DEPARTMENT OF WORKFORCE SERVICES

Management Letter
For the Year Ended June 30, 2009

Report No. 09-36

Keeping Utah
Financially Strong

AUSTON G. JOHNSON, CPA
UTAH STATE AUDITOR

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REPORT NO. 09-36

February 9, 2010

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

Dear Ms. Cox:

We have completed our audit of the financial statements of the State of Utah as of and for the year ended June 30, 2009 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, dated November 23, 2009, was issued under separate cover. We have also completed the Department of Workforce Services' (DWS) portion of the statewide federal compliance audit for the year ended June 30, 2009. The federal programs tested as major programs at DWS were the Temporary Assistance for Needy Families (TANF), Workforce Investment Act (WIA), Child Care Cluster (CCDF & CCDBG), Unemployment Insurance (UI), and the Supplemental Nutrition Assistance Program (SNAP). This letter also includes findings related to DWS' eligibility determination for the Children's Health Insurance Pool (CHIP) and Medicaid programs. Our report on the statewide federal compliance audit for the year ended June 30, 2009 should be issued in February 2010.

In planning and performing our audit we considered DWS' internal control over financial reporting and compliance as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements and on the State's compliance with the requirements of its major programs, but not for the purpose of expressing an opinion on the effectiveness of DWS' internal control. Accordingly, we do not express an opinion on the effectiveness of DWS' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements or noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to 1) initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles or 2) administer a federal program such that there is more than a remote likelihood that a misstatement of the entity's financial statements or that noncompliance with a type of compliance requirement of a federal program that are more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements or that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

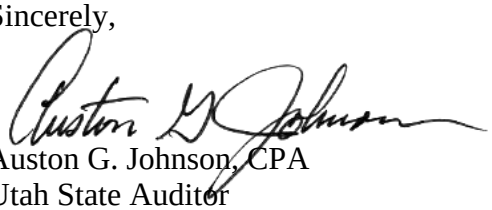
During our audit, we also noted other matters involving internal control deficiencies and noncompliance. We are submitting for your consideration related recommendations designed to help DWS make improvements and achieve operational efficiencies. These matters are described in the accompanying schedule of findings and recommendations.

This communication is intended solely for the information and use of DWS and is not intended to be and should not be used by anyone other than this specified party. However, the report is a matter of public record and its distribution is not limited.

DWS' written responses to the findings and recommendations identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 feel free to contact Joe Christensen, Deputy State Auditor, at 801-538-1354.

Sincerely,



Auston G. Johnson, CPA
Utah State Auditor

cc: Greg Gardner, Deputy Director
Chris Love, Deputy Director
LeAnn Muranaka, Director of Internal Audit
Lynette Rasmussen, Director, Office of Work and Family Life
Bill Starks, Director, Unemployment Insurance
James Whitaker, Director of Operations Support
William Greer, CFO/Director, Administrative Support Division

DEPARTMENT OF WORKFORCE SERVICES

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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Finding Type:
- MW Material Internal Control Weakness
- SD Significant Deficiency of Internal Control
- MN Material Noncompliance
- RN Reportable Noncompliance or illegal acts

Applicable To:
- s State Financial Statements
- f Federal Program

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP)

1. **INTERNAL CONTROL WEAKNESSES, NONCOMPLIANCE, AND INADEQUATE DOCUMENTATION** (Repeat Finding)

Federal Agency: **DHHS, CMS**
CFDA Number and Title: **93.767 Children's Health Insurance Program**
Federal Award Number: **5-0805UT5021**
Questioned Costs: **$37,240**
Pass-through Entity: N/A

We reviewed the case files for 60 Children's Health Insurance Program (CHIP) service expenditures at the Department of Health and noted internal control weaknesses, noncompliance, or inadequate documentation with 18 (30.00%) of the cases we reviewed as described below. Of the 60 payments selected in our sample, 9 payments (15%) totaling $890 were considered ineligible due to incorrect eligibility decisions. The 60 payments in our sample totaled $3,740 and were taken from a total population of $57,897,145. As a result of the incorrect eligibility decisions, we have questioned the federal portion of all costs associated with these cases which were $29,748 for State fiscal year 2009 and $7,492 for State fiscal year 2008. Although all CHIP expenditures are processed at the Department of Health, eligibility determination and case file management for CHIP is handled by the Department of Workforce Services (DWS).

a. Improper Verification or Calculation of Household Size or Income

1) For one household, the household income and assets were under the income and asset limits for both Newborn Medicaid (coverage from birth through age 5) and Newborn Plus Medicaid (coverage for ages 6 through 19) when the household applied for CHIP in January 2008. Therefore, all children were eligible for Medicaid and, per CHIP Policy Manual 201, not eligible for CHIP. We have questioned costs of $16,583, which represents the federal portion of costs for all 16 children in the household who received CHIP benefits between January 2008 and June 2009 (4 children for 16 months; 7 children for 15 months; 2 children for 13 months; 1 child for 11 months; 1 child for 9 months; and 1 child for 3 months).

2) For one case, the eligibility specialist determined that the three oldest children were eligible for CHIP even though the household income and assets were below the income and asset limits for Newborn Plus Medicaid. Because these three children were eligible for Medicaid, they were not eligible for CHIP per CHIP Policy Manual 201. We have questioned costs of $6,154, which represents the federal portion of CHIP costs for the oldest child from September 2007 through April 2009 (when the child turned 19) and for the two middle children from September 2007 through

December 2008 (when their CHIP case was closed because other insurance was discovered).

3) For two cases, the eligibility specialist did not properly verify the client's monthly household income in accordance with CHIP Policy Manual 705-2, which states that hard copy verifications must be used to verify income; client statement is an insufficient form of income verification.

   (a) In the first case, the eligibility specialist relied on the client's statements and incomplete documentation of self-employment income rather than obtaining proper hard copy verifications as required by policy. Because the client's income was not properly verified, the family should not have been approved for CHIP. We have questioned costs of $2,792, which represents the federal portion of CHIP costs from December 2008 through June 2009 for all three children in the household on CHIP.

   (b) For the second case, household income was re-verified in November 2008 (during the client's application for food stamps) using only the client's statement. Household monthly income calculated using the client's statement was over the Newborn Medicaid income limits, and the three youngest children in the family who were on Newborn Medicaid were moved to CHIP/CI2. Because it is possible that the youngest three children would be eligible for Newborn Medicaid if income were properly verified, we have questioned costs of $2,404, which represents the federal portion of costs for the three youngest children from December 2008 through June 2009.

4) For one case, the eligibility specialist calculated self-employment income from the business's profit and loss statement incorrectly during the original eligibility determination in May 2008, resulting in monthly self-employment income being overstated by $300. This was possibly due to the poor image quality of the hard copy income verification used. This error in income calculation does not appear to have caused errors in CHIP eligibility determination; therefore, we have not questioned costs for this error. However, an error like this could cause an error in CHIP eligibility determination.

5) For one case, the eligibility worker placed the child on CHIP/CI2 even though the household income was over the CHIP/CI2 income limits but below the CHIP/CI3 income limits. It is unclear what caused this error. We have questioned costs of $185, which represents the federal portion of the difference between CHIP/CI2 and CHIP/CI3 premiums paid to healthcare providers from May 2008 through June 2009.

