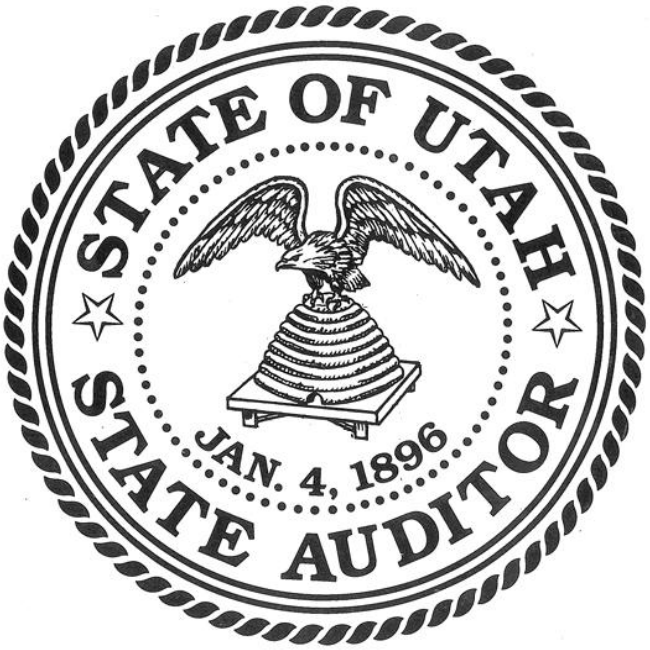
DEPARTMENT OF PUBLIC SAFETY

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

Report No. 16-18



OFFICE OF THE
STATE AUDITOR

AUDIT LEADERSHIP:
Van Christensen, CPA, CFE, Audit Director
Nancy Watson, CPA, Audit Supervisor

OFFICE OF THE
UTAH STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 16-18

October 12, 2016

Col. Keith D. Squires, Commissioner
Department of Public Safety
4501 South 2700 West
P.O. Box 141775
SLC, Utah 84114-1775

Dear Col. Squires:

This management letter is issued as a result of the Department of Public Safety's (Public Safety'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 Emergency Management Performance Grants (CFDA #97.042), we considered Public Safety'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 Public Safety'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 Public Safety's internal control over compliance.

Our consideration of internal control over compliance was for the limited purposes described in the second paragraph and would not necessarily identify all deficiencies in Public Safety's internal control that might be material weaknesses or significant deficiencies as defined in the following paragraphs. However, as discussed subsequently, based on the audit procedures performed, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses or 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 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. We consider the deficiency in internal control over compliance presented in the accompanying schedule of findings and recommendations as Finding 1 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance presented in the accompanying schedule of findings and recommendations as Findings 2 through 4 to be significant deficiencies.

Public Safety'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 of Public Safety's 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 Nancy Watson at 801-979-4070 or nwatson@utah.gov.

Sincerely,

Van Christensen, CPA
Audit Director
801-538-1394
vchristensen@utah.gov

cc: Joseph Brown, Administrative Services Director, Department of Public Safety
Kris Hamlet, Division Director, Division of Emergency Management
Jona Whitesides, Bureau Chief, Preparedness Bureau, Division of Emergency Management

DEPARTMENT OF PUBLIC SAFETY

Single Audit Management Letter

FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

FINDINGS AND RECOMMENDATIONS:

		Federal Program	Type/Applicability	Page
1.	FAILURE TO ADEQUATELY MONITOR REIMBURSEMENT REQUESTS FROM EMPG SUBRECIPIENTS (Repeat Finding)	Emergency Mgmt Performance Grants	MW-f; RN-f	1
2.	FAILURE TO COMPLY WITH SUBAWARD REQUIREMENTS	Emergency Mgmt Performance Grants	SD-f; RN-f	3
3.	INADEQUATE MONITORING OF SUBRECIPIENT SINGLE AUDITS (Repeat Finding)	Emergency Mgmt Performance Grants	SD-f; RN-f	4
4.	UNALLOWABLE EXPENDITURES	Emergency Mgmt Performance Grants	SD-f; RN-f	6

