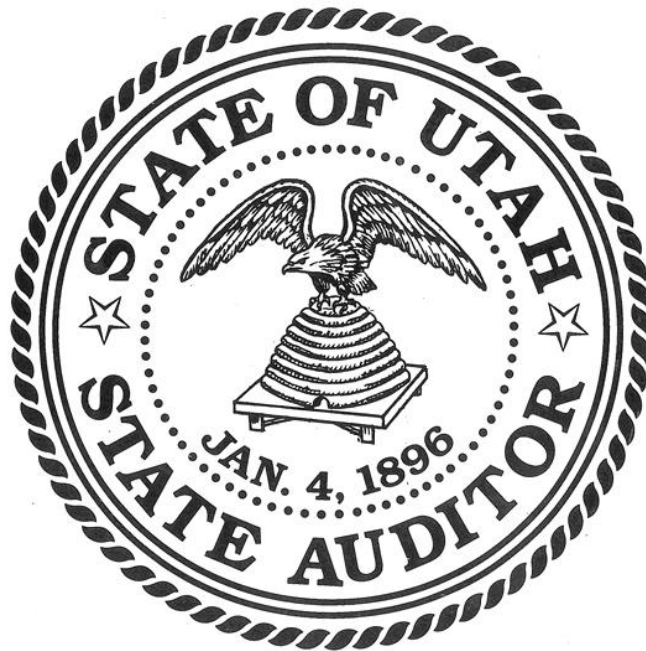


DEPARTMENT OF WORKFORCE SERVICES

Management Letter
For the Year Ended June 30, 2013

Report No. 13-18



OFFICE OF THE
UTAH STATE AUDITOR

DEPARTMENT OF WORKFORCE SERVICES

Management Letter
For the Year Ended June 30, 2013

Report No. 13-18

AUDIT TEAM:

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



OFFICE OF THE
UTAH STATE AUDITOR

MANAGEMENT LETTER NO. 13-18

October 28, 2013

Jon Pierpont, Executive Director
Department of Workforce Services
140 East 300 South
P.O. Box 11249
Salt Lake City, Utah 84147-0249

Dear Mr. Pierpont:

This management letter is issued as a result of our audit of the financial statements of the State of Utah as of and for the year ended June 30, 2013 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report thereon is issued under separate cover. This management letter is also issued as a result of the Department of Workforce Services' (DWS) portion 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.

The following federal programs were tested as major programs at DWS:

- Unemployment Insurance (UI) Program
- Supplemental Nutrition Assistance Program (SNAP) Cluster
- Child Care and Development Fund (CCDF) Cluster
- Temporary Assistance for Needy Families (TANF) Cluster
- Workforce Investment Act (WIA) Cluster
- Low-Income Home Energy Assistance Program (LIHEAP)
- Employment Services Cluster (ES)

In planning and performing our audit of the financial statements of the State of Utah, we considered DWS's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of DWS's internal control over financial reporting. Additionally, in planning and performing our audit of the federal programs listed above, we considered DWS's 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 DWS's internal control over compliance with the requirements previously described that could have a direct and material effect on the federal 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 DWS's internal control over financial reporting or compliance.

Our consideration of internal control over financial reporting or compliance was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting or 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 financial reporting or compliance that we consider to be material weaknesses or significant deficiencies.

A deficiency in internal control over financial reporting or compliance exists when the design or operation of a control over financial reporting or 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 misstatements of the State's financial statements or noncompliance with a type of compliance requirement of a federal program. A material weakness over financial reporting or compliance is a deficiency, or a combination of deficiencies, in internal control over financial reporting or compliance, such that there is a reasonable possibility that a material misstatement of the entity's financial statements or 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 identified certain deficiencies in internal control that we consider to be material weaknesses. These deficiencies are identified in the accompanying table of contents and are described in the accompanying schedule of findings and recommendations.

A significant deficiency in internal control over financial reporting or compliance is a deficiency, or a combination of deficiencies, in internal control over financial reporting or 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.

DWS's written responses to the findings identified in our audit have not been subjected to the audit procedures applied in our audits 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 financial reporting and compliance and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Circular A-133 in considering DWS's internal control over financial reporting and compliance. 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,



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

cc: Casey Erickson, Deputy Director
Geoffrey Landward, Deputy Director
James Whitaker, Assistant Deputy Director
Scott Stephens, Internal Auditor
Bill Starks, Director, Unemployment Insurance Division
Nathan Harrison, Director, Administrative Support Division
Dan Schuring, Budget Manager, Administrative Support Division
Kimberley Schmeling, Financial Manager, Administrative Support Division
Bryce Adams, Operational Accounting Manager, Administrative Support Division
Kristen Floyd, Director, Office of Child Care
Carrie Mayne, Director, Workforce Research and Analysis
Greg Paras, Director, Workforce Development Division
Karla Aguirre, Associate Director, Workforce Development Division
Rachael Stewart, Education and Training Manager, Workforce Development Division
Sisifo Taatiti, Workforce Preparation Manager, Workforce Development Division
Dale Ownby, Director, Eligibility Services Division
Kevin Burt, Associate Director, Eligibility Services Division
Gordon Walker, Director, Housing and Community Development Division
Katherine Smith, Deputy Director, Housing and Community Development Division
Susan Kolthoff, Director, State Energy Assistance & Lifeline Programs

