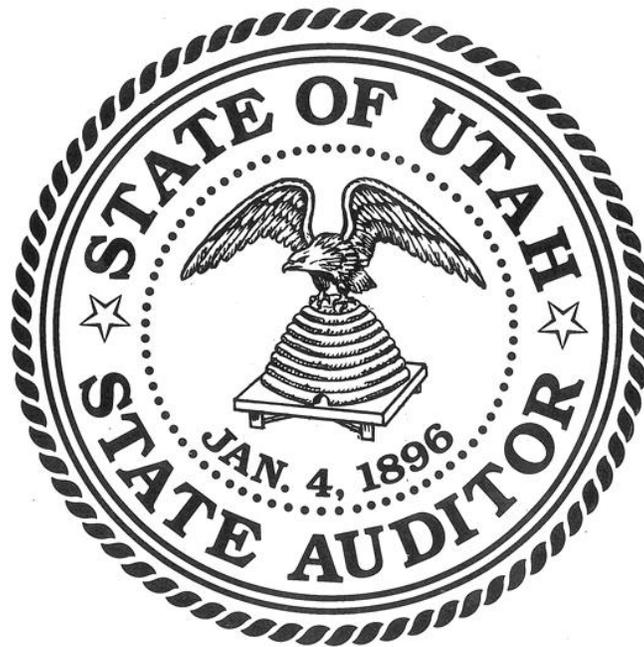


DEPARTMENT OF NATURAL RESOURCES

Single Audit Management Letter
For the Year Ended June 30, 2016

Report No. 16-03



OFFICE OF THE UTAH STATE AUDITOR

AUDIT LEADERSHIP:

Jon Johnson, CPA, Audit Director
Bertha Lui, CPA, Audit Supervisor



OFFICE OF THE
UTAH STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 16-03

October 4, 2016

Michael Styler, Executive Director
Department of Natural Resources
1594 West North Temple, Suite 3710
P.O. Box 145610
SLC, Utah 84114-5610

Dear Mr. Styler:

This management letter is issued as a result of the Department of Natural Resources' (the Department's) portion of the statewide federal compliance audit for the year ended June 30, 2016. Our final report on compliance and internal control over compliance issued to meet the reporting requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is issued under separate cover.

In planning and performing our audit of compliance of the Fish, Wildlife and Plant Conservation Resource Management program (CFDA # 15.231), we considered the Department's compliance with the applicable types of compliance requirements as described in the *OMB Compliance Supplement* for the year ended June 30, 2016. We also considered the Department's internal control over compliance with the types of requirements described above that could have a direct and material effect on the major program tested in order to determine the auditing procedures that were appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Department's internal control over compliance.

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 in internal control 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. 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.

Our consideration of internal control over compliance was for the limited purposes described in the second 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

We did not identify any deficiencies in the Department's internal control that we consider to be material weaknesses. However, we consider the deficiencies in internal control over compliance presented in the accompanying schedule of findings and recommendations as Findings 1 through 3 to be significant deficiencies.

The Department's written responses to and Corrective Action Plans for the findings identified in our audit were not 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. Accordingly, this communication is not suitable for any other purpose.

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

Sincerely,



Jon Johnson, CPA
Audit Director
(801) 538-1359
jonjohnson@utah.gov

cc: Dennis Carver, Finance Director, Department of Natural Resources
Greg Sheehan, Director, Division of Wildlife Resources
Kenny Johnson, Administrative Services Section Chief, Division of Wildlife Resources
Linda Braithwaite, Financial Manager, Division of Wildlife Resources
Eric Hyatt, Federal Aid Coordinator, Division of Wildlife Resources

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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, 2016

1. ERRORS IN SF-425 REPORTS

Federal Agency: **Department of the Interior, Bureau of Land Management**
CFDA Number and Title: **15.231 Fish, Wildlife, and Plant Conservation Resource Management**

Federal Award Numbers: **L10AC20342 and L12AC20559**

Questioned Costs: **\$0**

Pass-through Entity: **N/A**

Prior Single Audit Report Finding Number: **2015-042**

We sampled 3 of the 17 SF-425 financial reports prepared and submitted by the Department of Natural Resources' (Department) Division of Wildlife Resources (DWR) during state fiscal year 2016. The reports were for three separate grants that fall under the Fish, Wildlife, and Plant Conservation Resource Management Program (Program), including one grant representing the majority of program expenditures.

For one of the three reports sampled, as well as an additional report reviewed during our testwork for matching compliance, DWR failed to complete the state recipient share (cost-sharing requirement), line 10.i, and the state recipient share of expenditures (expenditures incurred to meet the cost-sharing requirements), line 10.j, resulting in reporting errors ranging from \$35,000 to \$205,485. The grant agreement requires the reporting of this information. DWR submitted corrected reports after our discussion of these reporting errors.

These reporting errors occurred because DWR did not have an adequate understanding of the reporting requirements for these lines. All reports should be accurate and prepared in conformance with the report instructions. Not accurately reporting all required information results in inaccurate and/or incomplete program information being provided to users of the reports.

Recommendation:

We recommend that DWR strengthen internal controls over federal financial reporting and take greater care to ensure that the reports are prepared accurately, completely, and in accordance with report instructions.

DWR's Response:

The Utah Division of Wildlife Resources concurs with the audit finding.

Corrective Action Plan:

The inaccurate reporting as it relates to the SF-425 forms will be corrected by a cross check. Some of our contracts require a match to be provided while other contracts do not.