Finding Type:		Applicable To:	
MW	Material Internal Control Weakness	f	Federal Program
SD	Significant Deficiency of Internal Control		
RN	Reportable Noncompliance or Illegal Acts		

DEPARTMENT OF PUBLIC SAFETY
Single Audit Management Letter

FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2016

1. FAILURE TO ADEQUATELY MONITOR REIMBURSEMENT REQUESTS FROM EMPG SUBRECIPIENTS

Federal Agency: **Department of Homeland Security**
CFDA Number and Title: **97.042 Emergency Management Performance Grants (EMPG)**
Federal Award Numbers: **EMW-2014-EP-0026-S01 and EMW-2015-EP-00006-S01**
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Finding Number: **2015-037**

For most of fiscal year 2016, the Department of Public Safety's Division of Emergency Management (Emergency Management) did not require subrecipients to submit supporting documentation with reimbursement requests and did not perform any subrecipient monitoring of the supporting documentation retained on-site to make sure it supported the subrecipients' requests for reimbursement.

In the past, Emergency Management allowed subrecipients to retain supporting documentation for EMPG costs on-site. This practice is permitted by federal regulations (44 CFR 13.42(b)(3)); however, federal regulations (2 CFR 200.331(d)) also require pass-through entities to "monitor the activities of subrecipients as necessary to ensure that the subaward is used for authorized purposes." We believe that a review of the supporting documentation of subrecipient EMPG costs is necessary to provide reasonable assurance that subrecipients used EMPG funds for authorized purposes. Also, since the reimbursement requests are used by subrecipients to report costs claimed for matching, Emergency Management must have adequate internal controls to ensure that costs claimed for matching are allowable.

Since most of the EMPG reimbursements are for salaries and benefits of emergency management personnel, the supporting documentation for those costs must meet the requirements of 2 CFR 200.430, para. (i)(1)(i)-(viii). These requirements dictate that the documentation must reflect the total activity for which the employee is compensated, be incorporated into the official records of the non-federal entity, and encompass both federally-assisted activities and all other activities compensated by the non-federal entity.

After our prior year audit, Emergency Management elected not to review supporting documentation on-site, but instead made the decision to require subrecipients to submit supporting documentation with reimbursement requests. However, inadequate monitoring still occurred this year because, rather than reissuing subaward documents requiring supporting documentation related to expenditures for grants that were nearing completion, Emergency Management chose to wait until a new EMPG grant was received and new subaward documents were issued, which did not occur until June 2016.

We note that in June 2016, Emergency Management began implementing this recommendation by requiring subrecipients to submit supporting documentation with reimbursement requests and reviewing that supporting documentation for allowable costs. We also note that per our review of the ten subrecipient reimbursements issued in fiscal year 2016 under the new EMPG grant, all included sufficient supporting documentation as required by 2 CFR 200.430, para. (i)(1)(i)-(viii).

Failure to review supporting documentation for reimbursement requests results in noncompliance with federal regulations and may result in reimbursement for unallowable expenditures and/or claiming unallowable expenditures as matching costs.

Recommendation:

We recommend that Emergency Management review supporting documentation for reimbursement of expenditures made by EMPG subrecipients to ensure the expenditures are for allowable costs. This review should be clearly documented and should include reviewing the documentation of payroll costs as required by 2 CFR 200.430, para. (i)(1)(i)-(viii).

Public Safety's Response:

We agree with this finding and as stated by the results of the audit we were five months into the new state fiscal year and eleven months into a one year grant cycle and decided rather than re-issue new subawards we would take the necessary corrective actions in the new grant cycle to adequately monitor subrecipient reimbursement requests.

Corrective Action Plan:

The corrective action that has been implemented is that for the federal fiscal year 2016 EMPG award and all subsequent years, the subrecipients will be required to provide supporting documentation with reimbursement requests to validate allowable costs. This requirement is stated in the grant guidance and is part of the Articles of Agreement that each subrecipient has agreed to fulfill. As a result of the implementation of this requirement, and the recommendations received from the prior audit, a review of subrecipient reimbursements for the federal fiscal year 2016 EMPG revealed that the Division of Emergency Management now meets 2 CFR 200.430 for supporting documentation.