DEPARTMENT OF WORKFORCE SERVICES
FOR THE YEAR ENDED JUNE 30, 2013

TABLE OF CONTENTS

	<u>Type/Applicability</u>	<u>Page</u>
FINDINGS AND RECOMMENDATIONS:		
<i><u>LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP):</u></i>		
1. MANAGEMENT OVERRIDE OF INTERNAL CONTROLS	MW-f; SD-s	1
2. FINANCIAL REPORTING ERROR AND LACK OF REPORT SUBMISSION (Repeat Finding)	MW-f; MN-f	3
<i><u>WORKFORCE INVESTMENT ACT (WIA) CLUSTER:</u></i>		
3. BENEFIT PAYMENT INTERNAL CONTROL WEAKNESSES AND UNALLOWABLE COSTS/ACTIVITIES (Repeat Finding)	MW-f; RN-f;	4
4. REPORTING ERRORS	SD-f; RN-f	8
<i><u>CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP):</u></i>		
5. INCORRECT ELIGIBILITY AND INCOME DETERMINATIONS (Repeat Finding)	SD-f; RN-f	10
<i><u>MEDICAID CLUSTER:</u></i>		
6. INCORRECT ELIGIBILITY DETERMINATION AND INADEQUATE DOCUMENTATION OF ELIGIBILITY (Repeat Finding)	SD-f; RN-f	12
<i><u>CHILD CARE AND DEVELOPMENT FUND (CCDF) CLUSTER:</u></i>		
7. BENEFIT PAYMENT INTERNAL CONTROL WEAKNESSES AND NONCOMPLIANCE (Repeat Finding)	SD-f; RN-f	13
<i><u>TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) CLUSTER:</u></i>		
8. UNTIMELY COMPARISON OF WAGE INFORMATION OBTAINED FROM THE STATE WAGE INFORMATION COLLECTION AGENCY (SWICA) TO WAGE INFORMATION IN THE CASE RECORD	SD-f; RN-f	17
9. INADEQUATE SUPPORTING DOCUMENTATION FOR AND RECONCILIATION OF EXPENDED TANF FUNDS	SD-f; RN-f	18
10. NONCOMPLIANCE WITH TREASURY-STATE AGREEMENT (Repeat Finding)	SD-f; RN-f	20
<i><u>SUPPLEMENTAL NUTRITION ASSISTANCE (SNAP) CLUSTER:</u></i>		
11. NONCOMPLIANCE WITH CASH MANAGEMENT REQUIREMENTS	SD-f; RN-f	21

<u>Finding Type:</u> MW Material Internal Control Weakness SD Significant Deficiency of Internal Control MN Material Noncompliance RN Reportable Noncompliance or Illegal Acts	<u>Applicable To:</u> s State Financial Statements f Federal Program
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DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP)

1. MANAGEMENT OVERRIDE OF INTERNAL CONTROLS

Federal Agency: **Department of Health and Human Services, Administration for Children and Families**

CFDA Number and Title: **93.568 Low-Income Home Energy Assistance Program**

Federal Award Number: **G-13B1UTLIEA**

Questioned Cost Amount: **\$455**

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

During our audit of the LIHEAP program, we were made aware of a Heat benefit payment that was knowingly issued by personnel in the Department of Workforce Services' (DWS) Housing and Community Development Division (HCDD) to an individual who was ineligible to receive the benefit. We subsequently reviewed the identified application and related case documentation, and we also interviewed applicable individuals at HCDD, at the applicable subrecipient, and at an independent living facility which had previous contact with the client. During the course of our work, we noted the following:

- The application was prepared and signed by the HCDD Director and witnessed to by the HCDD Deputy Director. The HEAT Program Policy Manual Section 100 (B)(1) requires that any person wishing to apply for HEAT assistance must complete and sign an application and acknowledge that they have read the disclaimer and agree with it.
- The application was processed in March 2013 and indicated that the income listed was from February 2013; however, the documentation obtained to support the income listed actually identified the client's income for December 2012. This error occurred because the client failed to submit any documentation supporting his income, so HCDD personnel decided to obtain documentation of income from a program in Idaho where the client had also received benefits. However, the documentation obtained was not for the month prior to the application, as required. HEAT policy Section 320(H), paragraph 1 states, "If the *client* does not verify ALL income received by current household members in the calendar month *prior to the application date*, the application will be denied." (emphasis added)
- The client was living in his vehicle. HEAT policy Section 200(I) states that a person must be vulnerable, or responsible, for direct home heating costs or indirect heating costs associated with rent. In this case, evidence of utility invoicing, receipt, or other form of evidence was not provided, and a van is expressly excluded because it is not a designated home or rental property. We have questioned the \$455 payment to this client due to ineligibility.
- The HEAT benefit payment was made directly to the client. Per HEAT policy Section 500(B), payments should be sent only to a fuel vendor unless 1) either the

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

cost is included in a rent, or 2) the vendor has no contract with the state. The exceptions to the policy do not appear to apply to this case.

- Per review of e-mail correspondence between the subrecipient and the HCDD Program Manager and staff, it appears as though HCDD personnel were informed of the fact that the client was uncooperative and was ineligible according to policy prior to issuance of the benefit payment, yet the application was initiated and payment was approved.

Based on our review of case documentation and interviews with various individuals at HCDD, the subrecipient, and the independent living agency, we feel that HCDD program personnel at various levels processed this case with disregard for program policies and controls. The “control environment,” i.e., the attitude, awareness and actions of management, is a critical component of an entity’s internal control system. Management should enforce the established policies and controls over federal expenditures that ensure compliance with federal program requirements. Management’s disregard for policies and controls over distribution of federal funds results in a lax control environment, which can lead to increased risk of fraudulent activity and improper payments.

Recommendation:

We recommend that DWS ensure that the appropriate control environment is maintained by management relative to compliance with policies and internal controls established to ensure compliance with federal program requirements.

DWS’ Response:

We agree with the finding and recommendation. We acknowledge the importance of maintaining an appropriate control environment relative to compliance with policies and internal controls established to ensure compliance with federal regulations. The override of internal controls cited in the finding appears to be an isolated instance. Executive management has initiated appropriate corrective action and clarified principles of ethical conduct with personnel involved in issuing the benefit payment identified in the finding. In addition, we will conduct training with HCDD personnel to reinforce the policy that exceptions are not granted for applicants that do not meet eligibility requirements. Finally, we have sent a letter to the client identified in the finding outlining the requirements that must be met to be deemed eligible to receive a LIHEAP benefit payment in the upcoming HEAT season.