6) For one case, the eligibility specialist calculated the client's monthly income incorrectly, using year-to-date amounts from the pay stubs for a job instead of amounts for just the pay periods. This caused monthly income to be overstated by more than $900. As a result, even though the household income was below the CHIP/CI1 income limits, all children in the family were placed on CHIP/CI3. We have not questioned costs for these errors because all children remain CHIP-eligible and because fewer CHIP benefits were paid to healthcare providers on their behalf for CHIP/CI3 than would have been paid under CHIP/CI1.

7) For one case, it is unclear how the eligibility specialist originally calculated the monthly household income for the eligibility determination in December 2007. Based on our recalculation of monthly household income from the client's paystubs imaged in the case file, the household income was well below the income limits for CHIP/CI1 and Newborn Medicaid for the household size. Therefore, it appears that the ten children of the household who were age 6 and older should have been placed on CHIP/CI1 instead of CHIP/CI3, and the two children of the household who were under age 6 should have been placed on Newborn Medicaid instead of CHIP/CI3 in December 2007. We have not questioned costs for the ten children who were age 6 and older because fewer CHIP benefits were paid to healthcare providers on their behalf for CHIP/CI3 than would have been paid under CHIP/CI1. We have questioned costs of $2,116, which represents the federal portion of CHIP costs from December 2007 through December 2008 (when the CHIP case was closed due to lack of review) for the two children who were under age 6 who should have originally been placed on Newborn Medicaid.

8) For one case, the two adults residing together have a child in common, but the father of the child was not included in household size for the original eligibility determination in December 2008. Per CHIP Policy Manual 230, adults who reside together and have a child in common should be included in household size. Including the father of the child in common in household size and including his income in the eligibility determination could affect CHIP eligibility. Therefore, we have questioned costs of $1,919, which represents the federal portion of CHIP costs for two of the children in the home from December 2008 through June 2009 and for the third child in the home from February 2009 through June 2009 (the third child turned 6 in January and was on Newborn Medicaid before she turned 6).

9) For one case, the eligibility worker calculated the client's self-employment income from tax returns incorrectly during the April 2008 annual CHIP review. The eligibility worker incorrectly added depreciation expense back to gross income to determine monthly income resulting in overstated monthly income, which caused the household to be placed on CHIP/CI3. The client's monthly income when properly accounting for depreciation expense (CHIP Policy Manual 410-2 #3) would cause the client to be below the income limits for CHIP/CI2 and Newborn Medicaid. Thus, the four oldest

children of the household should have been moved to CHIP/CI2 in May 2008, the second youngest child should have been moved to Newborn Medicaid in May 2008 and then back to CHIP/CI2 in November 2008 (his sixth birthday was in October), and the youngest child should be on Newborn Medicaid. We have not questioned costs for the four oldest children because they remain CHIP-eligible and because fewer CHIP benefits were paid to healthcare providers on their behalf for CHIP/CI3 than would have been paid under CHIP/CI2. We have questioned costs of $1,980, which represents the federal portion of costs for the second youngest child for May 2008 through October 2008 and for the youngest child for May 2008 through June 2009.

10) For one case, the household income was below the income limit for Newborn Medicaid at the time the household's CHIP eligibility was originally determined in October 2008. However, one of the children under age 6 was put on CHIP/CI2. Because the child was eligible for Medicaid, she was not eligible for CHIP per CHIP Policy Manual 201. We have questioned costs of $885, which represents the federal portion of CHIP costs for this child from October 2008 through June 2009.

11) For one case, the eligibility specialist added the youngest child in the family to the household's CHIP/CI1 plan in September 2008 after her Medicaid Prenatal Program (PN) expired in August 2008. However, the monthly household income was below the Newborn Medicaid income limits. Because this child was eligible for Newborn Medicaid, she was not eligible for CHIP per CHIP Policy Manual 201. Therefore, we have questioned costs of $698, which represents the federal portion of CHIP costs from September 2008 through June 2009 for this child.

12) For one case, the eligibility specialist double-counted overtime hours when calculating household income for the June 2007 review, causing monthly household income to be overstated by $541. The income amount determined during that review has carried forward through June 2009 because the household has been sent simplified reviews and has not reported any changes in income. This error in income calculation does not appear to have caused errors in CHIP eligibility determination; therefore, we have not questioned costs for this error. However, an error like this could cause an error in CHIP eligibility determination.

13) For one case, the eligibility specialist did not include overtime hours in household income when originally determining eligibility in July 2007, causing monthly household income to be understated by $531. When overtime is included, monthly household income for this case is between the income limits for CHIP/CI2 and CHIP/CI3. Excluding overtime resulted in the children in the household being placed on CHIP/CI2 instead of CHIP/CI3. The household was sent a simplified review for July 2008, so household income carried forward from July 2007 through June 2009 (the next review is mandatory and is due in July 2009). Therefore, we have questioned

costs of $359, which represents the federal portion of the difference between CHIP/CI2 and CHIP/CI3 premiums paid to healthcare providers from July 2007 through June 2009 for all three children in the household.

14) For one case, the eligibility specialist calculated the monthly household income incorrectly when the client originally applied for CHIP in February 2008 by improperly excluding certain expenses and annualizing results over too many months. This error resulted in the monthly household income being overstated by about $1,100 which caused the children in the household to be placed on CHIP/CI3 when they should have been placed on CHIP/CI2. We have not questioned costs because the children remain CHIP-eligible and because fewer CHIP benefits were paid to healthcare providers on their behalf for CHIP/CI3 than would have been paid under CHIP/CI2.

15) For one case, the household income and assets determined during the August 2008 CHIP review were below the income and asset limits for Newborn Plus Medicaid because a divorce reported during that review reduced the household income and assets from the previous eligibility period. However, the child in the household who is over age 6 was not moved from on CHIP/CI1 to Newborn Plus Medicaid until April 2009. Because the child was eligible for Medicaid, she was not eligible for CHIP per CHIP Policy Manual 201. We have questioned costs of $656, which represents the federal portion of CHIP costs for the child of the household from September 2008 through March 2009.

b. Failure to Act on Reported Changes During the Eligibility Period

1) For one case, during a new PN application in March 2009, the client reported that the father of her youngest child had been living in the home for 14 months (or since about February 2008). The client had not included him as part of the household for the September 2008 CHIP review. Per CHIP Policy Manual 230, adults who reside together and have a child in common should be included in household size and their income considered for CHIP coverage. Per CHIP Policy Manual 806, when the client provided new information about the length of time the father of the youngest child had been in the home in March 2009, the eligibility specialist should have determined whether the exclusion of the father from the household resulted in improper CHIP coverage since the September 2008 CHIP review and if so whether the improper coverage was due to an inadvertent or intentional error. If the improper coverage resulted from an inadvertent error, ineligible children should be immediately removed from CHIP but no further cost recovery action taken; if the error were intentional, the case should additionally be referred to an overpayment specialist to determine whether to pursue collection of the overpayment. The March 2009 case notes indicate that the father's income and asset information were requested, but the eligibility specialist did not follow up on its receipt until we discussed this case with DWS in

July 2009. The requested asset and income information was never received, and the case was properly closed, so it was never discovered whether CHIP coverage had been improper. Because it is unknown whether CHIP coverage was improper and, if so, whether the error was inadvertent or intentional, we have not questioned any costs. However, if CHIP coverage were improper due to an intentional error, it could result in a potential overpayment of $1,571, which represents the federal portion of the CHIP costs for the two children of the household on CHIP from November 2008 through June 2009.

