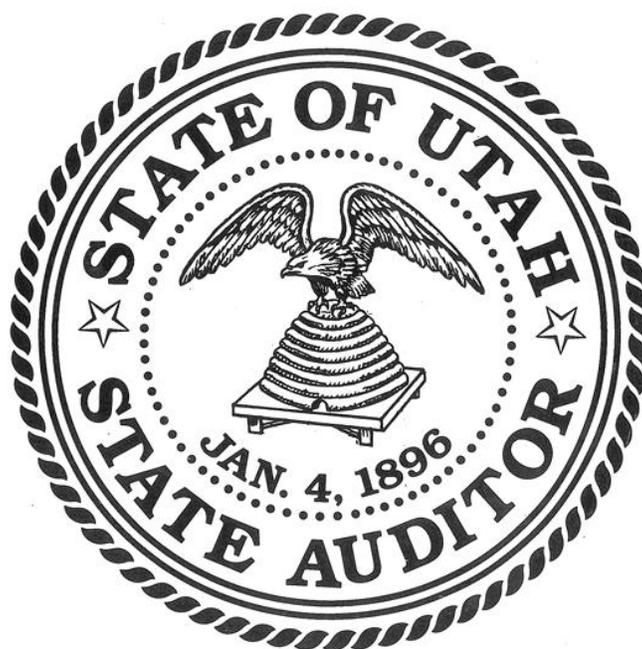


DEPARTMENT OF WORKFORCE SERVICES

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

Report No. 16-17



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
Gregg Hastings, CPA, Audit Supervisor



OFFICE OF THE
UTAH STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 16-17

October 31, 2016

Mr. Jon Pierpont, Executive Director
Department of Workforce Services
140 East 300 South
SLC, Utah 84111-0000

Dear Mr. Pierpont:

This management letter is issued as a result of the Department of Workforce Services' (DWS) 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. We tested the following federal programs as major programs at DWS:

- Unemployment Insurance
- Refugee and Entrant Assistance
- Workforce Investment Act Cluster

The Vocational Rehabilitation program was tested as a major program at the Utah State Board of Education, Office of Vocational Rehabilitation. As of October 1, 2016, Vocational Rehabilitation is managed by DWS. Findings, if any, related to our testing of the Vocational Rehabilitation program will be communicated in a separate letter. DWS will then provide responses and corrective action plans, as considered necessary, for this program.

In planning and performing our audit of compliance of the programs listed above, we considered DWS'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 DWS's internal control over compliance with the types of requirements described above that could have a direct and material effect on the major programs 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 DWS'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 DWS'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.

DWS'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 DWS 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 cursive script that reads "Hollie Andrus".

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

COPIES SENT TO:

Casey Cameron, Deputy Director, Department of Workforce Services
Greg Paras, Deputy Director, Department of Workforce Services
Steve Leyba, Assistant Deputy Director, Department of Workforce Services
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Brent Newren, Assistant Director, Administrative Support Division
Shaun Delliskave, Financial Manager, Administrative Support Division
Kimberley Schmeling, Financial Manager, Administrative Support Division
Steven Nelson, Accounting Manager, Administrative Support Division
Debbi Class, Internal Audit Division
Rebecca Anderson, Information Security and Facilities Director
Michelle Beebe, Director, Unemployment Insurance Division
Carrie Mayne, Director, Workforce Research and Analysis Division
Stephen Lisonbee, Director, Workforce Development Division
Karla Aguirre, Associate Director, Workforce Development Division
Sisifo Taatiti, Workforce Preparation Manager, Workforce Development Division
Dale Ownby, Director, Eligibility Services Division
Kevin Burt, Assistant Director, Eligibility Services Division
Nate McDonald, Director, Communications Division

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FOR THE YEAR ENDED JUNE 30, 2016