*Contact Persons: Geoff Landward, Deputy Director, 801-526-9496
Susan Kolthoff, Director, State Energy Assistance & Lifeline Programs,
801-468-0069*

Anticipated Correction Date: October 31, 2013

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

2. FINANCIAL REPORTING ERROR AND LACK OF REPORT SUBMISSION

Federal Agency: **Department of Health and Human Services, Administration for Children and Families**

CFDA Number and Title: **93.568 Low-Income Home Energy Assistance Program**

Federal Award Numbers: **G-09B1UTLIEA, G-10B1UTLIEA, G-11B1UTLIEA, G-12B1UTLIEA**

Questioned Cost Amount: **\$-0-**

Pass-through Entity: N/A

We performed testwork to determine whether DWS had properly submitted the 2009 through 2012 LIHEAP grant awards' SF-425 annual reports for the federal fiscal year (FFY) ended September 30, 2012 and noted the following:

- a. DWS did not submit the reports for the FFY 2009 or FFY 2010 grant awards. For the FFY 2010 award, the program accountant encountered difficulties in creating the report using the ACF Online Data Collection (OLDC) system (the required report submission system), and so did not prepare and submit the report or seek guidance on how to resolve the problem. For the FFY 2009 award, the program accountant overlooked the preparation and submission of the report even though there were expenditures incurred during the reporting period. Failure to prepare and submit the required financial reports results in noncompliance with federal requirements.
- b. DWS did not report the proper amount of expenditures as "Federal Share of Unliquidated Obligations" on line 10.f. of the FFY 2011 and 2012 reports. Per the Federal Financial Report Instructions, line 10.f. should include: "...obligations incurred, but not yet paid. As such, DWS should have included amounts incurred by its subrecipients but not yet paid or charged to the award prior to September 30, 2012. This error occurred because the program accountant thought the report was required to be submitted within 30 days (rather than the required 90 days) after the federal fiscal year end; thus, he felt there was insufficient time to determine accrued expenditures. Not reporting all required information results in errors in other lines of the reports and ultimately results in inaccurate and incomplete program information being provided to the Federal Government.

Recommendations:

We recommend that DWS:

- a. **Properly prepare and timely submit all required SF-425 annual reports.**
- b. **Gain a better understanding of reporting requirements, including information for "Unliquidated Obligations," to ensure that the SF-425 reports are prepared in accordance with applicable federal instructions.**

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

DWS' Response:

We agree with the finding and recommendation.

- a. *We contacted HHS personnel in an attempt to identify and resolve the problem that prevented us from creating the SF-425 reports for the FFY 2009 and FFY 2010 grant awards in the OLDC system as cited in the finding. We were ultimately unable to create the reports for the FFY 2009 and FFY 2010 grant awards in the OLDC system and had to prepare and submit hardcopy reports for these grant awards. The program accountant understands the importance of submitting the reports timely and will contact HHS personnel for guidance prior to the report submittal deadline in the event that the OLDC system prevents us from creating the SF-425 reports in the future.*
- b. *We have already implemented improved report preparation procedures to ensure that line 10.f. of the SF-425 report includes the accurate amount of obligations incurred but not yet paid. Because the program accountant also services another federal program which requires a 30-day turnaround for submitting SF-425 reports, the program accountant assumed the same deadline applied to SF-425 reports for the LIHEAP program, thus limiting the amount of time available to obtain accurate expenditure data from our LIHEAP subrecipients. The program accountant is now familiar with report deadlines and applicable report instructions.*

Contact Persons: *Nathan Harrison, Administrative Support Director, 801-526-9402
Kimberley Schmeling, Financial Manager, 801-503-8970*

Anticipated Correction Date: December 31, 2013

WORKFORCE INVESTMENT ACT (WIA) CLUSTER

3. BENEFIT PAYMENT INTERNAL CONTROL WEAKNESSES AND UNALLOWABLE COSTS/ACTIVITIES

Federal Agency: **Department of Labor**

CFDA Numbers and Titles: **1) 17.258 WIA Adult Program
2) 17.259 WIA Youth Activities
3) 17.278 WIA Dislocated Workers**

Federal Award Numbers: **various**

Questioned Costs: **1) \$0, 2) \$1,841, 3) \$0**

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

We tested benefit expenditures of the Workforce Investment Act (WIA) Cluster at DWS by selecting a sample of 60 benefit payment authorizations, totaling \$18,723, from a population

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

of \$4,750,088. Of the WIA benefit payments tested, we questioned a total of \$1,841. We noted at least one error in 12 of the 60 sample cases tested (20.0%); certain cases had multiple errors.

a. Lack of Timely Reconciliation of UCard Transactions to Determine Whether WIA Funds were Expended for Allowable Activities

DWS could not perform reconciliations of UCard transactions between December 2012 and May 2013 because JP Morgan Chase, the contractor for the UCard, was unable to provide detail UCard transaction data in a format that could be uploaded into UWORKS, as required by the contract. Therefore, for 6 months of the year, the primary control over allowable costs and allowable activities for UCard transactions was not performed. During these 6 months, DWS did not institute a secondary control to ensure compliance with allowable activity and allowable cost provisions. The Workforce Development Division Policy Manual (WDDPM) §910-3 requires that all expenditures must be reconciled within 90 days of the settlement date.

Once DWS obtained the UCard transaction data, employment counselors performed the required reconciliations. However, for 4 of the 10 UCard cases we sampled from this time period, the untimely reconciliation resulted in UCard purchases for non-negotiated items with no ability to reclaim funds because the participants were no longer involved in the program and no future UCard authorizations were to be made. We have questioned the amount of WIA funds spent on the non-negotiated items in the sample, totaling \$682.

b. Reconciliation to Determine Whether WIA Funds were Expended for Allowable Activities was Either Not Performed or Not Documented

For two cases prior to the UCard implementation in December 2012, the employment counselors did not obtain and reconcile receipts for certain purchases made by a WIA Youth participant to verify that expenditures were allowable in accordance with WDDPM §910. As a result, we were unable to determine whether WIA funds were expended for allowable activities for these cases. The required reconciliations did not occur due to employment counselor oversight. We have questioned the amount of WIA funds expended for which receipts were not obtained and reconciled by employment counselors, totaling \$505. Not completing the reconciliations can result in authorizations being spent on non-negotiated items and related questioned costs.

c. Verification of Other Grant Assistance Not Properly Considered

For one case, the employment counselor verified the WIA Youth participant's Pell Grant, but did not properly consider it when performing a financial needs assessment for the participant. As a result, the amount of WIA Youth funds obligated for the case by the employment counselor does not appear to be justified since the participant did not

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

require WIA assistance in addition to his Pell Grant. Per WDDPM §1250(4)(c), the caseworker should provide training support services only when a customer has exhausted all other resources. Because WIA funds should supplement, not supplant, other sources of training and supportive services funds (29 USC §2864(d)(4)(B)), we have questioned all WIA funds expended for this case that supplanted other sources of funds, totaling \$271. Not considering all available assistance from other sources or programs can result in WIA Youth funds being used to pay supportive services for a customer when Pell Grant funds should be used for those services.