2) For one case, during a review completed in January 2009, the client reported no longer owning the vehicle that had put them over the asset limit for Newborn Plus Medicaid, and an eFind search performed by the eligibility specialist on January 21, 2009 indicated that the vehicle was no longer listed as registered to the client. Per CHIP Policy Manual 201-1(3.C), the eligibility specialist should have moved the child in the household who was on CHIP/CI1 to Newborn Plus Medicaid because the reduction of assets put the household income and assets under the limits for Newborn Plus Medicaid; however, the eligibility specialist left the child on CHIP/CI1. Excluding this asset from the CHIP eligibility determination, the client (who was on CHIP/CI1) would have been eligible for Medicaid Newborn Plus and not eligible for CHIP as per CHIP Policy Manual 201. Therefore, we have questioned costs of $509, which represents the federal portion of CHIP costs for the child of the household from February 2009 through June 2009.

Recommendation:

We recommend that DWS eligibility specialists properly verify and calculate household size and income, and take appropriate action and follow through when a change affecting CHIP eligibility is identified or communicated to them.

DWS Response:

We concur with the findings and recommendation. Effective June 22, 2009, DWS formed the ESD (Eligibility Services Division). Each case that was reviewed during this audit occurred before the new division was created. As part of the new division, DWS has specialized the programs we administer and there are currently five teams that specialize in the CHIP program. Through specializing, workers have an expert knowledge of CHIP policy, which will lead to an increase in overall accuracy.

All five CHIP teams have been converted to our new Electronic Resource and Eligibility Product (eREP) system. The issue of properly verifying and calculating household size and income should no longer be an issue in the new system. eREP is a rules-based system and is set up to look at the proper medical program based on established program hierarchy.

The following procedures have been established to help instruct workers on income changes and household size and to properly determine CHIP eligibility: "eREP - Changing CHIP plans due to Income changes," "eREP – CHIP initial processing," and "eREP - Adding a new Household member to LIFC CHIP or Refugee Medical."

The eREP system should also resolve the change issues identified. Any change that is reported requires action in the system. The worker uses the following procedures when a change is reported: "eREP- Change processing Pending Evidence" and "eREP- Change processing Verified Evidence."

Case reviews (targeted) will be completed by the Eligibility Services Division, Performance Review Team before June 30, 2010 to evaluate previously identified CHIP issues. The Performance Review Team will be looking for improvement, trends, and potential hot spots.

In addition to the ESD Performance Review Team, a quality control panel made up of DOH and DWS staff is in the process of being created and will start meeting monthly to discuss, review, and identify edit and audit trends. Any identified necessary corrective action will be handled through the Program and Training group.

In summary, by specializing the CHIP program along with converting the program into the eREP system, using the above mentioned procedures to assist workers and performing case reviews, we hope to achieve increased accuracy with the CHIP program.

Contact Person: Debbie Herr, Associate Director ESD, (801) 526-9831
Anticipated Correction Date: June 30, 2010

MEDICAID

2. **INCORRECT ELIGIBILITY DETERMINATION AND INADEQUATE DOCUMENTATION OF ELIGIBILITY** (Repeat Finding)

Federal Agency: **DHHS, CMS**
CFDA Number and Title: **93.778 Title XIX Medicaid Cluster**
Federal Award Number: **5-0605UT5028**
Questioned Costs: **$22,956**
Pass-through Entity: N/A

We reviewed the case files for 60 Medicaid service expenditures at the Utah Department of Health and noted eligibility determination errors with 8 (13.3%) of the cases we reviewed as described below. Of the 60 payments selected in our sample, 2 payments (3.3%) totaling $3,199 were considered ineligible due to incorrect eligibility decisions. The 60 payments in our sample totaled $943,845 and were taken from a total population of $1,579,804,016. As a result

of the incorrect eligibility decisions, we have questioned the federal portion of all costs associated with these cases which were $2,306 for State fiscal year 2009; $6,526 for State fiscal year 2008; and $14,124 for State fiscal year 2007. Although all Medicaid expenditures are processed at the Department of Health, eligibility determination and case file management for Medicaid is handled by the Department of Workforce Services (DWS).

a. Incomplete Identification Verifications

For one case, the caseworker did not obtain two forms of identification as required by Section 205-1 of the Medicaid Manual. This error resulted in total questioned costs of $20,650.

b. Untimely Change in Medicaid Benefits

For two cases, the caseworker did not remove the client from a Medicaid program in a timely manner. This error resulted in total questioned costs of $2,306.

c. Improper Placement on Multiple Programs

For one case, the caseworker allowed clients to remain on three different Medicaid programs and have three different case files concurrently (ranging from December 2007 through July 2008). Clients should only be on one Medicaid program and have one case file at a time. Because the client was eligible for a Medicaid program, we did not question any costs associated with this case.

d. Improper Program Determination

For three cases, the caseworker did not determine if the client was eligible for the Family Medicaid (FM-O) or Newborn Plus program before considering other programs in accordance with Sections 341 and 360-1 of the Medicaid Manual. Because the clients were eligible for a Medicaid program, we did not question any costs associated with these cases.

e. Missing Application

For one case, an application was not included in the case file. Per federal regulations (42 CFR 435.907), the agency must require a written application signed by the applicant under penalty of perjury. This signed application should be retained in the case file. It was determined through subsequent eligibility reviews that the client was eligible for benefits; therefore, we have not questioned any costs.

Recommendation:

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

DWS Response:

We concur with the findings and recommendation. Our response for each finding issue is outlined below:

a. ***Incomplete Identification Verification*** *- DWS is in the process of revising the "Authentication Guide" worker guide to be more user and worker friendly. The revised guide will be completed by May 2010 and will be reviewed and trained to all staff by June 30, 2010.*

b. ***Untimely Change in Medical Benefits*** *- DWS is in the process of training all staff on a resource titled "Fundamentals First" – to be completed by February 28, 2010. One of the concepts in this resource/training covers the need for workers to take an action when they get a change report from a customer, which also includes narrating all actions taken on a case immediately after the actions are taken.*

c. ***Improper Placement on Medical Programs*** *- This issue should be resolved with the conversion to the eREP system. Conversion to eREP will be completed by June 30, 2010.*

d. ***Improper Program Determination*** *- This will be a non-issue in the future. The rules built into the eREP system will determine the most appropriate program for the customers in accordance with policy. For example, if someone qualifies for FM-O (LIFC), eREP will not allow the worker to put the client on NB (child Medical) because FM-O (LIFC) is higher in the hierarchy of medical programs. Conversion to eREP will be completed by June 30, 2010.*

e. ***Missing Application*** *- ESD will direct supervisors and eligibility staff to an existing training resource called "Determining When a New Application is Required or Not Required". All staff will complete the training on when an application is necessary by June 30, 2010.*

Case Reviews (targeted) will be completed on authentication and change reporting by the Eligibility Services Division, Performance Review Team. The case reviews will look for improvement and trends and will be completed by June 30, 2010. In addition to the ESD Performance Review Team, a quality control panel made up of DOH and DWS staff is in the process of being created and will start meeting monthly to discuss, review, and identify edit and

audit trends. Any identified necessary corrective action will be handled through the Program and Training group.