Contact Person: Jona Whitesides, Bureau Chief, 801-834-1954
Completion Date: July 1, 2016

2. FAILURE TO COMPLY WITH SUBAWARD REQUIREMENTS

Federal Agency: **Department of Homeland Security**
CFDA Number and Title: **97.042 Emergency Management Performance Grants**
Federal Award Numbers: **EMW-2015-EP-00006-S01 and EMD-2016-EP-00006-S01**
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Finding Number: N/A

We reviewed subrecipient award documentation for the 2015 EMPG award which Emergency Management received in June 2015 and expended in fiscal year 2016, and noted the following required information was not included:

a. Federal Award Identification, including:
   - Subrecipient's unique entity identifier (DUNS)
   - Federal Award Identification Number (FAIN)
   - Date of award to the recipient by the federal agency
   - Name of federal awarding agency
   - Indirect cost rate for the federal award (including if the de minimis rate is charged, per §200.414 Indirect (F&A) costs)

b. An approved federally-recognized indirect cost rate negotiated between the subrecipient and the Federal Government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a de minimis indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f).

c. Appropriate terms and conditions concerning closeout of the subaward.

According to 2 CFR 200.331, all pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the above information at the time of the subaward. This error occurred because Emergency Management was not aware of all the Uniform Guidance subaward requirements. Beginning with the fiscal year 2016 EMPG award received in June 2016, Emergency Management included in the subaward documents the subrecipient's unique entity identifier (DUNS), indirect cost rate for the federal award, and appropriate terms and conditions concerning closeout of the subaward; however, the remaining information listed above was not included. Failure to inform subrecipients of all required information in subawards of federal grants can result in the subrecipient being unaware of and out of compliance with the requirements associated with the subaward.

Recommendation:

We recommend that Emergency Management train program staff on the Uniform Guidance to make sure they are aware of all subrecipient monitoring requirements. We also recommend that Emergency Management update their templates used for making subawards to include all information required to be communicated to subrecipients.

Public Safety's Response:

We agree with this finding and have partially implemented the subaward requirements as outlined in 2 CFR 200.331.

Corrective Action Plan:

The corrective action that has been implemented is that for the 2016 EMPG award the Division of Emergency Management included the subrecipient's identifier (DUNS), an indirect cost rate, and the terms and conditions for closeout of the subaward. For the 2016 EMPG Competitive Grant awards and the 2017 EMPG awards, the Division of Emergency Management will include all the subawards requirements as outlined in 2 CFR 200.331.

Contact Person: Jona Whitesides, Bureau Chief, 801-834-1954
Anticipated Completion Date: December 1, 2016

3. INADEQUATE MONITORING OF SUBRECIPIENT SINGLE AUDITS

Federal Agency: **Department of Homeland Security**

CFDA Numbers and Titles: **1) 97.042 Emergency Management Performance Grants (EMPG)**
2) 97.067 Homeland Security Grant Program (HSGP)

Federal Award Numbers: **1) EMW-2013-EP-00033-S01, EMW-2014-EP-0026-S01, and EMW-2015-EP-00006-S01**
2) EMW-2011-SS-00132-S01, EMW-2012-SS-00047-S01, EMW-2013-SS-00046-S01, and EMW-2014-SS-00043-S01

Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Finding Numbers: **2015-040, 2014-035, 2013-036**

Emergency Management does not have adequate internal controls to ensure that subrecipients of EMPG and HSGP subawards are complying with 2 CFR Part 200, subpart F audit requirements.

Per 2 CFR Part 200, subpart F, grant recipients that pass through federal grant funds to subrecipients are required to:

- Ensure that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have a single audit within nine months of the subrecipient's fiscal year end;
- Review the reports and issue a management decision on any audit findings within six months after receipt of the subrecipient's audit report; and
- Ensure that the subrecipient takes timely and appropriate corrective action.

