



OFFICE OF THE
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Department of Natural Resources

Interim Management Letter

For the year ended June 30, 2024

Report No. 24-08

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. 24-08

October 8, 2024

Joel Ferry, Executive Director
Department of Natural Resources
1594 West North Temple
Salt Lake City, UT 84116

Dear Director Ferry:

This management letter is provided to communicate, at an interim date, certain deficiencies identified in our audit procedures on the Department of Natural Resources (DNR) portion of the State of Utah's 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) where the Governor's Office of Planning and Budget (GOPB) is the prime recipient. 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 DNR 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 DNR 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.

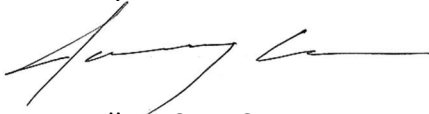
Based on the audit procedures performed, we identified a deficiency in internal control which, while not considered material, we consider to be significant enough to merit the further attention of management and those charged with governance (Finding 1). We also identified Finding 1 as an instance of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

DNR's written response to and Corrective Action Plan for this finding 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 DNR'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 DNR 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

Jim Egbert, Financial Manager, Department of Natural Resources

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.

DNR's Response:

The Department of Natural Resources agrees with this finding. We were originally audited by the State Auditor's Office in the summer of 2023 regarding our compliance with overseeing ARPA funding. In March 2024 we received findings from that audit. In May 2024 we were notified of an SLFRF audit. All of the new audit samples selected in the SLFRF audit were from before we received the results of the initial ARPA audit in March 2024. We have made improvements to our SLFRF subrecipient monitoring since receiving the initial audit recommendations in March 2024. We intend to make additional improvements based on these subsequent audit recommendations and our own internal reviews.

Corrective Action Plan:

The Department of Natural Resources will review the ARPA Reference Guide and other GOPB ARPA SLFRF training materials provided by Governor's Office of Planning and Budget to ensure our agency is compliant with managing all SLFRF subrecipient requirements and improve internal controls.

DNR will work with GOPB to ensure that key personnel in our agency are doing the following:

- Gaining a better understanding of subrecipient requirements and associated internal controls. Water Resources will review the ARPA Reference Guide and GOPB ARPA SLRF training materials to identify internal control weaknesses so they can be addressed. The Finance Manager, Contract/Grants Analyst and Project Funding Section Manager at the Division of Water Resources will also meet directly with GOPB by December 16, 2024 to ensure we understand all subrecipient monitoring requirements.
- Establishing and following written policies and procedures to ensure compliance with subrecipient monitoring requirements. The Finance Manager will establish written policies and

procedures by December 16, 2024 to ensure compliance with subrecipient monitoring requirements.

- Communicating required federal award information to sub-recipients. Federal award information is included in all ARP A contracts executed by the Division of Water Resources and has been since June 2023. Federal award information associated with ARPA contracts executed before June 2023 were subsequently distributed to those grant applicants so that all grantees have the required federal award information. We will continue to review and ensure we are compliant with this requirement.
- Evaluating each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward. Since May 2024 Water Resources has been requiring each ARPA grant applicant to fill out a risk assessment questionnaire. We will continue to assess responses to our grant recipients. The Finance Manager and the Project Funding manager will distribute a risk assessment questionnaire to all other grant recipients who have not filled one out yet so we have this information on file for all of our ARPA grantees. This will be completed by December 16, 2024.
- Monitoring subrecipients according to their assessed risk and as required by 2 CFR 200.332. The Finance Manager and the Project Funding Manager will meet prior to December 16, 2024 to determine if additional monitoring tools are necessary for any of our subrecipients, which could include site visits, technical assistance, or additional monitoring based upon potential risk.

As part of the process of reviewing these requirements, DNR will work with GOPB to understand specific areas of guidance, training, or compliance that need to be strengthened. DNR will work closely with GOPB to ensure specific personnel are trained, focusing on key areas such as subrecipient compliance requirements, internal controls, risk-based monitoring, Single Audit requirements, and federal compliance standards. DNR will ensure that this corrective action plan is implemented and adhered to.