Contact Person: Debbie Herr, Associate Director ESD, (801) 526-9831
Anticipated Correction Date: June 30, 2010

3. **THIRD PARTY LIABILITY INFORMATION NOT ADEQUATELY OBTAINED OR UPDATED** (Repeat Finding)

Federal Agency: **DHHS, CMS**
CFDA Number and Title: **93.778 Title XIX Medicaid Cluster**
Federal Award Number: **5-0605UT5028**
Questioned Costs: **$0 - $4,066**
Pass-through Entity: N/A

We reviewed the case files for 60 Medicaid service payments at the Utah Department of Health and noted errors related to Third Party Liability (TPL) with 4 (6.7%) of the cases and noted one additional error that was not included in our sample of 60 Medicaid service payments. Although all Medicaid expenditures are processed at the Department of Health, TPL determination and case file management for Medicaid is handled by the Department of Workforce Services (DWS).

a. TPL Information Provided by Client not Communicated to ORS

For two cases, the caseworker obtained information that the client had insurance; however the caseworker did not report this TPL information to the Office of Recovery Services (ORS) as required by Section 225-3 of the Medicaid Manual. The federal portion of the total amount of the payments that may have been recovered from a third party is $3,270.

b. TPL Information Not Requested

For three cases, the caseworker did not properly request TPL information from the client during the application process. Section 225-1 of the Medicaid Manual states that "TPL information may be gathered on the application form or on a Form 19." Federal regulations [42 CFR 433.138(a) and (b)(1)] require reasonable measures to be taken to obtain TPL information during the initial application and at each redetermination (review) process. The federal portion of the total amount of the payments that may have been recovered from a third party is $796.

Recommendation:

We recommend that Medicaid caseworkers follow policies and procedures to obtain all TPL information and report TPL information to the Office of Recovery Services in a timely manner.

DWS Response:

We concur with the findings and recommendation. DWS is in the process of training all eligibility staff on a resource titled "Fundamentals First." This training will be completed by February 28, 2010 and will include the need to obtain TPL information, report TPL information, and narrate actions for TPL information.

TPL automation will be built into the eREP system as of February 22, 2010. The automation of receiving real-time records should help eliminate TPL errors on all medical programs.

Case Reviews (Targeted) will be completed by the Eligibility Services Division, Performance Review Team on TPL and TPL related issues. The case reviews will look for trends and improvement areas and will be completed by June 30, 2010 as well as ongoing. In addition to the ESD Performance Review Team, a quality control panel made up of DOH and DWS staff is in the process of being created and will start meeting monthly to discuss, review, and identify edit and audit trends. Any identified necessary corrective action will be handled through the Program and Training unit.

Contact Person: Debbie Herr, Associate Director ESD, (801) 526-9831
Anticipated Correction Date: June 30, 2010

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)

4. INTERNAL CONTROL WEAKNESSES AND NONCOMPLIANCE
(Repeat Finding)

Federal Agency: **DHHS, ACF**
CFDA Number and Title: **93.558 Temporary Assistance for Needy Families (TANF)**
Federal Award Number: **G-0702UTTANF, G-0802UTTANF, G-0902UTTANF**
Questioned Costs: **$10,627**
Pass-through Entity: N/A

We tested expenditures of the Temporary Assistance for Needy Families (TANF) Program at DWS by reviewing the case files for a sample of 40 TANF payments, totaling $34,818, from a population of $22,314,254. Of the TANF payments tested, we identified $6,768 (19.4%) in

questioned costs. In addition, we are also questioning payments in fiscal year 2009 related to the sample cases totaling $3,859. The total of all questioned costs is $10,627.

a. Earned and Unearned Income Not Properly Included in the Calculation of the Benefit Payment

For 6 (15%) of the 40 cases tested, DWS did not include the client's earned or unearned income in the calculation of the client's benefit payment. According to the DWS Eligibility Manual sections 610-2 and 425, earned and unearned income must be used to calculate the appropriate benefit payment. Not using income in the calculation of the client's benefit payments resulted in overpayments of $1,790, which we have questioned.

b. Internal Control Weakness over Enhanced Payment Issuances

For 1 (2.5%) of the 40 cases tested, the clients received 2 months of enhanced participation payments without meeting the participation requirements. This resulted in an overpayment of $120, which we have questioned. Per DWS Employment and Business Services Manual section 1230-1A, each parent involved in approved activities will receive an enhanced payment of $60 a month if the hours of participation are documented and verified. If this policy is not followed, benefit overpayments may occur.

c. Noncompliance with the Income Eligibility and Verification System (IEVS) Requirement

For 2 (5%) of the 40 cases tested, DWS Eligibility Specialists did not use the available Income Eligibility and Verification System (IEVS) databases within a reasonable time following the receipt of the application for assistance. In accordance with section 1137 of the Social Security Act, each State shall participate in the IEVS and is required to verify specific information for all applicants at the first opportunity following receipt of the application. Not using the IEVS database in a timely manner could result in the inappropriate payment of benefits. For both cases, no search had been performed at any time; therefore we are questioning the entire payment made in behalf of one of the clients in the amount of $2,000. In the other case, the payment of $2,950 is questioned elsewhere in this report.

d. Noncompliance with Child Support Non-Cooperation Reduction in Benefit Requirement

For 2 (5%) of the 40 cases tested, DWS did not reduce the clients' benefit payments for child support non-cooperation as documented by the Office of Recovery Services. According to Title IV-D Section 408 of the Social Security Act, for cases involving an individual not cooperating with the State in establishing paternity or in establishing, modifying, or enforcing a support order with respect to a child of the individual, the State 1) must deduct an amount equal to not less than 25% from the assistance that would otherwise be provided to the family of the individual, and 2) may deny TANF assistance in

full. If DWS does not comply with this requirement, they may be penalized up to 5% of the State Family Assistance Grant (SFAG). We are questioning 25% of the payments for the months in which noncompliance was noted, totaling $763.

e. Inadequate follow-up on Fleeing Felon Status

For 2 (5%) of the 40 cases tested, the clients did not complete the fleeing felon question on the initial TANF application and the eligibility workers either did not follow up on those questions or did not do so in a timely manner. According to the Federal Compliance Supplement TANF eligibility requirements, a TANF recipient may not be 1) fleeing to avoid prosecution, or custody or confinement after conviction, for a felony or attempted felony, or 2) violating a condition of probation or parole imposed. If the individual's status is not appropriately addressed, payments to ineligible individuals may occur. The status of one of the individuals was never addressed; therefore, we are questioning the payments made to the individual during fiscal year 2009, totaling $2,344. The other individual's status was later addressed appropriately during a review of the case; therefore, we are not questioning any costs related to that case.

f. Inaccurate and Incomplete Case Information

For 3 (7.5%) of the 40 cases tested, DWS records did not agree with source documentation or source documentation was never received as follows:

1) In the first case, the client appropriately reported Social Security Numbers (SSN) for all members of the household; however, one SSN for a minor child was inaccurately entered into the DWS PACMIS system. A DWS employee made a note that the SSN was wrong in the system and that it had been corrected, but the number remained incorrect at the time of audit. Because this is a recording error only and all steps to verify the correct SSN were completed, there are no questioned costs for this case.
2) In the second case, the client applied for and received TANF benefits without establishing citizenship and appropriate inclusion of minor children in the household. Without a minor child in the household, this client was not eligible for TANF benefits; therefore, we are questioning all payments made to this client totaling $30.
3) In the third case, the client indicated that there were minor children in the household but did not provide a list of those children for verification. This client would not be eligible for TANF benefits without at least one child. Because this client had other existing assistance cases open which established others in her household and verifications of identity for those children existed in the client's file, we are not questioning any costs associated with this case.