We reviewed Emergency Management's most recent tracking spreadsheets which it used to monitor the subrecipient single audits for fiscal years ending June 30, 2014 and December 31, 2014 and noted that the tracking spreadsheets for EMPG and HSGP did not include all subrecipients. There were 60 EMPG subrecipients, but only 52 of them were on the tracking spreadsheet. There were 71 HSGP subrecipients, but only 48 of them were on the tracking spreadsheet. We also noted that the tracking spreadsheets for both programs listed a total of 3 subrecipients that were required to have single audits, but Emergency Management failed to review the audits.

Although Emergency Management performed reviews for some of the subrecipients listed on the spreadsheets, they failed to review other subrecipients because the subrecipients had not been properly identified. This error occurred because the employee performing the single audit subrecipient monitoring was not adequately trained and supervised. Inadequate subrecipient monitoring can result in inappropriate use of federal funds without detection and possible failure to collect questioned costs noted in audit reports.

Recommendation:

We recommend that Emergency Management establish internal controls to ensure that the spreadsheets used to track subrecipients are complete, that all subrecipients expending $500,000 or more in federal awards are properly identified and monitored, and that those employees reviewing the audits are adequately trained and supervised. Note that the threshold increased to $750,000 for audits of fiscal years beginning on or after December 26, 2014.

Public Safety's Response:

We agree with this finding and have partially implemented the necessary controls to meet the single audit monitoring requirements as outlined in 2 CFR 200, Subpart F.

Corrective Action Plan:

The corrective action that has been implemented is that for all DHS-FEMA grant awards the Division of Emergency Management will log subrecipients into the tracking sheet as subawards are made available and those subrecipients will be monitored semi-annually. There will also be a two-level review to ensure all subrecipients meeting the criteria of 2 CFR 200, Subpart F are included in single audit monitoring.

Contact Person: Jona Whitesides, Bureau Chief, 801-834-1954
Anticipated Completion Date: April 1, 2017

4. UNALLOWABLE EXPENDITURES

Federal Agency: **Department of Homeland Security**
CFDA Number and Title: **97.042 Emergency Management Performance Grants**
Federal Award Numbers: **EMW-2014-EP-0026-S01 and EMW-2015-EP-00006-S01**
Questioned Costs: **$413**
Pass-through Entity: N/A
Prior Year Finding Number: N/A

We tested 31 expenditure reimbursement requests from subrecipients to whom Emergency Management passed through EMPG funds and noted one subrecipient reimbursement that exceeded actual expenditures by $113. Costs claimed for matching by the subrecipient also exceeded actual expenditures by $113; however, Emergency Management met the match requirement for the EMPG program without this unallowable match. In order to comply with the allowable cost criteria in 2 CFR 200.403 & 404, costs reimbursed to subrecipients and costs counted toward meeting the 50% required match should be actual costs.

Additionally, we scanned all fiscal year 2016 EMPG expenditures and noted a fee of $300 for an expired registration on an Emergency Management vehicle. This cost is unallowable per 2 CFR 200.441.

These errors were due to EMPG Program staff's lack of proper attention while reviewing and approving expenditures. Inadequate reviews of expenditures can result in unallowable costs being charged to the federal program, which results in questioned costs. We have questioned costs of $413.

Recommendation:

We recommend that Emergency Management review these errors with staff who approve payments in order to increase awareness and improve the accuracy of the reviews.

Public Safety's Response:

We agree with this finding and for the $113 of exceeded actual expenditures we have implemented the necessary requirements for supporting documentation as outlined in 2 CFR 200.430. For the $300 expired registration we have addressed this on the programmatic side with staff on the responsibility to maintain valid department assets. The fee was coded to the EMPG award because of default coding in FINET where monthly regular charges are normally coded to EMPG. As a result of the finding we will implement more effective controls to review costs so that the proper adjustments can be made in a timely manner.

Corrective Action Plan:

The corrective action that has been implemented is a process to review all service charges from other state agencies on a monthly basis including the Division of Fleet Operations to ensure that charges are allowable and appropriate for the default funding stream. Upon those reviews adjustments and/or corrections can be made within a timely manner in the general ledger via an Internal Department Transaction (IDT) or a correction by State Finance.

Contact Person: Jona Whitesides, Bureau Chief, 801-834-1954
Anticipated Completion Date: April 1, 2017