d. Youth Incentive Bonuses Issued in Excess of Authorized Amounts, for Unallowable Activities, or for Duplicate Activities

For three cases, employment counselors issued incentive bonuses to WIA Youth participants in amounts which exceeded dollar amounts authorized in the DWS Youth Incentive Plan (WDDPM §805-6, 900(1)(c)). In addition, for one of the three cases, an incentive bonus was issued for an activity that is not included in the Uintah Basin Youth Incentive Plan, which lists allowable incentives for the region. For another of the three cases, an incentive bonus was issued to the participant twice for the same activity. The errors occurred due to employment counselor oversight and because the employment counselors did not use the current Youth Incentive Plan when negotiating participants' incentive bonuses. We have questioned the costs associated with the youth incentive bonuses issued to these participants in error, totaling \$168.

For two additional cases, employment counselors issued incentive bonuses to WIA Youth participants to recognize achievement either without first assessing prior academic levels or at a point when prior academic levels could not be assessed. Youth incentive bonuses are issued to recognize achievement (29 USC §2854(a)(5)), but employment counselors should take into account the assessment of academic levels, skill levels, and service needs of the participant when developing appropriate achievement objectives (29 USC §2854(c)(1)(B)). Because the participants' achievement occurred without properly assessing academic levels, issuing incentive bonuses to recognize that achievement is not considered an appropriate use of WIA funds. We have questioned the WIA Youth funds expended for these incentive bonuses, totaling \$155.

e. Supportive Services Issued Prior to Approval of the Employment Plan

For one case, the employment counselor authorized supportive services before the Employment Plan was signed by the customer. Per WDDPM §1250(2)(b), supportive services are only to be authorized after a complete assessment and employment plan have been completed for the customer. WDDPM §815(7) states, "When a customer signs and dates the Employment Plan, the customer is in effect signing and dating a contract with consequences for non-participation, regardless of the service activity." Authorizing supportive services before the employment plan has been signed by the customer could result in misspent funds due to the customer's lack of understanding of

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

the goals and expectations related to the assistance. We have questioned the WIA Supportive Service payment to this customer, totaling \$60.

Recommendation:

We recommend that management at DWS (1) emphasize to employment counselors the importance of compliance with all applicable laws, compliance requirements, and established policies and procedures, (2) ensure employment counselors have the training and resources necessary to effectively administer the WIA programs, and (3) increase employment counselors' accountability through effective supervision and review.

DWS' Response:

We agree with the finding and recommendation.

- a. As of April 19, 2013, the UCard transaction detail data ("history extract file") was loaded into UWORKS and was fully available to staff by May 1, 2013. Future authorizations are now reduced if funds are determined to have been spent inappropriately (marked as "not acceptable" in UWORKS). In addition, if receipts are not reconciled, UWORKS will prevent future authorizations until transactions are either reconciled or marked as not acceptable. The timeframe for reconciliation was changed from 90 to 30 days effective October 7, 2013, to further reduce the amount of time that lapses before transactions are reconciled. DWS provided regular updates to the U.S. Department of Labor during the months the JP Morgan Chase history extract file issues were being resolved.*
- b. The new reconciliation process was fully implemented May 1, 2013. If receipts are not reconciled after 30 days (previously 90 days) of the transaction date, UWORKS will prevent future authorizations. In addition, if receipts are provided but funds were misspent, the misspent amount(s) will be reduced from future authorizations (see response to part "a" above).*
- c. Policy was clarified in July 2013 that an employment counselor must indicate a participant has exhausted all other resources, meaning they must review the participant's resources—including Pell grants—with the participant to ensure they do not have other funding available prior to issuing supportive service funds. DWS will continue to reinforce this process with staff.*
- d. The WIA Youth Incentive policy was changed in July 2013. There is now a statewide incentive plan that applies to all economic service areas, which streamlined the process and created consistency throughout the state. The policy now clearly indicates that incentives cannot be issued for achievements that occurred prior to enrollment or before an achievement is verified. The new policy also clarifies when a baseline is needed to*

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

show achievement. Finally, the new policy includes which services on the employment plan coincide with each incentive. Employment counselors were trained on the new policy via conference call and web training during the first week of July 2013.

- e. *The policy is still in effect and was reviewed with all staff during training for new policy conducted September 30 through October 8, 2013.*

Contact Persons: Karla Aguirre, Associate Director, 801-526-9724
Rachael Stewart, Education and Training Manager, 801-526-9257

Anticipated Correction Date: June 30, 2014

4. **REPORTING ERRORS**

Federal Agency: **Department of Labor**

CFDA Numbers and Titles: 1) **17.258 WIA Adult Program**
2) **17.259 WIA Youth Activities**
3) **17.278 WIA Dislocated Workers**

Federal Award Numbers: 1) **AA-22965-12-55-A-49**
2) **AA-21425-11-55-A-49**
3) **AA-20223-10-55-A-49**

Questioned Costs: **\$-0-**

Pass-through Entity: N/A

We reviewed the ETA-9130 quarterly reports prepared and submitted for the quarters ended September 30, 2012 and March 31, 2013 and noted the following errors:

- a. WIA Local Dislocated Worker Reports – The amounts reported as Expenditures of Dislocated Worker (DW) Funds Transferred to Adult Program (line 11.c.) on the reports were incorrect as follows:

Report Date	Award	Discrepancy
September 30, 2012	Program Year (PY) 2011 Award	Overstatement of \$31,099
March 31, 2013	Federal Fiscal Year (FFY) 2011 Award	Overstatement of \$246,960
March 31, 2013	Federal Fiscal Year (FFY) 2012 Award	Understatement of \$392,428

The amount reported on line 11.c. should represent the amount of DW funds expended on the Adult Program for the applicable award. This error occurred because the formula used to populate line 11.c. was capturing the amount that should have been reported from the previous period (i.e. the amount reported for the FFY12 award was the PY11

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

award amount and the amount reported for the PY11 award was the FFY11 award amount, etc).