If accurate records are not maintained, overpayments and underpayments may result.

g. Inaccurate Household Size Calculation

For 1 (2.5%) of the 40 cases tested, DWS included an ineligible minor child in the household size. Per the DWS Eligibility Manual, section 425-11, SSI recipients are not eligible for financial assistance. Inaccurate household size calculations can lead to benefit overpayments. In this case, the child should have been excluded from the household and resulting benefit payment. Because all payments made to this client are questioned elsewhere in this report, there are no questioned costs associated with this item.

h. Contracted Services Provided to Ineligible Individuals

Of the 40 payments tested, 1 (2.5%) was a payment made to a contracted service provider for numerous individuals, 2 of which did not meet the service eligibility requirements. According to the terms of this contract, in order for a client to receive services related to this contract, the client must be a Family Employment Program (FEP) participant and receive a referral from an employment counselor.

1) One individual receiving services under this contract was not an FEP client at any time and had not been appropriately referred to this program by a counselor. We are questioning the payment of $2,950 made to the contractor for this individual.
2) The other individual receiving services under this contract was not an FEP client at the time of the referral, and attendance records kept by the contractor indicate that the individual started attending the program prior to receiving a referral. We are questioning the payment of $630 made to the contractor for this individual.

If contractual requirements are not followed, payments could be made to ineligible participants.

Recommendation:

We recommend that DWS implement adequate internal controls to effectively administer TANF program benefits in compliance with all applicable laws, compliance requirements, and established policies and procedures.

DWS Response:

We concur with the findings and recommendation. Our response for each finding issue is outlined below:

a. ***Earned and Unearned Income Not Properly Included in the Calculation of the Benefit Payment*** *– Effective June 22, 2009, DWS formed the Eligibility Services Division (ESD). Each case that was reviewed during this audit occurred before the new division was created. As part of the new division, DWS has specialized the programs we administer*

and there are currently 13 Community Based Teams (CBT) that specialize in financial programs, including TANF. Through specialization, workers have an expert knowledge of TANF policy that will lead to an increase in overall accuracy. In addition to the Community Based Teams, ESD hired two Financial Program Specialists to work specifically with the teams on their training needs and policy clarifications.

In addition, the CBT cases will be converted to our new Electronic Resource and Eligibility Product (eREP) system in March 2010. The issue of properly verifying and including income to calculate benefits should be vastly improved with this conversion, as eREP is a rules-based system and will include the income in the appropriate month.

DWS will submit overpayment referrals to the Payment Error Prevention (PEP) unit for these errors. The PEP unit will make the determination if collection procedures are appropriate for each error. A review of each case will be conducted to ensure overpayment referrals have been submitted.

b. ***Internal Control Weakness Over Enhanced Payment Issuances*** *– This finding was the result of both employment counseling and eligibility errors. The employment counselor will be contacted and will receive one-on-one training to prevent similar errors in the future.*

There have been several measures taken to address this issue in the Eligibility Services Division. This issue with enhanced payments will be added as a separate error line item to the targeted edit for TANF case reviewed by the Performance Review Team. A note specific to the enhanced payment will be added to the Application and Review checklist to remind workers to check the status of eligibility for enhanced payments.

As a result of these findings regarding enhanced payments, a programming change was completed for the employment counseling computer system (UWORKS) to generate a task that will be sent to the eREP eligibility system to inform eligibility workers when a customer becomes eligible for an enhanced payment, and to generate a task for when a customer is no longer eligible for the enhanced payment. The additional tasks will ensure the communication between employment counselors and eligibility worker occurs regarding enhanced payments.

DWS will submit an overpayment referral to the Payment Error Prevention (PEP) unit for these errors. The PEP unit will make the determination if collection procedures are appropriate for each error. A review will be conducted to ensure the overpayment referral has been submitted.

c. ***Noncompliance with the Income Eligibility and Verification System (IEVS) Requirement*** *– New policy was implemented effective June 1, 2009 (Employment and Business Services Manual, Section 720-5B, Income Calculation, #3) requiring employment*

counselors to use the IEVS database to verify specific information before determining eligibility for TANF Non FEP training funds. In addition, the Department is in the process of developing a team for program and compliance reviews with an anticipated implementation date of July 1, 2010.

d. ***Noncompliance with Child Support Non-Cooperation Reduction in Benefit Requirement*** *– The process to correctly reduce the TANF benefit as a result of non-cooperation with ORS as confirmed by an employment counselor will be a separate error line-item for targeted edits of TANF cases by the ESD Performance Review Team.*

e. ***Inadequate Follow-up on Fleeing Felon Status*** *– DWS will submit a request to update the online application so the fleeing felon question will be mandatory for all TANF applicants. In addition, DWS will submit a change request to the programmers of the eREP eligibility system to include the Fleeing Felon question as one that must be addressed in the determination of eligibility for TANF.*

f. ***Inaccurate and Incomplete Case Information*** *– For cases #1 and #2, it is anticipated the conversion to the eREP eligibility system will resolve these types of errors. The correct entry of SSN must be entered before determination of eligibility. eREP will identify SSN's that are duplicates or SSN's that belong to another person within the system. As soon as an error in SSN is known to occur on a case, the system will require a correction before further benefits are issued. Additionally, verification of citizenship or birth records must be entered correctly before eligibility can be determined. An invalid type of verification will cause eligibility to fail for TANF.*

For case #3, the Eligibility Services Division will create a "Financial Tips" document for center-based teams. This error will be identified specifically on the document and will be used to help train staff.

g. ***Inaccurate Household Size Calculation*** *– It is anticipated the conversion to our new eREP eligibility system will resolve these types of errors, as children who receive SSI will automatically be excluded from the financial grant. Conversion to eREP will be completed by June 30, 2010.*

h. ***Contracted Services Provided to Ineligible Individuals*** *– For case #1, **t**he employment counselor who referred the customer to the vendor prior to an eligibility determination will receive one-on-one training to prevent similar errors in the future.*

For case #2, the customer who received services was the mother of a TANF customer. The mother never received a referral from DWS, and was attending the training on a scholarship from the contractor. The mother should not have been included in the attendance and billing. DWS was reimbursed by the contractor as documented on invoice #1402, dated 4/28/2009. This error was reviewed with the contract specialist to improve

future reviews of payments made to outside contracts to ensure accurate payments are being made.

The 2009 TANF findings will be reviewed at the CBT Supervisors and Financial Program Specialists bi-monthly meeting. We will prepare and discuss the findings in a Financial Tips document that will highlight the errors and help train staff on internal control weaknesses identified in the audit.

TANF case reviews (targeted) will be completed by the Eligibility Services Division, Performance Review Team to evaluate previously identified TANF issues. The Performance Review Team will be looking for improvement, trends, and potential hot spots. Any identified necessary corrective action will be handled through the Program and Training unit.

In summary, by specializing the TANF program and having bi-monthly meetings with the CBT Supervisors, we hope to achieve increased accuracy in the next audit.

