

# OFFICE OF ENERGY DEVELOPMENT

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Single Audit Management Letter  
For the Year Ended June 30, 2013

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Report No. 13-12



OFFICE OF THE  
UTAH STATE AUDITOR

# OFFICE OF ENERGY DEVELOPMENT

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Single Audit Management Letter  
For the Year Ended June 30, 2013

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Report No. 13-12

AUDIT TEAM:

Hollie Andrus, CPA, Audit Director  
Janica Gines, CPA, Audit Supervisor



OFFICE OF THE  
**UTAH STATE AUDITOR**

**SINGLE AUDIT MANAGEMENT LETTER NO. 13-12**

October 22, 2013

Cody Stewart, Governor's Energy Advisor  
Office of Energy Development  
60 East South Temple, 3rd Floor  
Salt Lake City, Utah 84111

and

Amanda Smith, Executive Director  
Department of Environmental Quality  
195 N. 1950 West  
SLC, Utah 84116

This management letter is issued as a result of our testwork of the State Energy Program and the Performance Partnership Grant, which were tested as major federal programs in the State of Utah as part of the statewide federal compliance audit for the year ended June 30, 2013. Our report on the statewide federal compliance audit for the year ended June 30, 2013 is issued under separate cover.

In planning and performing our audit of these federal programs, we considered compliance with the applicable types of compliance requirements as described in the OMB Circular A-133 Compliance Supplement for the year ended June 30, 2013. We also considered internal control over compliance with the requirements previously described that could have a direct and material effect on the programs in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 internal control over compliance.

Our consideration of internal control over compliance was for the limited purposes described in the preceding 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We identified certain deficiencies in internal control that we consider to be significant deficiencies. These significant deficiencies are identified in the accompanying table of contents and are described in the accompanying schedule of findings and recommendations.

The written responses to the findings identified in our audit have not been 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. This communication is an integral part of an audit performed in accordance with OMB Circular A-133 in considering internal control over compliance. Accordingly, this communication is not suitable for any other purpose.

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

Sincerely,

A handwritten signature in black ink that reads "Hollie Andrus". The signature is written in a cursive, flowing style.

Hollie Andrus, CPA  
Audit Director  
801-808-0467  
handrus@utah.gov

cc: Samantha Mary Julian, Director, Office of Energy Development  
Alair Emory, Programs and Planning Manager, Office of Energy Development  
Craig P. Silotti, Director of Support Services, Department of Environmental Quality

**OFFICE OF ENERGY DEVELOPMENT**

FOR THE YEAR ENDED JUNE 30, 2013

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Finding Type:

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

Applicable To:

f Federal Program

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FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2013

### **1. NONCOMPLIANCE WITH REPORTING REQUIREMENTS**

Federal Agency: **Department of Energy**  
CFDA Number and Title: **81.041 State Energy Program - ARRA**  
Federal Award Number: **DE-EE0000083**  
Questioned Cost Amount: **\$0**  
Pass-through Entity: N/A

Due to a clerical error, the Office of Energy Development (OED) under-reported State Energy Program (SEP) revenue by \$896,296 and over-reported SEP expenditures by the same amount on the December 31, 2012 ARRA Section 1512 report. The ARRA Section 1512 report should be accurately completed in accordance with the report's instructions. Inaccurate completion of the report results in noncompliance with grant requirements.

#### **Recommendation:**

**We recommend that OED implement internal controls to ensure that ARRA Section 1512 reports are prepared accurately in accordance with the grant agreements and instructions.**

#### **Office of Energy Development's Response:**

*Prior to June 2013, OED contracted with DEQ for financial operations support. There were logistical challenges with this arrangement which impacted reporting. In June 2013 OED hired an in-house financial manager. The financial manager will work closely with program staff to ensure 1512 reports are prepared accurately and in accordance with grant agreements and instructions. The financial manager will review 1512 reports for accuracy prior to submission to the agency.*

