2024

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Report No. 24-06

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### Office of the State Auditor

Audit Leadership:

John Dougall, State Auditor

Jason Allen, CPA, CFE, Audit Director

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# Interim Management Letter No. 24-06

October 8, 2024

Sophia DiCaro, Executive Director  
Governor's Office of Planning and Budget  
350 North State Street, Suite 150  
Salt Lake City, UT 84114

Dear Director DiCaro:

This management letter is provided to communicate, at an interim date, certain deficiencies identified in our audit procedures on the Governor's Office of Planning and Budget's (GOPB) portion of the State of Utah's statewide single audit for the year ended June 30, 2024. These audit procedures were performed on the Coronavirus State and Local Fiscal Recovery Funds (Assistance Listing Number 21.027). This communication is based on our audit procedures performed through August 29, 2024. Because we have not completed the statewide federal compliance audit (Single Audit) for fiscal year 2024, additional federal programs at GOPB may be tested and additional issues 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. 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 GOPB 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.

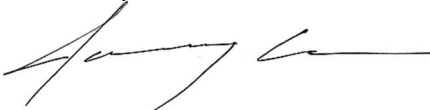
Based on the audit procedures performed, we identified deficiencies in internal control which, while not considered material, we consider to be significant enough to merit the further attention of management and those charged with governance (Findings 1–3). We also identified Findings 1–3 as instances of noncompliance which we are required to report under *Uniform Guidance*.

GOPB'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 GOPB'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 GOPB 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,



Jason Allen, CPA, CFE

Audit Director

801-808-0716

jasonallen@utah.gov

cc: Duncan Evans, Managing Director of Budget Operations, Governor's Office of Planning & Budget

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## Findings & Recommendations

### Finding 1. Inadequate SLFRF Subrecipient Monitoring

(Finding Type: Significant Deficiency, Reportable Noncompliance)

Federal Agency: Department of the Treasury

Assistance Listing Number and Title: 21.027 Coronavirus State and Local Fiscal Recovery Funds

Federal Award Number: N/A

Questioned Costs: \$0

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: 2023-017

The Governor's Office of Planning and Budget (GOPB), the prime recipient for the State and Local Fiscal Recovery Funds (SLFRF), and state agencies, including the Department of Natural Resources (DNR), and the Department of Environmental Quality (DEQ) did not adequately fulfill their subrecipient monitoring responsibilities.

#### Communication of Key Federal Grant Information, Risk Evaluation, and Compliance Monitoring

DNR and DEQ did not have adequate written policies and procedures, properly communicate key federal grant information, or evaluate subrecipient-risk for noncompliance to guide the monitoring for eight of the 11 selected subrecipients (two at DEQ and six at DNR), as required by 2 CFR 200.332(a) and 2 CFR 200.332(b) and (d).

#### Subrecipient Single Audit Report Reviews

For three of the four subrecipients selected (one at DEQ and two at DNR), DNR and DEQ did not adequately review their subrecipients' Single Audit reports and findings to assess whether the subrecipients spent the funds appropriately. The agencies also did not have adequate controls to ensure their subrecipients' Single Audit reports were monitored according to federal requirements. *Uniform Guidance* (2 CFR 200.332(d)(2)) requires a review of subrecipient Single Audit reports when they become available, as well as a follow-up to address any findings related to the applicable program.

The errors noted above were a result of the agencies not fully understanding the nature of the funds they received, the extent of compliance requirements, and the nature of the subaward agreement relationships. DNR and DEQ have taken steps to implement controls over these areas but did not have the new procedures in place as of year-end.

Failure to establish internal controls, adequately communicate key federal program information to subrecipients, and perform risk evaluation and monitoring procedures may result in the subrecipient's noncompliance with federal fund requirements and potential misuse of federal funds.

### **Recommendations:**

We recommend that GOPB, DNR, and DEQ do the following:

1. Gain an understanding of the subrecipient requirements and establish internal controls to ensure compliance with these requirements;
2. Establish written policies and procedures to ensure compliance with subrecipient monitoring requirements;
3. Communicate all required federal award information to sub-recipients,
4. Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward; and,
5. Monitor subrecipients according to their assessed risk and as required by 2 CFR 200.332.