Contact Person: Helen Thatcher, Assistant Director, (801) 526-4370
Anticipated Correction Date: July 1, 2010

5. **INACCURATE REPORTING OF PARTICIPATION HOURS** (Repeat Finding)

Federal Agency: **DHHS, ACF**
CFDA Number and Title: **93.558 Temporary Assistance for Needy Families (TANF)**
Federal Award Number: **G-0702UTTANF, G-0802UTTANF, G-0902UTTANF**
Questioned Costs: **$-0-**
Pass-through Entity: N/A

For 8 (24%) of the 34 cases tested, we noted discrepancies between the hours of participation reported on the ACF 199/ACF 209 reports for the quarter ended December 31, 2008 and the hours of actual participation. A discrepancy for 1 case resulted from a system error which incorrectly calculates countable holiday hours; 6 cases had reported participation hours that did not match the supporting documentation; and 1 case had both reported hours that did not match the supporting documentation and an error due to the system holiday calculation error. These errors in reporting participation hours ranged between 35 hours understated and 35 hours overstated during each month of the quarter ended December 31, 2008. Reports should be accurate and agree to supporting documentation. Because this is a reporting issue only, there are no questioned costs.

Recommendation:

We recommend that DWS properly report all client participation hours.

DWS Response:

We concur with the finding and recommendation. Each of the employment counselors who incorrectly entered participation hours will be contacted and will receive one-on-one training to prevent similar errors in the future. Furthermore, DWS will release policy in March 2010 to emphasize the importance of entering all verified participation hours.

Additionally, Programming for the reporting system has been updated to correctly calculate holiday and excused hours. These hours are only used if they will help the customer meet participation and if there is an actual entered record of 0 or more verified hours for a service. The quarter ending December 31, 2008 was not resubmitted, as there was no request from the federal TANF Administration to do so. Holiday and excused hours are now calculated correctly.

The 2009 TANF findings will be reviewed at the CBT Supervisors and Financial Program Specialists bi-monthly meeting. We will prepare and discuss the findings in a Financial Tips document that will highlight the errors and help train staff on internal control weaknesses identified in the audit.

Contact Person: Helen Thatcher, Assistant Director, (801) 526-4370
Anticipated Correction Date: June 30, 2010

6. **INACCURATE REPORTING OF CASE DATA** (TANF)

While performing testwork on the TANF ACF 199/ACF 209 report, we noted that 1 of the 5 cases tested was incorrectly coded as not exempt from the federal time limit (line 28) for the October – December 2008 quarter. According to the DWS Eligibility Manual, Section 281-2, if all parents residing in the household are SSI or SSDI recipients, the family is not limited to 36 months of TANF benefits. The head-of-house in this case is a SSDI recipient and, therefore, the family is exempt from the time limit. Reports should be accurate, agree to underlying documentation, and comply with established policies.

Recommendation:

We recommend that DWS establish or strengthen existing controls and edits over reporting to ensure reports are accurately prepared.

DWS Response:

We concur with the finding and recommendation. The coding on this case has been corrected and is no longer limited to 36 months of TANF benefits. Edits on errors sent from the TANF Administrators have been built into the programming to resolve common data issues, such as

the one in this finding. The programmer runs the edits in the week following the final data report. After these edits have been run, there is an additional set of edits performed by the business analyst. This ensures there are no data conflicts with federal reporting standards and allows for manual corrections to be included on cases with coding errors. The quarter ending December 31, 2008 was not resubmitted, as there was no request from the federal TANF Administration to do so.

Contact Person: Helen Thatcher, Assistant Director, (801) 526-4370
Correction Date: December 31, 2009

7. **INADEQUATE POLICIES AND PROCEDURES REGARDING RATES USED FOR REIMBURSEMENTS TO MEDICAL PROVIDERS** (TANF)

Medical providers are required to fill out a standardized form which provides medical information needed to evaluate a TANF client's ability to participate. This form indicates that payment will be made at Medicaid rates; however, DWS has no formal policies or procedures established to clarify whether they will pay medical providers based on rates in effect at the time of the service or those in effect upon receipt of the payment request. Use of improper rates may result in benefit underpayments and/or overpayments.

Recommendation:

We recommend that DWS establish policies and procedures to ensure that the appropriate rates are used and clearly communicated to medical providers.

DWS Response:

We concur with the finding. The DWS Form 22 will be updated so the instructions will read, "… will be reimbursed at Medicaid rates at time of receipt of this form..." to ensure that medical providers are informed they will be reimbursed at Medicaid rates for the time of receipt, not time of service. We believe that this revision should be adequate to address the issue and that the establishment of policies and procedures is not necessary.

The 2009 TANF findings will be reviewed at the CBT Supervisors and Financial Program Specialists bi-monthly meeting. We will prepare and discuss the findings in a Financial Tips document that will highlight the errors and help train staff on internal control weaknesses identified in the audit.

Contact Person: Helen Thatcher, Assistant Director, (801) 526-4370
Anticipated Correction Date: June 30, 2010

CHILD CARE CLUSTER

8. **INTERNAL CONTROL WEAKNESSES AND NONCOMPLIANCE**
(Repeat Finding)

Federal Agency: **DHHS**
CFDA Numbers and Titles: **93.596 Child Care and Development Fund (CCDF)**
Federal Award Numbers: **G-0701UTCCDF, G-0801UTCCDF, G-0901UTCCDF**
Questioned Costs: **$1,263**
Pass-through Entity: N/A

We tested expenditures of the Child Care and Development Fund (CCDF) by reviewing the case files for a sample of 40 Child Care payments, totaling $18,718 from a population of approximately $30 million. Of the $18,718 of Child Care payments tested, a total of $358 (1.9%) were potentially overpaid. Additional payments in fiscal year 2009 relating to the sample payments, totaling $905, were also potentially overpaid. The total of all potential overpayments was $1,263.

a. Untimely Verification of License Exempt Provider

For 1 (2.5%) of the 40 cases tested, the child lived in the same home as the child care provider which is not allowed per Child Care Manual policy 625-7. An exception to that rule in the Child Care Manual policy 625-4 states, "License exempt private home providers, who are not eligible providers due to living arrangements or not meeting relationship criteria, may be approved in the following situations: To accommodate a special needs child." The caseworker did not request verification during the review period in September 2008 to verify that the child met the definition of a child with special needs as required by Child Care Manual policy 210-7A. However, the caseworker did obtain the required documentation in December 2008. Therefore, since we were able to determine the child met the special needs requirement and was eligible for the child care benefit, we are not questioning any costs associated with this case.

b. Incorrect Eligibility Data Input into PACMIS

For 2 (5%) of the 40 cases tested, the child was attending school during the day but was not coded as attending school in the PACMIS system. This resulted in an overpayment in child care because the child care payments exceeded the monthly local market rate (MLMR) per the Child Care Manual policy 620-1 and Table 3 for a child attending school. As a result, the costs above the maximum monthly amount allowed, totaling $822, were paid in error. We have questioned these costs.

c. Income Exceeded Child Care Limits

For 1 (2.5%) of the 40 cases tested, the income of the mother and father exceeded the income limits for child care need. The caseworker used an employer statement to estimate the father's income. However, pay stubs were available and should have been used in the best estimate of future child care need. Per DWS policy 450, caseworkers should "Verify a minimum of the past 30 days earned income of an ongoing job, up to the date of application or the date the review is submitted." As a result of this error, the costs for November 2008, totaling $186, were paid in error. We have questioned these costs.

d. Child Care Payment Exceeded the Maximum Amount

For 2 (5%) of the 40 cases tested, the child care payments made to the providers exceeded the child care need as determined by the Child Care Manual policy 620-1 and Table 3. This occurred because the child care hours entered into PACMIS by the caseworker were higher than the hours requested by the client. This resulted in an overpayment of child care totaling $130. We have questioned these costs.

