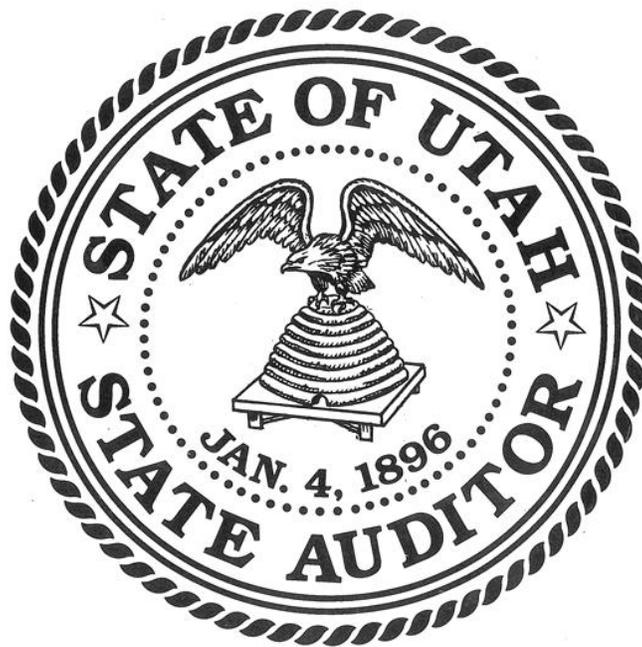


DEPARTMENT OF WORKFORCE SERVICES Utah State Office of Rehabilitation

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

Report No. 16-23



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Van Christensen, CPA, Audit Director
Ariane Gibson, CPA, Audit In-Charge



OFFICE OF THE
UTAH STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 16-23

November 8, 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 – Utah State Office of Rehabilitation’s (USOR’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. We tested the following federal programs as major programs at USOR:

- Social Security Disability Insurance
- Vocational Rehabilitation Grants to States

The USOR was under the governance of the Utah State Board of Education during the period tested; however, as of October 1, 2016, USOR is managed by the Department of Workforce Services (DWS).

In planning and performing our compliance audit of the programs listed above, we considered USOR’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 USOR’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 USOR’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 USOR'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 and 2 to be significant deficiencies.

USOR'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 USOR during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,



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

cc: Casey Cameron, Deputy Director
Greg Paras, Deputy Director
Steve Leyba, Assistant Deputy Director
Darin Brush, Division Director, Utah State Office of Rehabilitation
Nathan Harrison, Director, Administrative Support Division
Jennifer Roth, Financial Director – Utah State Office of Rehabilitation
Aaron Thompson, Assistant Director, Utah State Office of Rehabilitation
Stacey Cummings, Assistant Director, Utah State Office of Rehabilitation
Shane Young, Compliance Office, Utah State Office of Rehabilitation
Nate McDonald, Director, Communications Division
Britnee Johnston, Public Information Officer

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2. NONCOMPLIANCE WITH SSDI REPORTING REQUIREMENTS	SS Disability Insurance	SD-f; RN-f	3

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. UNAUTHORIZED VOCATIONAL REHABILITATION CASE SERVICES EXPENDITURES

Federal Agency: **Department of Education**

CFDA Number and Title: **84.126 Rehabilitation Services – Vocational Rehabilitation Grants to States**

Federal Award Number: **H126A150066-15C**

Questioned Costs: **\$5,384**

Prior Year Single Audit Report Finding Number: N/A

Pass-through Entity: N/A

We tested 60 administrative and case services expenditures for the Vocational Rehabilitation Grant at the Department of Workforce Services – Utah State Office of Rehabilitation (USOR) and noted 2 expenditures for services that were inappropriately authorized by the case counselor. The sample of 60 payments totaled \$28,957 and was taken from a population of \$12,426,029. The 2 expenditures with errors totaled \$1,308 (4.52% of the total sampled transactions).

a. Payments for Repeated/Failed Classes:

For one case, the counselor failed to follow policy by authorizing payment for repeated higher education classes without obtaining a USOR District Director approval. USOR Policy Manual 12.2.5 requires the District Director’s approval before paying for any repeated/failed classes or training. This error resulted in an overpayment of \$1,218, which we have questioned.