- b. WIA Local Youth Report for the PY 2012 award – The amount reported on line 11.e., Summer Employment Opportunities Expenditures, was understated by \$8,193. Per the WIA Local Youth 9130 Report instructions, line 11.e. should report the cumulative expenditures paid for the award, plus accrued expenditures as of the date of the report; however, the amount reported represented only the accrued expenditures of \$2,283. The inaccurate amount was the result of formula errors in the reports and related supporting worksheets.

Not accurately reporting all required information results in inaccurate and incomplete program information being provided to the Federal government.

Recommendation:

We recommend that DWS take greater care in preparing the reports and ensure the formulas are accurate thus, ensuring the proper amounts are reported.

DWS' Response:

We agree with the finding and recommendation. Spreadsheet formula errors in the detail worksheets used to prepare the WIA federal reports resulted in errors which have been corrected as follows:

- a. *The error involving the reporting of the transfer between WIA Dislocated Worker (DW) and WIA Adult Program was corrected in September 2013 and the final and closeout reports were corrected for the affected years.*
- b. *The error involving WIA Local Youth report for Program Year 2012 was corrected in May 2013 and was reported correctly in the June 30, 2013 reports.*

The detail worksheets have been reviewed and spreadsheet formulas have been corrected which should eliminate these errors going forward.

*Contact Persons: Nathan Harrison, Administrative Support Director, 801-526-9402
Dan Schuring, Budget Manager, 801-526-4306*

Anticipated Correction Date: September 30, 2013

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP)

5. INCORRECT ELIGIBILITY AND INCOME DETERMINATIONS

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

CFDA Number and Title: **93.767 Children's Health Insurance Program**

Federal Award Number: **05-1205UT5021**

Questioned Costs: **\$952**

Pass-through Entity: N/A

We reviewed the eligibility determination and documentation process for 60 Children's Health Insurance Program (CHIP) payments. The 60 CHIP payments totaled \$3,488 and were taken from a total population of \$63,258,194 (federal and state portions). We noted internal control weaknesses and noncompliance for 4 (6.7%) cases related to the 60 payments as described below. As a result of the income calculation errors described below, we have questioned the federal portion of all costs associated with these cases: \$689 for federal fiscal year 2013, \$191 for federal fiscal year 2012, and \$72 for federal fiscal year 2011.

a. Income Calculation Errors

- 1) For one case, earned income was incorrectly calculated by not adequately considering guaranteed payments received from self employment as on-going. This error resulted in the child being placed on the incorrect CHIP plan from September 2011 to September 2012. In addition, subsequent to the date of our sample item, the child was placed on CHIP in October 2012 when the child was eligible for Child Medicaid 0-5. This error occurred because the caseworker did not adequately identify or correctly consider the more complex income elements of the case. This error resulted in total questioned costs of \$761 for unpaid premiums from September 2011 to September 2012 plus provider payments made from October 2012 to February 2013 when the child was Medicaid eligible.
- 2) For one case, unearned income from a trust was incorrectly calculated. This error resulted in the child being placed on the incorrect CHIP plan from February 2011 to December 2012. This error occurred because the caseworker did not understand how to apply CHIP policy to trust income which is very infrequent and complex. This error resulted in total questioned costs of \$191 for unpaid premiums from February 2011 to December 2012.
- 3) For one case, income was not adequately annualized to determine a best estimate of income. This error occurred because the caseworker did not adequately identify or correctly consider the more complex income elements of the case. Despite this error, the child was still placed on the correct CHIP plan; therefore, we have not questioned any costs related to this error.

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

b. Improper Eligibility Review

For one case, there was a simplified review performed on April 1, 2012; however, there was an income change reported on June 1, 2011, and per policy 704, if there is an income change during the previous year then a mandatory review is required rather than a simplified review. This error occurred due to the caseworker overlooking the needed action on the case. Despite this error, this case was placed on the correct CHIP plan; therefore, we have not questioned any costs related to this error.

The Department of Health sets CHIP policy and processes all CHIP expenditures. DWS handles eligibility determination and case file management for CHIP.

Recommendations:

We recommend that DWS strengthen internal controls, provide employee training, and ensure that eligibility decisions are appropriate by ensuring that DWS eligibility specialists (1) understand and apply both Medicaid and CHIP eligibility policies during the CHIP application and/or review process, (2) properly calculate household monthly income, and (3) understand CHIP policy for eligibility reviews when income changes are reported.

DWS' Response:

We agree with the finding and recommendation.

The internal Performance Review Team (PRT) conducts in-depth case reviews on every CHIP worker each month. Particular areas of focus are income, applications, and re-certifications. PRT case reviews are conducted by a small number of specialized reviewers to bolster consistency and maintain a focus on problematic areas. PRT efforts are focused on real-time case reviews to render immediate feedback to workers.

Targeted training support needs are identified by eligibility operations by reviewing PRT review results. Training is given to teams and/or individual staff and is geared specifically toward problem areas based on a given team's or individual staff's performance. Training feedback is given to supervisors and managers as the staff's performance is followed up on to ensure progress has been made.

Contact Person: Kevin Burt, Associate Director, 801-526-9831

Anticipated Correction Date: June 30, 2014

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

MEDICAID CLUSTER

6. INCORRECT ELIGIBILITY DETERMINATION AND INADEQUATE DOCUMENTATION OF ELIGIBILITY

Federal Agency: **Department of Health and Human Services, CMS**
CFDA Number and Title: **93.778 Title 19 Medical Assistance Program**
Federal Award Number: **05-1305UTSMAP**
Questioned Costs: N/A
Pass-through Entity: N/A

We reviewed the case files for 60 Medicaid service expenditures processed at the Department of Health. The 60 Medicaid payments totaled \$501,235 and were taken from a total population of \$1,913,136,408 (federal and state portions). Of these case files, we noted 2 cases (3.3%) with eligibility determination errors.

- a. For one case, new income information provided by the client was not applied to the case in a timely manner, and as such, the caseworker did not consider income properly for the eligibility decision for one month. This error did not result in an incorrect eligibility decision; therefore, we have not questioned any costs related to this error. However, such errors could result in improper eligibility decisions. This error occurred because the caseworker was waiting for additional verifications for other family members before processing the new income information.
- b. For one case, a signed application was not included in the case file documents. It was determined through subsequent eligibility reviews that this client was eligible; therefore, we have not questioned any costs related to this error. However, such errors could result in improper eligibility decisions. This error occurred due to oversight when the case file was transferred from the Department of Health to DWS in 2007.