e. Required Co-pay Amount Not Withheld

For 1 (2.5%) of the 40 cases tested, the participant was not charged a co-pay amount for the months of March through June 2008. Per the Child Care Manual policy 620-3, participants are required to make co-pays based on their income and household size unless they are receiving FEP or have received FEP within the last three months. Not withholding the co-pay amount resulted in an overpayment of $76. We have questioned these costs.

f. Incorrect Hours Used for Employment

For 2 (5%) of the 40 cases tested, the hours of employment entered into PACMIS were less than the actual hours worked. This occurred because the caseworker used the wrong information when calculating a best estimate of income for the month. Per the DWS Policy Manual section 450, "The best estimate of income is based on the income that is expected to be received in each month of the eligibility period… . Verify a minimum of the past 30 days earned income of an ongoing job, up to the date of application or the date the review is submitted." This resulted in an overpayment of $49 for the month of August 2008. We have questioned those costs.

g. Incorrect Information Input into PACMIS

For 2 (5%) of the 40 cases tested, the birthdays of the children were entered wrong into PACMIS. The child care payment is based upon the age of the child, and entering the wrong birthday could result in an overpayment to the provider. We determined that these errors did not result in an overpayment.

Recommendation:

We recommend that DWS implement adequate internal controls to effectively administer Child Care program benefits in compliance with all applicable laws, compliance requirements, and established policies and procedures.

DWS Response:

We concur with the findings and recommendation. Effective June 22, 2009, DWS formed the ESD (Eligibility Services Division). Each case that was reviewed during this audit occurred before the new division was created. As part of the new division, DWS has specialized the programs we administer and there are currently 13 Community Based Teams (CBT) that specialize in financial programs, including the Child Care assistance program. Through specializing, workers have an expert knowledge of Child Care policy, which will lead to an increase in overall accuracy. In addition to the Community Based Teams, ESD hired two Child Care Program Specialists to work specifically with the teams on their training needs and policy clarifications.

The 2009 Child Care findings will be reviewed at the CBT Supervisors and CC Program Specialists bi-monthly meeting. We will prepare and discuss the findings in a Child Care Tips document that will highlight the errors and help train staff on internal control weaknesses identified in the audit.

Child Care case reviews (targeted) will be completed by the Eligibility Services Division, Performance Review Team, to evaluate identified Child Care issues. The Performance Review Team will be looking for improvement, trends, and potential hot spots. Any identified necessary corrective action will be handled through the Program and Training group.

In summary, by specializing the Child Care program and having bi-monthly meetings with the CBT Supervisors, we hope to achieve increased accuracy in the next audit.

Contact Person: Lynette Rasmussen, Office of Work and Family Life Director, (801) 468-0042
Anticipated Correction Date: June 30, 2010

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

WORKFORCE INVESTMENT ACT (WIA)

9. **INTERNAL CONTROL WEAKNESSES AND NONCOMPLIANCE**
(Repeat Finding)

Federal Agency: **DOL**
CFDA Numbers and Titles: **1) 17.258 WIA Adult Program**
2) 17.259 WIA Youth Activities
3) 17.260 WIA Dislocated Workers
Federal Award Numbers: **Various**
Questioned Costs: **1) $3,611 2) $6,900 3) $9,456**
Pass-through Entity: N/A

We tested benefit expenditures of the Workforce Investment Act (WIA) by selecting a sample of 33 benefit payments from 33 cases, totaling $30,698, from a population of approximately $5.036 million. Of the WIA benefit payments tested, we questioned a total of $5,550 (18.08%). We also questioned additional payments made in State fiscal years 2008, 2009, and 2010 related to the sample cases tested totaling $1,251, $12,605, and $561, respectively. The total of all questioned costs is $19,967.

a. Inappropriate Use of Supportive Services Funds

Of the 33 cases tested, we noted 3 cases where WIA supportive services funds were expended inappropriately.

1) For one case, the employment counselor authorized WIA supportive services funds for furnace repair and furnace replacement in a participant's home which are not allowable supportive services expenditures per federal regulations (20 CFR 663.800). Because the furnace repair and furnace replacement are not allowable supportive service expenditures, we have questioned both expenditures, totaling $1,960.

2) For one case, supportive services funds were used by the participant to pay for training. Per the DWS Employment and Business Services Manual (EBSM) §1250(A)(6), supportive services dollars should not be used to meet training/training provider requirements; therefore, we have questioned $142 in supportive services funds spent for training.

3) For one case, the employment counselor selected the highest of three bids obtained for a certain WIA supportive services expenditure, resulting in authorization of $262 more than what is considered a "reasonable expense required for participation" (EBSM §1250(2)). We did not question any costs for this error because all WIA funds expended on behalf of this participant were questioned in part e. below.

b. Participant Not Eligible

Of the 33 cases tested, we noted 2 cases where the participants' income exceeded the income eligibility guidelines established by DWS. Because the participants did not meet applicable eligibility requirements, we have questioned all costs associated with these cases, totaling $6,227.

c. Lack of Reconciliation to Determine Whether WIA Funds were Expended for Allowable Activities

Of the 33 cases tested, we noted 6 cases where the employment counselor did not obtain and reconcile receipts for purchases made by participants using WIA funds to verify allowable expenditures in accordance with EBSM §910(A)(2)(d). As a result, we were unable to determine whether the WIA funds were expended for allowable activities; therefore, we have questioned the sample benefit payments we selected for these 6 cases, totaling $374. During our review of the sample benefit payments selected for these 6 cases, we noted additional purchases made by the participants, totaling $1,298, for which receipts were not obtained and reconciled by the employment counselor and we have also questioned those purchases. The total of all questioned costs for these cases is $1,672.

d. Lack of Compliance with the Military Selective Service Act

Of the 33 cases tested, we noted 1 case where the participant did not submit to registration under the Military Selective Service Act as required by 29 USC 2939(h). Because compliance with Selective Service registration requirements should have occurred before the employment counselor authorized the expenditure of WIA funds by this participant, we have questioned all costs associated with this case, totaling $3,080. We also noted 1 case where the employment counselor did not verify in a timely manner the Selective Service registration for a WIA Youth participant who reached the age of 18 while enrolled in WIA (EBSM §720-4). Not verifying compliance with the Military Selective Service Act could result in ineligible costs being charged to the grant. We have not questioned any costs associated with this case because no WIA funds were expended on behalf of this participant between the time the participant reached the age of 18 and the date he registered for Selective Service.

e. Evidence of Financial Aid Status Not Obtained

Of 33 cases tested, we noted 3 cases where the employment counselor either did not obtain evidence of participants' financial aid status or did not obtain it in a timely manner in accordance with EBSM §710-4(2)(a). Not obtaining evidence of participants' financial aid status could result in ineligible costs being charged to the grant. For 1 of the 3 cases, the participant did not initially apply for financial aid for more than 10 months after enrolling in WIA. After receiving a Pell grant, the participant spent the funds received to pay bills

and to pay back a loan while the employment counselor continued to authorize supportive services expenditures for the participant using WIA funds. Because WIA funds should supplement, not supplant, other sources of training grants (20 CFR 663.320), we have questioned all WIA payments associated with this case that supplanted other sources of funds, totaling $2,696. For the other 2 cases, we were able to determine that 1 participant was not eligible to receive financial aid and we have questioned costs for WIA funds expended on behalf of the other participant in part c. above.