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We recently updated our methodology that the financial analyst will use as she prepares the SF-425 forms. We have added additional information in our tracking spreadsheet indicating whether or not a state match is required. This will allow the financial analyst to make sure that the match is recorded as she prepares the SF-425 forms. This will also be used by the Federal Aid Coordinator as he reviews the SF-425 forms for accuracy and content before submission.

*Contact Person: Cathy Norris, Financial Analyst, 801-538-4741
Anticipated Completion Date: October 1, 2016*

2. **INADEQUATE INTERNAL CONTROL OVER PERIOD OF PERFORMANCE COMPLIANCE**

Federal Agency: **Department of the Interior, Bureau of Land Management**
CFDA Number and Title: **15.231 Fish, Wildlife, and Plant Conservation Resource Management**

Federal Award Number: **L10AC20342, L08AC14925 and L08AC13571**

Questioned Costs: **\$0**

Pass-through Entity: N/A

Prior Single Audit Report Finding Number: N/A

During our testing of internal controls and compliance for period of performance requirements, we noted the follow errors:

- a. While examining all seven transactions recorded in fiscal year 2016 related to DWR's four awards beginning or ending in fiscal year 2016, we noted one expenditure of \$250 that was incurred and paid outside of the period of performance. This error occurred due to human error in processing the transaction and oversight during the monthly review of grant expenditures.
- b. While testing a sample of 24 expenditure transactions charged to this program, we noted one transaction in the amount of \$691 that was charged to the award outside its period of performance – in this case the award had expired in September 30, 2013. DWR also informed us of additional similar charges to this award and additional charges to another award outside its period of performance – in this second case the grant award had expired in December 31, 2013. DWR asserts that these instances of charges outside of the period of performance occurred due to their efforts to expend immaterial amounts of advanced program funds on hand from a prior year and verbal instructions from the federal awarding agency (BLM). We were not able to confirm these instructions from the BLM.

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According to 2 CFR 200.309, a non-federal entity may charge to the federal award only allowable costs incurred during the period of performance. Similar pre-Uniform Guidance requirements were established by 2 CFR 215.28. Failure to comply with period of performance requirements could result in questioned costs and/or revocation of federal award funds.

Subsequent to our testwork, DWR returned a total of \$9,722.75 to the BLM related to the errors noted in a. and b. above. Therefore, we have not questioned any costs. Based on our testwork, other errors of this nature, if any, would not be material to the major program.

Recommendation:

We recommend that DWR strengthen their internal controls over period of performance compliance requirements and ensure that all amounts charged to the various awards within the federal program occur within the award's allowable period of performance.

DWR's Response:

The Utah Division of Wildlife Resources concurs with the audit finding.

Corrective Action Plan:

As reports are submitted to the federal agency, the financial analyst will sort expenditures to ensure that all expenses fall within the contract dates. We have added the dates of the contract to the spreadsheet which will allow a cross check as the financial analyst looks at expenses and ensures that they fall within the contract dates.

Contact Person: Cathy Norris, Financial Analyst, 801-538-4741

Anticipated Completion Date: October 1, 2016

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FINDINGS AND RECOMMENDATIONS
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3. INADEQUATE INTERNAL CONTROLS OVER SUSPENSION AND DEBARMENT

Federal Agency: **Department of the Interior, Bureau of Land Management**
CFDA Number and Title: **15.231 Fish, Wildlife, and Plant Conservation Resource Management**

Federal Award Number: **L14AC00084**

Questioned Costs: **\$0**

Pass-through Entity: N/A

Prior Single Audit Report Finding Number: **2015-043**

DWR has inadequate internal controls over the process for verifying that a grantee was not suspended or debarred from using federal funds. Per federal regulation (2 CFR 180), DWR is required to either add a clause or condition to the covered transaction, collect a certification for the entity, or check the Excluded Parties List System (EPLS).

To address a similar finding in the prior year, DWR implemented procedures to add suspension and debarment clauses in all new contracts and all new amendments to contracts; however, DWR did not modify existing contracts to include the suspension and debarment clause. As a result, 3 of 11 contracts sampled did not contain the clause and DWR did not obtain additional certifications or perform manual verifications.

These errors occurred because DWR thought suspended or debarred status only needed to be verified on new contracts and amendments; as such, DWR continued to make payments on contracts already in process without including the appropriate suspension or debarment clauses or otherwise verifying the suspended or debarred status of vendors. Failure to verify that a grantee is not suspended or debarred may result in funds being granted to ineligible grantees. We were able to verify that the grantees sampled were not suspended or debarred; therefore, we have not questioned any costs associated with these errors.

Recommendation:

We recommend that DWR strengthen internal controls to ensure that the suspension and debarment requirements are met for all future and existing vendors and grantees by adding a contract clause, obtaining certifications, or performing appropriate verifications.

DWR's Response:

The Utah Division of Wildlife Resources concurs with the audit finding.

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Corrective Action Plan:

With all new Contracts and Grants we are making sure the State of Utah Terms & Conditions are added to our Contracts and the Debarment Clause is included in all our Grants.

As of 6/30/16 we have 7 Agreements that need to be amended to add the Debarment Clause. We are currently working on amending those seven agreements to ensure they have the proper Terms and Conditions.

*Contact Person: Michele Racker, Financial Analyst
Anticipated Completion Date: January 1, 2017*