During our review we noted additional payments (outside our sample of expenditures) for repeated classes which were also not approved by a District Director. We have questioned the cost of these payments, totaling \$4,076.

b. Lack of an Authorized Individualized Plan for Employment (IPE):

For another case, the counselor failed to follow policy by authorizing payment for a course without an authorized IPE in place. Per USOR Policy Manual 10.2, all services provided to clients must be included on an authorized IPE before payment is made. This error resulted in an overpayment of \$90, which we have questioned.

Not following proper procedures to determine allowable costs for USOR case services may result in claimants receiving benefits for which they are not authorized.

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In addition to those questioned costs noted above, we are aware of the Utah State Board of Education's Internal Audit report dated February 14, 2016 and titled *Utah State Board's Office of Rehabilitation VR Targeted Case Review*, which noted potentially unallowable costs exceeding \$25,000.

Recommendation:

We recommend that USOR strengthen internal controls and provide the appropriate vocational counselor training on USOR policy to ensure that all case services expenditures are in compliance with federal grant award and USOR policy requirements. We also recommend that USOR be very judicious in approving repeat classes.

DWS's Response:

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

Corrective Action Plan:

In order to strengthen internal controls and oversight of paid client services, the Utah State Office of Rehabilitation converted to a new case management system called AWARE in October 2015. Per USOR policy, Vocational Rehabilitation counselors are responsible to check, prior to authorization, whether services are correctly defined in the clients' Individualized Plans for Employment (IPE) and to obtain District Director approval before authorizing any repeat classes. In addition, the new AWARE system requires supervisory review and approval of all authorizations for goods and services prior to issuance to a vendor/service provider. This second review of all authorizations will reduce counselor error and provide additional assurance that policy is followed.

USOR recently conducted mandatory staff training on client service policies related to the provision of training and educational services which included the required elements of the IPE, mandatory approval levels, and the specific requirement for supervisory approval for payment of repeat classes.

In addition to providing staff training and implementing supervisory review of authorizations, USOR is now conducting quarterly targeted client record reviews. USOR will use the results of these targeted reviews to assess the effectiveness of the new internal controls.

Contact Person: Aaron Thompson, Assistant Director, 801-887-9511

Anticipated Completion Date: April 30, 2017

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2. NONCOMPLIANCE WITH SSDI REPORTING REQUIREMENTS

Federal Agency: **Social Security Administration**

CFDA Number and Title: **96.001 Social Security Disability Insurance**

Federal Award Numbers: **04-1504UTD100 and 04-1604UTD100**

Questioned Costs: N/A

Prior Year Single Audit Report Finding Number: N/A

Pass-through Entity: N/A

While testing financial reports for the Social Security Disability Insurance grant we noted that USOR had incorrectly classified disbursements and unliquidated obligations between reporting line items as follows:

- On all three of the SSA-4513 financial reports reviewed (2015 award reports for the quarters ended 09/30/15 and 06/30/2016 and the 2016 award report for the quarter ended 06/30/2016), we found that while the total amount of disbursements was accurately stated, there were several inaccuracies in the classification of expenditures as required by the report instructions (POMS DI 39506.210). These misclassifications resulted in the following expenditures being over or understated by as much as \$531,618: Contracted Costs, Supplies, Communications, Equipment, EDP Maintenance, and Miscellaneous.
- On one of the SSA-4513 financial reports (2015 award report for the quarter ended 09/30/15), EDP Maintenance unliquidated obligations was misclassified as Occupancy unliquidated obligations. This caused the EDP Maintenance unliquidated obligations to be overstated and the Occupancy unliquidated obligations to be understated.

Reports should be accurate, agree to underlying documentation, and comply with report requirements. The above errors are the result of 1) the report preparer's misinterpretation of the federal report instructions, and 2) inadequate report reviews to ensure accuracy.

Recommendation:

We recommend that USOR establish appropriate internal controls over reporting to ensure that staff responsible for preparing the reports understand the reporting requirements and that reports are reviewed for accuracy and submitted timely.

DWS's Response:

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

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Corrective Action Plan:

The staff responsible for completing these reports has received clarification on the report instructions from the Disability Program Administrator of the Social Security Administration of the Denver Region. The necessary classification changes will be incorporated in future reports. As an internal control, these reports will be reviewed by a supervisor for accuracy prior to submission in order to prevent further classification errors and ensure timely submission.

Contact Person: Jennifer Roth, Finance Director, 801-535-3883

Anticipated Completion Date: October 31, 2016