### **GOPB's Response:**

GOPB, DEQ and DNR agree with the finding. GOPB has proactively supported state agencies with their subrecipient monitoring responsibilities. On May 15, 2023, GOPB emailed the current version of its ARPA Reference Guide to all state agencies administering ARPA SLFRF funds. This guide provides a comprehensive overview of the necessary compliance documents, including the State Agency Checklist, guidelines for SLFRF administrative and indirect costs, Single Audit compliance standards, internal controls references, risk assessment protocols, and subrecipient monitoring checklists. Following this, GOPB hosted federal funds compliance training for agency financial management staff on May 31 and June 6, 2023, which covered key aspects of SLFRF oversight, such as the ARPA Reference Guide, Unique Entity ID (UEI) requirements, FINET ARPA coding, and compliance procedures. GOPB also reviewed ARPA SLFRF frequently asked question 13.15 to document the requirements of 2 C.F.R. Part 200 that apply to non-revenue replacement projects and those that do not apply to revenue replacement projects. GOPB has also developed and implemented an APRA SLFRF Monitoring Plan to review agency compliance with policies, procedures, and subrecipient monitoring requirements.

### **Corrective Action Plan:**

To help staff at DEQ, DNR, and other agencies managing SLFRF funding improve their understanding of the subrecipient requirements and improve internal controls to ensure compliance with these requirements, GOPB will review its ARPA Reference Guide and other ARPA SLFRF training materials to make sure these materials provide adequate guidance, policies, and procedures to agencies managing ARPA SLFRF funding. GOPB will specifically review guidance on the following:

- Establishing and following agency policies and procedures to ensure compliance with subrecipient monitoring requirements.

- Communicating required federal award information to sub-recipients
- Evaluating each subrecipients risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward.
- Monitor subrecipients according to their assessed risk and as required by 2 CFR 200.332.

As part of the process of reviewing these materials, GOPB will work with DEQ and DNR to understand specific areas of guidance, training, or compliance that need to be strengthened. After reviewing and updating the ARPA Reference Guide and other ARPA SLFRF training materials, GOPB will distribute the updated guide to all agencies managing ARPA SLFRF funding. Additionally, GOPB will hold a dedicated training session with both DEQ and DNR, focusing on key areas such as subrecipient compliance requirements, internal controls, risk-based monitoring, Single Audit requirements, and federal compliance standards.

GOPB will also maintain a schedule of regular training, site visits, and reviews to ensure ongoing adherence to monitoring protocols and to reinforce internal controls across all agencies.

*Contact Person:* Duncan Evans, Senior Managing Director of Budget and Operations, 801-538-1592

*Anticipated Correction Date:* November 30, 2024

## **Finding 2. Misunderstanding Caused Improper Spending of Coronavirus State and Local Fiscal Recovery Funds (SLFRF)**

**(Finding Type: Significant Deficiency, Reportable Noncompliance)**

Federal Agency: Department of the Treasury

Assistance Listing Number and Title: 21.027 Coronavirus State and Local Fiscal Recovery Funds

Federal Award Number: N/A

Questioned Costs: \$559,900

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

The Governor's Office of Economic Opportunity (GOEO) erroneously recorded \$559,900 of expenditures to the SLFRF program. Sections 602(c)(1)(A-D) of the Social Security Act establish which types of projects recipients may use these funds for. The expended funds did not meet any of the criteria of those sections, and we question these costs. After bringing this error to GOEO's attention, GOEO made an adjustment in fiscal year 2024 to reverse the expenditures so that \$559,900 is no longer charged to the SLFRF program.

This error occurred due to an inexperienced financial analyst using incorrect account coding for these transactions. The individual who normally approves these types of transactions was unable to review these transactions to detect and correct the coding error, and the substitute individual who performed the review did not detect and correct the error before approving the transactions.

