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STATE AUDITOR



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# Department of Workforce Services

## Interim Management Letter

For the year ended June 30, 2024

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Report No. 24-11

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### Office of the State Auditor

Audit Leadership:

John Dougall, State Auditor

Jason Allen, CPA, CFE, Audit Director

Caleb Tindall, CPA, Audit Supervisor

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# Interim Management Letter No. 24-11

October 21, 2024

Casey Cameron, Executive Director  
Department of Workforce Services  
140 East 300 South  
Salt Lake City, UT 84111-0000

Dear Director Cameron:

This management letter is provided to communicate, at an interim date, certain deficiencies identified in our audit procedures on the Department of Workforce Services' (DWS) portion of the State of Utah's statewide single audit for the year ended June 30, 2024. These audit procedures were performed on the Housing Trust Fund, Homeowner Assistance Fund, Refugee and Entrant Assistance, and Temporary Assistance for Needy Families. This communication is based on our audit procedures performed through August 28, 2024. Because we have not completed the statewide federal compliance audit (Single Audit) for fiscal year 2024, additional federal programs at DWS 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 DWS 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 1–4). We also identified Findings 1 and 3 as instances of noncompliance which we are required to report under *Uniform Guidance*.

In addition, during our audit, we became aware of certain deficiencies in internal control (Findings 2 and 5) that are opportunities for strengthening internal controls and operating efficiencies.

DWS' 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 DWS' 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 DWS 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: James Whelchel, Director Internal Audit  
Christina Oliver, Housing & Community Development Division Director  
Nathan Harrison, Executive Finance Director  
Kim Beck, Finance Director  
Elizabeth Carver, Workforce Development Division Director  
Mario Kljajo, Refugee Services Division Director

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## Findings & Recommendations

### Finding 1. HTF Project Does Not Meet Eligible Income Requirements

(Finding Type: Significant Deficiency, Reportable Noncompliance)

Federal Agency: Department of Housing and Urban Development

Assistance Listing Number and Title: 14.275 Housing Trust Fund

Federal Award Number: Various

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

During eligibility reviews, DWS did not detect that a tenant in a Housing Trust Fund (HTF) assisted unit did not meet the income requirements to occupy the HTF-assisted unit. This error occurred because the tenant's income was entered as \$17,115 instead of \$18,115 actual reported income, which exceeds the income limitation for this location of \$17,400. The review by DWS also did not identify that this apartment complex did not have the specified one, two, and three-bedroom units available for HTF-assisted occupancy as outlined by the deed restrictions for this HTF-constructed apartment complex. Borrowers that are not in compliance with these deed restrictions could face DWS opting to call and make payable in full the HTF loan.

2 CFR 200.303 requires that "the non-federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award." Without effective internal controls, ineligible tenants may be allowed to occupy HTF-assisted housing, thus limiting the availability of units for eligible extremely low-income families.

#### Recommendation:

We recommend that DWS strengthen its internal control to better determine that all HTF assisted housing units contain only income eligible tenants.

#### DWS's Response:

DWS agrees with the finding.

#### Corrective Action Plan:

The Housing and Community Development Division is in the process of completing a full HTF policy and procedures rewrite with a robust internal controls process. This will include an updated HTF monitoring checklist and a quality control check of said monitoring checklist by the Program Manager.

Anticipated correction date: March 31, 2025

Responsible person: Daniel Murphy, HCD Program Manager, 385-630-8368

## **Finding 2. DWS-Adopted Guidelines Not Followed When Evaluating an Applicant Housing Project**

**(Finding Type: Significant Deficiency, Other)**

Federal Agency: Department of Housing and Urban Development

Assistance Listing Number and Title: 14.275 Housing Trust Fund

Federal Award Number: Various

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

DWS did not adhere to its adopted guidelines when assessing a housing project's application for funding from the Housing Trust Fund (HTF). Per 24 CFR § 92.250, "Before committing funds to a project, the participating jurisdiction must evaluate the project in accordance with guidelines that it has adopted." The Olene Walker Housing Loan Fund (OWHLF) Board approved the project for funding on April 28, 2022. Pursuant to OWHLF 2022 guidelines, DWS should have obtained with the project's application "either certified or independently-audited financial statements for the developer." DWS relied on a developer's compilation report that does not provide any certification, assurance, or an independent opinion on audited financial statements. Without a clear definition of certified financial reporting, DWS personnel evaluating the project believed that the compilation report containing the developer's financial statements was certified. If DWS does not follow its own guidelines to receive and review certified or audited financial statements, the OWHLF Board may place greater reliance on the developer's financial statements when considering whether to approve HTF funding.

### **Recommendation:**

We recommend that DWS adhere to its adopted guidelines, clarify its guidelines regarding certified financial statements, and obtain and review all necessary documentation when evaluating projects' applications for approval by the OWHLF.

### **DWS's Response:**

DWS agrees with the finding.

**Corrective Action Plan:**

The Housing and Community Development Division is in the process of completing a full HTF policy and procedures rewrite with a robust internal controls process. This will include an updated HTF monitoring checklist and a quality control check of said monitoring checklist by the Program Manager.