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2. INADEQUATE INTERNAL CONTROLS OVER SUBRECIPIENT MONITORING PRE-AWARD REQUIREMENTS	Refugee & Entrant Assistance	SD-f; RN-f	2
3. PAYMENT ON BEHALF OF INELIGIBLE RECIPIENT	Medicaid Cluster	SD-f; RN-f	4

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. INADEQUATE RECONCILIATION OF EXPENDITURES

Federal Agency: **Department of Labor**

CFDA Numbers and Titles: **17.258 WIA/WIOA Adult Program**
17.259 WIA/WIOA Youth Activities
17.278 WIA/WIOA Dislocated Workers

Federal Award Number: **Various**

Questioned Costs: **\$227**

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

Prior Year Single Audit Report Finding Numbers: **2015-45; 2014-038; 2013-039; 12-45**

We tested 79 benefit expenditures of the Workforce Investment Act (WIA), which has transitioned to the Workforce Investment Opportunities Act (WIOA) Cluster, at the Department of Workforce Services (DWS). We noted at least one error in two of the cases tested (2.5%), which resulted in questioned costs totaling \$227.

- a. For one case, the employment counselor deemed a transaction as “acceptable” even though the funds were used to purchase non-negotiated items. According to WDDPM §10005, purchases that were not negotiated during the authorization process and deemed to not support the employment plan are not acceptable. We have questioned the amount of this expenditure, totaling \$36.
- b. For one case, the employment counselor noted in the case file that funds were used to purchase unauthorized items; however, the counselor’s reconciliation marked the use of funds as “acceptable” and documented the purchase with a receipt from another item which was not a future negotiated item. According to WDDPM §10005, if a customer spends WIA funds on non-acceptable items, the customer is then required to use their own funds to purchase the originally negotiated item or a future negotiated item. We have questioned the entire amount of the purchase of unauthorized items, totaling \$191.

These errors occurred due to employment counselor oversight. Improper reconciliations can result in unallowable purchases and related questioned costs.

Recommendation:

We recommend that DWS improve its reconciliation of WIA/WIOA expenditures to ensure that all expenditures are in compliance with applicable laws, compliance requirements, and established policies and procedures.

DWS’s Response:

The Department of Workforce Services agrees with the finding and recommendation.

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FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2016

Corrective Action Plan:

A strategy for a second set of eyes process will be implemented to review samples of cases to ensure staff is correctly implementing reconciliation policy. Additionally, staff training for all counselors who reconcile funds in UWORKS will be held in November and December 2016. During the training, staff will be reminded to be diligent in correctly reconciling funds as acceptable or not acceptable. Practice scenarios will be used with training to help staff apply correct reconciliation principles.

*Contact Persons: Karla Aguirre, Director, 801-526-9724
Elizabeth Carver, Program Manager, 801-514-1017*

Anticipated Completion Date: December 31, 2016

2. INADEQUATE INTERNAL CONTROLS OVER SUBRECIPIENT MONITORING PRE-AWARD REQUIREMENTS

Federal Agency: **Department of Health and Human Services**

CFDA Number and Title: **93.566 Refugee and Entrant Assistance**

Federal Award Number: **1501UTRCMA, 1601UTRCMA, 1501UTRSOC, 1601UTRSOC**

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

DWS and the Utah Department of Health (UDOH) do not have adequate internal controls to ensure all required information is included in the subrecipient award documentation. According to Uniform Guidance 2 CFR 200.331(a)(1), all pass-through entities must ensure that every subaward includes specific information at the time of the subaward.

We reviewed 9 subrecipient contracts for the Refugee and Entrant Assistance Grant and noted 5 (56%) contracts which were missing required information, as follows:

a. Refugee Unaccompanied Minors (RUNC) Program and Refugee Social Services (RFSS) Program (monitored by DWS) – 6 contracts reviewed

- One contract was missing the subrecipient's unique entity identifier (DUNS).
- Two contracts were missing the following required information:
 - Federal Award Identification Number (FAIN);
 - Federal award date;
 - Total amount of the federal award;
 - Name of federal awarding agency; and
 - Identification of whether the award is R&D.