**Recommendation:**

To ensure expenditures charged to SLFRF projects comply with requirements, we recommend GOEO:

1. Improve its oversight and monitoring of expenditures.
2. Establish effective internal controls.

**GOPB's Response:**

GOPB agrees with the finding. We acknowledge that GOEO mistakenly recorded \$559,900 of expenditures to the SLFRF program and identified the same error during the quarterly expenditure review process. Upon identifying this error, GOPB promptly addressed the issue with GOEO so that expenditures could be corrected in the financial system before the end of the FY 2024 closeout and the July 2024 quarterly ARPA SLFRF report.

**Corrective Action Plan:**

To improve oversight and monitoring of expenditures, GOPB will work closely with GOEO to ensure that all expenditures charged to SLFRF projects comply with program requirements. GOPB will also add content to agency SLFRF trainings about regularly reviewing project ARPA SLFRF Appropriation Tracking and Documentation Forms, which outline the budget, scope, eligibility, and coding for ARPA SLFRF projects. The training will specifically emphasize the importance of each agency establishing effective internal controls for recording and reviewing ARPA SLFRF expenditures. In addition to updating its general training materials, GOPB will provide additional training to agency staff managing new projects so they understand policies and procedures.

*Contact Person:* Duncan Evans, Senior Managing Director of Budget and Operations, 801-538-1592

*Anticipated Correction Date:* Completed October 31, 2024

**Finding 3. Errors in Coronavirus SLFRF Quarterly Reports**

**(Finding Type: Significant Deficiency, Reportable Noncompliance)**

Federal Agency: Department of the Treasury

Assistance Listing Number and Title: 21.027 Coronavirus State and Local Fiscal Recovery Funds

Federal Award Number: N/A

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: 2023-018

GOPB did not accurately prepare and submit SLFRF quarterly financial reports. We noted the following discrepancies in the two quarterly reports tested:

- GOPB did not report the required written justification for projects that have capital expenditures greater than \$10 million to the Treasury. We identified one project (of the 20 sampled) above the \$10 million capital expenditures threshold that had written justification on file but had not been reported to the Treasury at the time of our testwork. GOPB did not submit the written justification due to confusion regarding the application of the standard, which resulted in the department being noncompliant with the reporting requirement.
- GOPB could not provide sufficient documentation to justify the reported "Total Obligations" for three of the 20 projects sampled. They relied on Departmental information and not source data (signed contracts, grant agreements, etc.). The difference in these amounts resulted in obligations being overreported on the January 2024 report by \$1,445,437 and overreported on the April 2024 report by \$3,107,197.

The Treasury's *Compliance and Reporting Guidance* for SLFRF outlines that recipients "should appropriately maintain accounting records for compiling and reporting accurate, compliant financial data, in accordance with appropriate accounting standards and principles," as well as other key reporting requirements for capital expenditures.

#### **Recommendation:**

We recommend GOPB submit the written justification of the capital expenditures for projects over \$10 million to the Treasury and rely on source data to accurately report required information on the quarterly reports.

#### **GOPB's Response:**

GOPB agrees with the finding. In April 2024, GOPB hired an additional fiscal grant manager to primarily focus on documenting and reconciling obligations and expenditures. As part of this process, GOPB is collecting and reconciling contracts, grant agreements, interagency agreements, and other obligating documents for ARPA SLFRF projects.

#### **Corrective Action Plan:**

GOPB has not received a response from the Treasury Office of Recovery Programs regarding the application of the \$10 million capital expenditure reporting threshold. GOPB is working with the National Association of State Budget Officers to see if they can receive a response. GOPB will add a new capital expenditure section to each ARPA SLFRF Appropriation Tracking and Documentation Form to

document the applicability of capital expense requirements for the project. If a project requires additional justification, based on clarification provided by the Treasury, GOPB and the agency will record the justification and documentation on the form and submit that information in the next quarterly ARPA SLFRF P&E Report-Quarter 4 2024.

While preparing the October 2024 ARPA SLFRF P&E Report-Quarter 3 2024, GOPB will reconcile all reported obligations with backup documents. This reconciliation will be completed for future reports.

*Contact Person:* Darcy Jaimez, Fiscal Grant Manager, 385-377-3373

*Anticipated Correction Date:* October 31, 2024