Although all Medicaid expenditures are processed at the Department of Health, eligibility and case file management for Medicaid is handled by DWS.

Recommendation:

We recommend that DWS ensure that eligibility specialists follow established policies and procedures when determining eligibility for Medicaid Programs, including adequate documentation of all eligibility factors and decisions.

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

DWS' Response:

We agree with the finding and recommendation.

The Utah Department of Workforce Services participates with the Utah Department of Health in efforts designed to look at problem areas as identified by various audits and internal case reviews. As training issues are discovered, communication occurs with the internal Performance Review Team (PRT) as well as the Eligibility Service Division (ESD) operational unit.

The PRT conducts in-depth case reviews on every Medicaid worker each month. Particular areas of focus are proper application of policies and procedures related to Medicaid eligibility. PRT case reviews are conducted by a small number of specialized reviewers to bolster consistency and maintain a focus on problematic areas. PRT efforts are focused on real-time case reviews to render immediate feedback to workers.

Targeted training support needs are identified by ESD operations by reviewing PRT review results. Training is given to teams and/or individual staff and is geared specifically toward problem areas based on a given team's or individual staff's performance. Training feedback is given to supervisors and managers as the staff's performance is followed up on to ensure progress has been made.

*Contact Person: Kevin Burt, Associate Director, 801-526-9831
Anticipated Correction Date: June 30, 2014*

CHILD CARE AND DEVELOPMENT FUND (CCDF) CLUSTER

7. BENEFIT PAYMENT INTERNAL CONTROL WEAKNESSES AND NONCOMPLIANCE

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

CFDA Numbers and Titles: **1) 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund**
2) 93.575 Child Care and Development Block Grant – Discretionary

Federal Award Numbers: **G-1001UTCCDF, G-1101UTCCDF, G-1201UTCCDF
G-1301UTCCDF**

Questioned Costs: **\$559**

Pass-through Entity: N/A

We tested benefit expenditures of the Child Care and Development Fund (CCDF) Cluster at DWS by selecting a sample of 60 Child Care benefit payments, totaling \$33,412, from 60

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

cases, taken from a total population of \$45,642,863. Of the Child Care benefit payments tested, we noted a net dollar error of \$683 from our sample benefit payments (2.04% of the total sample benefit amount); however, we have only questioned costs in instances when an error resulted in an overpayment to a customer, totaling \$559. We noted errors in 13 of the 60 sample cases tested (21.67%).

a. Inadequate Verification of Providers' Monthly Charge

For two cases, the caseworkers did not verify that the provider charge entered into the Electronic Resource Eligibility Product (eREP) system matched the provider charge on the Child Care Subsidy Worksheet (DWS Form 980). This reconciliation is necessary since the DWS Child Care Eligibility Manual (Eligibility Manual) §330-3A states that the DWS employee must have the provider's monthly charge before ordering the payment and that the Form 980 is used to document the authorized monthly charge. One of the errors occurred because the Form 980 was not filled out for each month. The other error occurred because the provider had entered the wrong information on the Form 980. For both of these cases, DWS personnel contacted the providers and verified that the children were actually in care with the provider during the month and that the provider charge entered into eREP was correct; therefore, we have not questioned any costs associated with these cases.

b. Incorrect Income or Hours Determination

For ten cases, we were unable to reconcile the earned income or hours worked entered into the eREP system to the documentation in the case record. Per the Eligibility Manual §740-2A, "Child care should only be approved during the time the parent is participating in an approved activity and using an approved provider." Per the Eligibility Manual §725 "Each case record will contain...income information and verification." These errors resulted in a net overpayment of child care totaling \$173 and total questioned costs of child care totaling \$533 as broken out below:

- For two cases, the case file was missing information required to calculate the "best estimate" that was not addressed at the time of approval. We were able to verify, after the initial approval, that the client was eligible for the benefits; therefore, we have not questioned any costs for these cases.
- For four cases, the caseworker did not enter the correct hours/income amounts into the eREP calculation. This resulted in underpayments of benefits for two cases of \$512 and \$532; an overpayment of benefits for one case of \$3 (which we have questioned; and no effect on the benefit issuance for the remaining case.
- For two cases, the child care benefit was issued despite the parents not meeting the working hours requirement or having any other participation that would qualify them for the monthly child care benefit. Both of these payments resulted in an overpayment of benefits. These errors occurred because the caseworker did

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

not properly update changes in employment status in e-REP prior to benefit issuance. For one of these cases, DWS was able to recover the overpayment of \$772, from the provider; therefore, we have not questioned this amount. We have questioned the overpayment of \$438 for the other case.

- For one case, the caseworker included in the “best estimate” calculation working hours that occurred while the utilized child care center was closed. This error occurred because the caseworker did not adequately analyze the information used in the “best estimate.” As a result, there was a total overpayment of \$92 in benefits for this case, which we have questioned.
- For one case, the caseworker inappropriately excluded Paid Time Off (PTO) in the “best estimate” calculation of hours worked. Per the Eligibility Manual §740-2A, excluding PTO results in inaccurate calculations that are not reflective of anticipated future needs. This error occurred because the caseworker was unaware of a policy change. Since the error resulted in an *underpayment* of benefits of \$88, we have not questioned any costs for this case.

c. Incorrect Child Care Benefit Issuance

For one case, a client erroneously received Family Employment Program (FEP) Child Care benefits when they were on “FEP-diversion.” Per the Eligibility Manual §210-2, “The household is not eligible for FEP Child Care during the three-month diversion period.” Although the client was not eligible for FEP Child Care, they were eligible for Employment Support (ES) Child Care, which is subject to an income adjustment. Since the client received Child Care benefits that were not reduced by an income adjustment, the error resulted in an overpayment of \$26. We have questioned these costs.