Anticipated correction date: March 31, 2025

Responsible person: Daniel Murphy, HCD Program Manager, 385-630-8368

**Finding 3. Reported Number of Homeowners Overstated**

(Finding Type: Significant Deficiency, Reportable Noncompliance)

Federal Agency: Department of the Treasury

Assistance Listing Number and Title: 21.026 COVID-19 Homeowner Assistance Fund

Federal Award Number: HAFP-0100

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

The number of unique homeowners classified at or below 100% area median income (AMI) was overreported for all Homeowner Assistance Fund (HAF) quarterly reports submitted to the Treasury. For the two reports that we looked at, the errors were as follows:

*Table 1. Impact of Errors by Report*

<b>Quarter Ended</b>	<b>Number Reported</b>	<b>Correct Number</b>	<b>Number Overreported</b>	<b>Percentage Overreported</b>
<b>June 30, 2023</b>	961	839	122	15%
<b>March 31, 2024</b>	1620	1363	257	19%

This error occurred as a result of misinterpreting information received from third parties used to fill out the report and a misunderstanding by both the preparer and reviewer of report requirements and thresholds. To be compliant with federal standards (2CFR 200.303), DWS “must establish and maintain effective internal controls over the award.” Compliance cannot be established without a thorough understanding of the requirements and how the data from third parties is aggregated. Without that understanding and proper reviews to detect and correct errors, DWS may continue to report incorrect data and may risk not meeting the targeted earmark for homeowners assisted with income less than 100% AMI.

**Recommendation:**

We recommend that internal control be strengthened so that compliance requirements and data received from others are properly understood before completing and submitting federal reports.

**DWS's Response:**

DWS agrees with the finding.

**Corrective Action Plan:**

The Housing and Community Development Division will adopt a quality review process to address this finding. Fortunately, the Quarterly Reports are cumulative so we have updated the current report to reflect the accurate household counts with an AMI under 100%.

Anticipated correction date: March 31, 2025

Responsible person: Ambra Peterson, HCD Program Manager, 385-312-6551

## **Finding 4. TANF ACF-204 Report Does Not Match Supporting Documentation**

### **(Finding Type: Significant Deficiency)**

Federal Agency: Department of Health and Human Services

Assistance Listing Number and Title: 93.558 Temporary Assistance for Needy Families

Federal Award Number: Various

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

Data elements for the Temporary Assistance for Needy Families (TANF) program submitted by DWS did not match the supporting documentation. The Annual Report (ACF-204) for the year ended September 30, 2023, had the following errors:

*Table 2. TANF Errors by Report line*

<b>ACF-204 Report Line</b>	<b>Number Reported</b>	<b>Correct Number</b>	<b>Number Overreported / (Under)</b>
<b>Attachment B2, Line 6 (Total State Expenditures for Fiscal Year) and 7</b>	\$475,145	\$475,045	\$100

<b>(Total State MOE Expenditures for Fiscal Year)</b>			
<b>Attachment B3, Line 11 (Total Program Expenditures in FY 1995)</b>	\$0	\$6,937,582	(\$6,937,582)

These errors were caused by comparing the TANF data to incorrect supporting information in the preparation and not following the report instructions to prepare the report. The report review did not detect these errors. Federal regulations (2 CFR 200.303) require entities to “establish and maintain effective internal controls [procedures]...that provide reasonable assurance that the... entity is managing [federal program] in compliance with... terms and conditions of the federal award.” By not ensuring Reports match supporting information or not following report instructions, DWS is at risk of submitting inaccurate reports and failing to meet federal funding requirements.

#### **Recommendation:**

We recommend that DWS prepare and review all report lines to correct supporting documentation to ensure accuracy prior to submitting the reports.

#### **DWS’s Response:**

DWS agrees with the finding.

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

The report processes will be updated to add internal controls. The program manager will coordinate with finance staff to review all finance documentation utilized for the report. Prior to submission of the report, it will be reviewed by division and finance leadership to ensure the report aligns with documentation and is correct.

Anticipated correction date: December 31, 2024

Responsible person: Liz Carver, Division Director, 801-514-1017

## Finding 5. Refugee Grant Expenditures Charged Outside Award Period

(Finding Type: Significant Deficiency, Reportable Noncompliance)

Federal Agency: Department of Health and Human Services

Assistance Listing Number and Title: 93.566 Refugee and Entrant Assistance

Federal Award Number: 2401UTRCMA-02

Questioned Costs: \$39,297

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

We identified 8 of 33 (24%) transactions totaling \$39,297 that were charged to the Refugee Cash Medical Assistance (CMA) award for federal fiscal year 2024 before the award began on October 1, 2023, the beginning of the award's period of performance for allowable costs. 45 CFR 75.309 states that "a non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance." These costs were improperly allocated to the CMA award during the report preparation process and DWS's review of the allocated transactions did not prevent or detect and correct these expenditures to ensure they were charged to the proper award period based on when the costs were incurred. Expenditures charged outside of an award period are considered unallowable for that award and could lead to improper reporting of expenditures to the federal awarding agency.

### Recommendation:

We recommend that DWS implement a more detailed and thorough review of incurred and paid costs to ensure expenditures are charged to an appropriate award during the allowable award period.

### DWS's Response:

DWS agrees with the finding.

### Corrective Action Plan:

The department will implement a more detailed and thorough review of transactions to ensure that costs are attributed to the applicable period of performance in which the work was performed, and expenses were incurred and will ensure that costs are subsequently charged to the corresponding grant award.

Anticipated correction date: January 31, 2025

Responsible person: Kim Beck, Finance Director, 385-214-4993