f. Necessary vs. Unnecessary Financial Needs Not Defined

The EBSM does not clearly define what constitutes a financial need. As a result, we noted 1 of the 33 cases tested where the employment counselor included various expenses as financial needs even though the expenses appear to be discretionary household expenses. In addition, we noted 1 case where a certain expense appears to be inflated to show that a financial need exists and 1 case where all available household resources were not considered by the employment counselor. Finally, we noted 1 additional case where the participant's household resources exceeded expenses and the employment counselor did not justify why the participant has an unmet need. For this case, there appears to be no need for WIA funding; therefore, we have questioned all costs associated with this case, totaling $3,975. In accordance with EBSM §605-3(A)(4)(b), employment counselors "…calculate all resources and expenses" and "use DWS funds to cover unmet need." Funding is not to be provided when the same support is available through other resources, including personal or family financial resources. Not clearly defining what constitutes a financial need could result in WIA funds being expended when other resources are available.

g. Incorrect Stipend Rate Paid for Summer Youth Employment Opportunity

Of the 33 cases tested, we noted 2 cases where the employment counselor paid the incorrect Summer Youth Employment Opportunity (SYEO) stipend rate. In accordance with EBSM §1105-2(B), participants participating in an SYEO receive a training stipend which is equal to 80% of the wage for an equivalent position, but not less than the federal minimum wage. Not paying the correct stipend rate could result in ineligible costs being charged to the grant. We have questioned the amount of WIA Youth funds which were expended above the allowable SYEO training stipend for these cases, totaling $165.

h. Inadequate Monitoring

Of the 33 cases tested, we noted 5 cases which were not adequately monitored by the employment counselor or for which the employment counselor did not take appropriate action as a result of identifying participants not meeting performance expectations during monitoring activities. In accordance with EBSM §820(4), employment counselors must perform activities to confirm, substantiate, document, and/or verify participant success at

least once every 4 months. If the participant does not meet the performance expectations of a negotiated service activity or task in the Employment Plan, employment counselors should not continue to expend program dollars on service activities or tasks (EBSM §835-7). Inadequate monitoring could result in ineligible costs being charged to the grant. For 4 of the 5 cases, we have not questioned any costs because we were able to determine that the participants were still eligible. However, for 1 of the 5 cases we have questioned all WIA expenditures made on behalf of the participant for the 2 months where WIA expenditures were authorized even though the employment counselor knew that the participant did not meet minimum participation expectations, totaling $50.

i. Lack of Documentation of Compliance with Policy

Of the 33 cases tested, we noted 1 case where training funds totaling $6,936 were paid on behalf of the participant but there was no supervisory approval justifying the excess over $6,000. EBSM §900(2) in effect on the date the funds were obligated indicates that training funds are limited to $6,000 per exposure unless waived by a supervisor. Because the $6,000 limit was set by DWS, not by federal regulations, and because all costs appear to have been expended for allowable activities, we have not questioned any costs for this case.

j. Lack of Required Forms, Required Data Not on Forms, or Required Forms Not Completed Timely

Of the 33 cases tested, we noted 5 cases where certain forms, required by DWS policy to be completed, were either missing, incomplete, or not completed timely. However, since the completion of these forms does not affect eligibility of WIA participants, we have not questioned any costs associated with these cases.

Recommendation:

We recommend that DWS implement adequate internal controls to effectively administer WIA program benefits in compliance with all applicable laws, compliance requirements, and established policies and procedures.

DWS Response:

We concur with the finding. Operation Support Division (OSD) has identified the regions and case workers connected to each case with questioned costs. The findings will be discussed with the Program Management Steering Team. The regions will be responsible to ensure that each worker receives training covering the policy and procedure that corresponds to the error in the case. The case worker's direct supervisor will ensure the identified staff receive the training and will be responsible to send an email to OSD verifying that the training has been completed, including the employee's name, the policy trained on and the date and time of the training. In

addition, the Department is in the process of developing a team for program and compliance reviews with an anticipated implementation date of July 1, 2010.

Contact Person: Helen Thatcher, Assistant Director, (801) 526-4370
Anticipated Correction Date: July 1, 2010

10. **IMPROPER DRAWDOWNS OF FEDERAL FUNDS**

Federal Agency: **DOL**
CFDA Numbers and Titles: **1) 17.258 WIA Adult Program**
2) 17.259 WIA Youth Activities
3) 17.260 WIA Dislocated Workers
Federal Award Numbers: **Various**
Questioned Costs: **N/A**
Pass-through Entity: N/A

While examining supporting documentation related to the draw down of federal funds for the WIA grant we noted that two draws were not calculated correctly. One draw was the result of an excel spreadsheet formula error which understated year-to-date WIA revenue and, therefore, overdrew the grant by $434,643. The second draw was the result of double counting year-to-date revenue for three program codes resulting in an underdraw of $346,911. Inappropriate draws results in noncompliance with federal regulations. We have not questioned any costs associated with these draws because the errors were subsequently corrected in later draws.

Recommendation:

We recommend that DWS exercise greater care in preparing WIA draws to ensure that the agency draws the proper amount.

DWS Response:

The errors were detected prior to the audit and the corrections and adjustment were made during the next federal draw. Our current process insures that if a mistake has been made on a monthly draw, it will be detected and corrected the following month. In addition, a copy of the pivot table will be included with the backup and the calculations will be reviewed and verified to ensure proper amounts are drawn.

Contact Person: William J. Greer, CFO/Director of Administrative Support Division, (801) 526-9402
Correction Date: February 3, 2010

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GENERAL

11. **INADEQUATE INTERNAL CONTROLS OVER FINANCIAL REPORTING**
(Repeat Finding)

Federal Agency: N/A
CFDA Number and Title: N/A
Federal Award Number: N/A
Questioned Costs: N/A
Pass-through Entity: N/A

DWS did not have adequate internal controls to ensure that financial information for the Unemployment Compensation Fund (UCF) was properly prepared in accordance with generally accepted accounting principles. As a result, the following significant audit adjustments were required to properly present DWS' financial position in the State's basic financial statements. The adjustments proposed were as follows:

- The Accounts Payable and Accrued Liabilities were reduced by $1,571,434 and the Due To Other Funds was increased by the same amount due to inaccurate reporting of State income tax withholdings payable.
- The Accounts Receivable and Liabilities accounts related to penalties and interest benefit overpayment accounts should be reduced by $1,285,620 to reflect the actual detail amounts recorded in the subsidiary ledger.

Management is responsible for the preparation and accuracy of DWS' financial reporting and for establishing internal controls and procedures to accurately capture and record transactions.

Recommendation:

We recommend that DWS establish internal controls to ensure that financial reporting reflects DWS' financial position, results of operations, cash flows, and disclosures in conformity with generally accepted accounting principles.

DWS Response:

The findings cited were reviewed by a team from the Department's operational accounting team and the budget team. It appears that the problem with the Accounts Payable and Accrued Liabilities came during the conversion from the computer system CATS III to the upgraded system CATS IV. Separate accounting streams were consolidated into one item and reported when they should have been reported separately. We have updated the accounting strings to prevent this problem in the future.

The second part of this finding regarding the Accounts Receivable and Liabilities accounts is also related to the transition of data between the CUBS and CATS systems. A financial manager has been assigned to review the accounting strings, review system controls and recommend policy and procedure changes where necessary.

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Anticipated Correction Date: July 1, 2010