Recommendations:

We recommend that DWS strengthen their caseworkers’ understanding of established policies and procedures to ensure that they are able to effectively administer the Child Care program. Specifically, DWS caseworkers should:

- a. Verify the accuracy and completeness of data submitted by child care providers on Form 980 prior to ordering child care payments, ensure Form 980 is imaged in participants’ case records, and adequately document any follow-up information in the case file.**
- b. Review the accuracy and completeness of data submitted by the client or client’s employer prior to creating a best estimate, ensure accuracy of information entered into eREP prior to benefit issuance, update changes in employment status timely, adequately analyze data submitted for reasonableness, and correctly apply “best estimate” procedures when calculating participants’ earned income.**

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

- c. Review employment counselor notes more closely prior to issuing FEP child care or other child care benefits while the client is on an FEP-diversion.**

DWS' Response:

We agree with the finding and recommendation.

- a. *DWS Eligibility Services Division (ESD) managers, Community Based Team (CBT) supervisors, and child care program specialists met on July 31, 2013, to discuss the form 980 issues cited in the finding. On October 1, 2013, ESD updated child care procedures to require workers to end-date the child care provider evidence in eREP to match the last month covered on the form 980 provider worksheet. We believe the form 980 issues cited in the finding will improve with this updated procedure and by including these elements in reviews conducted by our internal Performance Review Team (PRT).*
- b. *We acknowledge the issues cited in the finding related to accurately determining income estimates. ESD personnel have taken a proactive approach to determine root causes and to identify and correct child care errors. We utilized our internal PRT reviews to identify workers with the highest child care accuracy rates. Using these results, we created specialized teams on June 3, 2013, to administer the majority of our child care cases. In May through July 2013, ESD personnel completed an internal targeted review of child care cases to validate accurate benefit issuance and to identify additional training needs for the newly created child care teams. We believe this strategy of using specializing child care teams will generate higher child care accuracy results.*
- c. *As noted above, specialized child care teams were formed on June 3, 2013. These newly formed teams facilitate improved communication and coordination between employment counselors and eligibility specialists. By reducing the number of workers processing FEP Child Care, better working relationships have developed between employment counselors, supervisors, and eligibility specialists. CBT supervisors met on July 31, 2013, to review the issues cited in the finding. The FEP/Child Care supervisors reviewed diversion policy at their subsequent team meetings in August 2013.*

*Contact Person: Dale Ownby, Eligibility Services Division Director, 801-526-9889
Anticipated Correction Date: June 30, 2014*

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2013

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) CLUSTER

8. UNTIMELY COMPARISON OF WAGE INFORMATION OBTAINED FROM THE STATE WAGE INFORMATION COLLECTION AGENCY (SWICA) TO WAGE INFORMATION IN THE CASE RECORD

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

CFDA Number and Title: **93.558 Temporary Assistance for Needy Families**

Federal Award Numbers: **G-1102UTTANF, G-1202UTTANF, 1302UTTANF**

Questioned Costs: **\$-0-**

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

During our review of benefit expenditures of the TANF Program, we noted that DWS does not have a control in place to ensure that wage information obtained from the SWICA is compared to wage information in the case record in a timely manner. DWS has controls in place to ensure that wage information is obtained from the SWICA daily. That information is then used to populate other databases (e-Find and e-Share) that caseworkers use to compare wage data to the case record; however, these comparisons are generally only done semi-annually rather than on a quarterly basis as required by federal regulations (45 CFR 205.55).

DWS was unaware of the requirement to compare the data obtained from the SWICA with the case record quarterly, thus, they have no control in place to ensure compliance with this requirement. Caseworkers obtain wage information from the SWICA and re-evaluate the individual's eligibility at least semi-annually during the review process and often more frequently as they become aware of changes in participants' wages. If DWS wishes to evaluate wage information obtained from the SWICA at a different interval than that required by federal regulations, they should seek approval from the U.S. Department of Health and Human Services (DHHS) Secretary. We did not note any eligibility errors in our sample items; therefore, we have not questioned costs. However, noncompliance with this requirement can result in overpayments and questioned costs.

Recommendation:

We recommend that DWS design and implement internal controls to ensure compliance with the requirement to compare wage information obtained from the SWICA quarterly or seek approval from the DHHS Secretary to evaluate the information at a different interval.

DWS' Response:

We agree with the finding and recommendation. We will seek approval from the DHHS Secretary to obtain and evaluate wage information at a different interval. If we are unable to

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

obtain approval we will implement internal controls to ensure wage data is reviewed and compared to information in the case record on a quarterly basis.

*Contact Persons: Karla Aguirre, Associate Director, 801-526-9724
Sisifo Taatiti, Workforce Preparation Manager, 801-526-4370*

Anticipated Correction Date: June 30, 2014

9. INADEQUATE SUPPORTING DOCUMENTATION FOR AND RECONCILIATION OF EXPENDED TANF FUNDS

Federal Agency: **Department of Health and Human Services**
CFDA Number and Title: **93.558 Temporary Assistance for Needy Families**
Federal Award Numbers: **G-1102UTTANF, G-1202UTTANF, 1302UTTANF**
Questioned Costs: **\$119**
Pass-through Entity: N/A

We tested TANF Program benefit expenditures at DWS by selecting a sample of 40 benefit payment authorizations (2 benefit payments processed through UWORKS and 38 benefit payments processed through eRep), totaling \$13,090 from a population of \$25,633,277. We noted an error with 1 of the 2 UWORKS cases sampled. We have questioned costs associated with this error, totaling \$119.

- For one case, the employment counselor did not obtain and reconcile receipts to verify that the customer's purchases using TANF funds were allowable in accordance with WDDPM §910. The required reconciliation was not properly performed because the employment counselor accepted a pricing sheet (i.e., a printout showing the prices that the university bookstore charges) for five textbooks as evidence for the purchases rather than the actual receipts for the purchases.

Subsequent to our review, the counselor obtained from the customer a receipt verifying the purchase of three of the books from the bookstore and a DWS Reconciliation Customer Statement Form (Form 370) completed by the customer certifying that the remaining two textbooks were purchased at the bookstore. In accordance with WDDPM §910, DWS considers the Form 370 to be an acceptable form of verification for UCard purchases; however, in this case, the customer purchased the textbooks with his own funds and then used his UCard to purchase non-negotiated items equaling the amount authorized for the textbooks. WDDPM §910-3 states, "In cases where the customer spent funds on non-negotiated items, if they can provide a receipt showing the purchase of the originally negotiated item(s) with their own funds ... [the caseworker should] mark the transaction as "Acceptable", narrate the details in the Comments, and attach the receipt." Because

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

the customer did not have receipts to document his purchases, the Form 370 is considered insufficient documentation.