*Contact Person: Michele Pasker, OED Budget and Accounting Officer, (801) 538-8727  
Anticipated Correction Date: September 2013*

### **2. INADEQUATE SUBRECIPIENT MONITORING**

Federal Agency: **Department of Energy**  
CFDA Number and Title: **81.041 State Energy Program - ARRA**  
Federal Award Number: **DE-EE0000083**  
Questioned Cost Amount: **\$0**  
Pass-through Entity: N/A

OED does not have adequate controls to ensure that subrecipients are complying with OMB Circular A-133 audit requirements. OED does not obtain and review A-133 reports for

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FOR THE YEAR ENDED JUNE 30, 2013

school districts to determine whether there are findings relating to SEP funds passed-through from OED, nor do they perform follow-up procedures if there are findings. OMB Circular A-133 requires that pass-through entities issue management decisions on audit findings within six months after receipt of subrecipients' audit reports and ensure that subrecipients take appropriate and timely corrective action. OED currently only ensures that the respective audit reports are posted to the Office of the Utah State Auditor's website. OED considered reviews of school district audit reports performed by the Utah State Office of Education's (USOE) Internal Auditors sufficient for monitoring purposes; however, these reviews only cover programs passed through by the USOE. This error resulted from OED's misunderstanding of a pass-through entity's responsibilities related to monitoring auditor reports of their subrecipients. Inadequate subrecipient monitoring can result in misspent funds and questioned costs.

### **Recommendation:**

**We recommend that OED ensure that A-133 audit reports are obtained and reviewed for all subrecipients to determine whether there are SEP-related findings and to ensure proper follow-up if findings are identified.**

### **Office of Energy Development's Response:**

*Prior to June 2013, OED contracted with DEQ for financial operations support. In June 2013 OED hired an in-house financial manager. A tracking system for monitoring A-133 audit report status for all subrecipients has been established and will be maintained by the OED financial manager. The financial manager will work with program staff to ensure documentation and proper follow-up if findings are identified.*

*Contact Person: Michele Pasker, OED Budget and Accounting Officer, (801) 538-8727  
Anticipated Correction Date: October 2013*

### **3. LACK OF CONTROLS OVER ALLOCATION OF BENEFITS CHARGED TO THE STATE ENERGY PROGRAM**

Federal Agency: **Department of Energy**  
CFDA Number and Title: **81.041 State Energy Program - ARRA**  
Federal Award Number: **DE-EE0000083**  
Questioned Cost Amount: **\$3,103**  
Pass-through Entity: N/A

OED and the Department of Environmental Quality (DEQ) do not have controls in place to ensure equitable allocation of benefits to the SEP. We tested the allocation of benefits for a sample of three employees, and for all three employees, a disproportionate amount of

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### FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

benefits and payroll-processed travel reimbursements were charged to the SEP relative to the direct hours charged to the program, which resulted in an inequitable allocation of those costs. Per OMB Circular A-87, Attachment B, Item 8, benefits related to compensation for personal services should be equitably allocated to all related activities, including federal awards. Noncompliance with OMB Circular A-87 requirements can lead to unallowable expenditures and questioned costs. This lack of controls resulted in a net over-allocation of \$3,045 in benefits and \$58 in payroll-processed travel reimbursements to the SEP, which we are questioning.

#### **Recommendation:**

**We recommend that OED/DEQ implement internal controls to ensure that all personal service benefits and payroll-processed travel reimbursements are equitably allocated.**

#### **Office of Energy Development's Response:**

*Adjustments to the allocation of benefits compared to the actual distribution of direct wages paid including adjusting the amount drawn down on the federal programs in ASAP have been made for all employees that have charged costs to the State Energy Program. Two reviews and adjustments to equitably allocate benefits were performed, one in March 2013 and a final review and adjustment was done as part of the year end closeout process for the state fiscal year ended June 30, 2013.*

*Contact Person: Craig Silotti, DEQ Finance Director, (801) 536-4460  
Anticipated Correction Date: March 2013*