



OFFICE OF THE
STATE AUDITOR



◦ STATE OF UTAH ◦

Department of Environmental Quality

Interim Management Letter

For the year ended June 30, 2024

Report No. 24-09

Office of the State Auditor

Audit Leadership:

John Dougall, State Auditor

Jason Allen, CPA, CFE, Audit Director

Abby Potter, CPA, Audit Supervisor

Table of Contents

Interim Management Letter No. 24-09	1
Findings & Recommendations	3
Finding 1. Inadequate SLFRF Subrecipient Monitoring.....	3



OFFICE OF THE
STATE AUDITOR

Interim Management Letter No. 24-09

October 8, 2024

Kim Shelley, Executive Director
Department of Environmental Quality
195 North 1950 West
Salt Lake City, UT 84116

Dear Director Shelley:

This management letter is provided to communicate, at an interim date, certain deficiencies identified in our audit procedures on the Department of Environmental Quality's (DEQ) 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 DEQ 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 DEQ 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*.

DEQ'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 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 DEQ 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
Wayne Boyce, Financial Manager, Department of Environmental Quality

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.

DEQ's Response:

DEQ agrees with the finding. DEQ does have procedures for sub-recipient monitoring, including risk assessments and review of Single Audit reports; however, with the ARPA funds in question, improvements can be made to ensure that sub-recipient monitoring is performed timely, documented, and complies with federal requirements.

Corrective Action Plan:

DEQ is in the process of hiring a new FTE, one of whose responsibilities will be to review and monitor DEQ's compliance with sub-recipient monitoring requirements for ARPA and other federal funds. This will ensure that risk assessments, Single Audit report reviews, and other monitoring activities are completed timely, properly documented, and in compliance with federal requirements.

Responsible Person: Craig Silotti, Finance Director, 801 536-4460

Anticipated Completion Date: January 31, 2025