Subsequent to providing the Form 370, the customer submitted another receipt which supported the purchase of one of the remaining two textbooks. At this time, he also submitted a third party statement indicating that the remaining textbook was purchased from another student. Due to the discrepancy between the DWS Form 370, which stated that the textbook was purchased from the bookstore, and the third party statement that the textbook was purchased from another student, we have questioned \$119 for the cost of the book. Inadequate reconciliation of expended TANF funds can result in unauthorized payments going undetected and in questioned costs.

Recommendation:

We recommend that DWS ensure employment counselors 1) obtain in a timely manner proper supporting documentation to support expenditures and 2) reconcile receipts to verify that expenditures were allowable.

DWS' Response:

We agree with the finding and recommendation.

As of May 1, 2013, future authorizations are reduced if funds are determined to have been spent inappropriately (marked as "not acceptable" in UWORKS). In addition, if receipts are not reconciled within 90 days, UWORKS will prevent future authorizations until transactions are either reconciled or marked as not acceptable. The timeframe for reconciliation was changed from 90 days to 30 days, effective October 7, 2013, to further reduce the amount of time that lapses before transactions are reconciled.

The employment counselor corrected the error cited in the finding on August 20, 2013, and received training on the reconciliation process on September 27, 2013. Training on the reconciliation process was also provided to all FEP employment counselors and supervisors statewide during the month of October 2013.

*Contact Persons: Karla Aguirre, Associate Director, 801-526-9724
Sisifo Taatiti, Workforce Preparation Manager, 801-526-4370*

Anticipated Correction Date: October 31, 2013

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

10. NONCOMPLIANCE WITH TREASURY-STATE AGREEMENT

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

CFDA Number and Title: **93.558 Temporary Assistance for Needy Families**

Federal Award Numbers: **G-1102UTTANF, G-1202UTTANF, 1302UTTANF**

Questioned Costs: **\$-0-**

Pass-through Entity: N/A

We tested the weekly cash draws made by DWS and noted that the draws for estimated TANF administrative costs were not reconciled to actual expenditures at the frequency required by the Treasury-State Agreement. DWS estimates the projected federal share of certain administrative expenditures quarterly for TANF, divides the estimate by 13 to arrive at a weekly estimate, and draws the estimated amount weekly. Once the quarterly expenditure report is completed, the Treasury-State Agreement requires DWS to adjust the grant to bring draws into reconciliation with actual expenditures, returning or drawing funds as necessary.

The financial manager performing the federal draws did not perform the reconciliation at the end of the at the first quarter of state fiscal year 2013 for TANF because she was concerned that the amounts reported were incorrect and would, therefore, result in an incorrect draw amount. However, when the expenditure report was completed for the second quarter of state fiscal year 2013, the financial manager performed a reconciliation, and an amount equal to the first and second quarter reconciling amount was drawn totaling \$5,694,562. Not performing timely reconciliations in compliance with the Treasury-State Agreement could result in lost interest revenue to the State or in an interest liability for the State.

Recommendation:

We recommend that DWS comply with the Treasury-State Agreement by performing required reconciliations quarterly and returning or drawing funds as necessary.

DWS' Response:

We agree with the finding and recommendation. Processes for preparing the TANF reports have been improved to ensure accurate expense information is provided to the Financial Manager responsible for completing quarterly reconciliations and performing the quarterly reconciling draws. The Operational Accounting Manager will review the quarterly reconciliations and the corresponding draw activity to ensure that federal funds are drawn in accordance with the Treasury-State Agreement.

Contact Persons: *Nathan Harrison, Administrative Support Director, 801-526-9204
Bryce Adams, Operational Accounting Manager, 801-526-9221*

Anticipated Correction Date: December 31, 2013

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

SUPPLEMENTAL NUTRITION ASSISTANCE (SNAP) CLUSTER

11. NONCOMPLIANCE WITH CASH MANAGEMENT REQUIREMENTS

Federal Agency: **U.S. Department of Agriculture**
CFDA Number and Title: **10.561 Supplemental Nutrition Assistance (SNAP) Cluster**
Federal Award Numbers: **various**
Questioned Costs: **\$-0-**
Pass-through Entity: **N/A**

We tested the weekly and reconciling cash draws made by DWS for SNAP Administration costs and noted the following:

- Although the third quarter reconciliation was prepared for state fiscal year 2013, the related reconciling draw totaling \$1,641,299 was not made due to an oversight by the financial manager. DWS estimates the projected federal share of certain administrative expenditures quarterly for SNAP Administration, divides the estimate by 13 to arrive at a weekly estimate, and draws the estimated amount weekly. Once the expenditure report is completed each quarter, DWS's policy is to reconcile the amounts drawn with actual expenditures and return or draw funds as necessary.
- During the fiscal year 2012 close-out, DWS overdraw the letter of credit relating to the Certification (FCRT) portion of the SNAP Administration costs. Due to a clerical error, the Employment & Training (E&T) portion of the costs was erroneously combined with the FCRT portion of the costs and the total of both portions was drawn from the FCRT letter of credit, resulting in the FCRT letter of credit being overdrawn by the amount of the E&T expenditures (\$3,196,254). DWS was unaware of the error until the USDA notified them approximately 10 months later that the FCRT letter of credit was overdrawn. The proper entries on the draw system and FINET were then made to correct the error.

DWS should comply with federal cash management requirements and minimize the time between the expenditure of federal funds and the related drawdown from the Federal Government as required by federal regulations (31 CFR 205) for this program.

Recommendation:

We recommend that DWS exercise greater care in preparing SNAP Administration draws to ensure that funds are drawn from the proper letter of credit and that funds are drawn timely.

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

DWS' Response:

We agree with the finding and recommendation. The Operational Accounting Manager will review the quarterly reconciliations for SNAP administration costs prepared by the Financial Manager and the corresponding draw activity to ensure that federal funds are drawn in accordance with federal regulations and from the proper letter of credit.

*Contact Persons: Nathan Harrison, Administrative Support Director, 801-526-9204
Bryce Adams, Operational Accounting Manager, 801-526-9221*

Anticipated Correction Date: December 31, 2013