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These errors occurred due to oversight by the DWS contract analyst and contract approver.

b. Refugee Health Screenings (monitored by UDOH) – 3 contracts reviewed

Two contracts were missing the following required information:

- Subrecipient’s unique entity identifier (DUNS);
- Federal award date; and
- Total amount of the federal award.

These errors occurred because UDOH did not adequately update its processes to ensure compliance with new Uniform Guidance requirements.

Not including required information in subaward documentation prior to issuance of subawards increases the risk that subrecipients will not comply with program requirements. We determined that these subrecipients were aware of program requirements; therefore, we have not questioned any costs.

Recommendation:

We recommend that DWS and UDOH strengthen internal controls for their respective programs to ensure that all required information is properly included within each agency’s subaward contracts, in accordance with all applicable laws and compliance requirements.

Note: This finding was also included in the management letter to UDOH. UDOH’s response and corrective action plan have been included in that letter.

DWS’s Response:

The Department of Workforce Services agrees with the finding and recommendation.

Corrective Action Plan:

The department will incorporate into the Contracts Standard Operating Procedures the requirement for subrecipient agreements to include the following data elements at the time of the subaward:

- Data Universal Numbering System (DUNS) number*
- Federal Award Identification Number (FAIN)*
- Federal award date of award to DWS by the federal agency*
- Total amount of the federal award*
- Name of federal awarding agency*
- Identification of whether the award is R&D*

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FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2016

The Contracts Manager will ensure that these data elements are present in subrecipient agreements prior to execution. Certain data elements (e.g., FAIN, total amount of the federal award, etc.) are not always available at the time the subrecipient agreements are developed and executed. In instances where these data elements are not available, DWS will provide the best information available to describe the subaward. Any changes to these data elements will be included in a subsequent modification of the subrecipient agreements.

*Contact Persons: Rebecca Anderson, Information Security and Facilities Director,
801-243-9528;
Brent Newren, Contracts Manager, 801-718-6866*

Anticipated Completion Date: November 30, 2016

3. PAYMENT ON BEHALF OF INELIGIBLE RECIPIENT

Federal Agency: **Department of Health and Human Services – CMS**
CFDA Number and Title: **93.778 Medical Assistance Program (Medicaid)**
Federal Award Numbers: **Various**
Questioned Costs: **\$704**
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

We tested 60 Medicaid cases and noted that one recipient remained on the Utah Medicaid program for one month after moving out of state. Medicaid Policy 207-6 states, “When an individual moves out of Utah, [the State should] consider him a Utah resident through the end of the month in which he moved out of Utah.” This error occurred because the case was not properly closed by the caseworker when the change of residence notification was received. As result, \$704 of medical assistance costs were inappropriately paid on behalf of the recipient during the one month the recipient was ineligible. Although all Medicaid expenditures are processed at UDOH, eligibility determination and case file management for Medicaid is handled by DWS. The 60 Medicaid cases tested totaled \$496,387 and were taken from a total population of \$1,647,228,997 (federal and state portions).

Recommendation:

We recommend DWS caseworkers record residency changes in a timely manner in accordance with Medicaid policy to ensure clients do not receive medical benefits during periods when they are ineligible.

DWS's Response:

The Department of Workforce Services agrees with the finding and recommendation.

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FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2016

Corrective Action Plan:

The error on the case was a result of the worker not using the correct effective dates, resulting in the case closing a month later than it should have closed. The case was first reported to DWS in April 2016 by the State Auditor's Office, and as a result the Department developed a new, comprehensive training regarding effective dates. This training was offered statewide during the months of September and October 2016.

*Contact Person: Kevin Burt, Assistant Director Eligibility Services Division, 801-526-9831
Anticipated Completion Date: October 2016*