



DEPARTMENT OF WORKFORCE SERVICES

Single Audit Management Letter
For the Year Ended June 30, 2012

Report No. 12-23

*Keeping Utah
Financially Strong*

AUSTON G. JOHNSON, CPA
UTAH STATE AUDITOR



Auston G. Johnson, CPA
UTAH STATE AUDITOR

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MANAGEMENT LETTER NO. 12-23

October 25, 2012

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

Dear Mr. Pierpont:

We have completed our audit of the basic financial statements of the State of Utah as of and for the year ended June 30, 2012 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 October 19, 2012, is 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, 2012. Our report on the statewide federal compliance audit for the year ended June 30, 2012 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)
Community Development Block Grant (CDBG)
Weatherization Assistance for Low-Income Persons

In planning and performing our audit of the financial statements of the State of Utah, we considered DWS' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of DWS' internal control over financial reporting. Additionally, in planning and performing our audit of the federal programs listed above, we

considered DWS' compliance with the applicable types of compliance requirements as described in the OMB Circular A-133 Compliance Supplement for the year ended June 30, 2012. We also considered DWS' 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 our auditing procedures 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' 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting or compliance that we consider to be material weaknesses and other deficiencies that we consider to be 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 detect and correct misstatements of the State's financial statements or noncompliance with a type of compliance requirement of a federal program on a timely basis. 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' 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.

This communication is intended solely for the information and use of DWS' management and the Utah State Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

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 call Stan Godfrey, Audit Director, at (801) 538-1356.

Sincerely,



Auston G. Johnson, CPA
Utah State Auditor

cc: Greg Gardner, Deputy Director
James Whitaker, Assistant Deputy Director
LeAnn Hatfield, Director of Internal Audit
Bill Starks, Director, Unemployment Insurance Division
John Talcott, Director, Administrative Support Division
Lynette Rasmussen, Director, Office of Child Care
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Karla Aguirre, Associate Director, Workforce Development Division
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Keith Heaton, Program Manager, Housing and Community Development Division
Matthew Turner, Program Manager, Housing and Community Development Division
Sue Kolthoff, Program Manager, Housing and Community Development Division

DEPARTMENT OF WORKFORCE SERVICES

FOR THE YEAR ENDED JUNE 30, 2012

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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

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FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2012

GENERAL

1. INADEQUATE INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Department of Workforce Services (DWS) does not have adequate internal controls to ensure that financial information for the Unemployment Compensation Fund (UCF) is properly prepared in accordance with generally accepted accounting principles. In addition, DWS Operational Accounting personnel with responsibility to classify UCF accounts receivable as current or noncurrent and prepare the associated allowance for doubtful accounts lack sufficient knowledge and training to prepare the required financial information in accordance with generally accepted accounting principles. As a result, two material adjustments were required to properly present the UCF's financial position in the State's basic financial statements.

Management is responsible for the preparation and accuracy of financial reporting for the UCF, establishing internal controls and procedures to accurately capture and record transactions, and ensuring personnel preparing the financial information have sufficient knowledge and training.

Recommendation:

We recommend that DWS strengthen existing controls to ensure that financial reporting reflects UCF's financial position, results of operations, cash flows, and disclosures in conformity with generally accepted accounting principles. We also recommend that DWS ensure personnel involved in preparing financial information have sufficient knowledge and training to prepare the necessary financial information in accordance with these principles.

DWS' Response:

We agree with the finding. The Operational Accounting personnel responsible for preparing the UCF accounts receivable as current and noncurrent and applying the associated allowance will work with State Finance, the State Auditor's Office, and Internal Audit to gain the necessary understanding of the requirements for accurately preparing the required financial information in accordance with generally accepted accounting principles.

In order to understand the methodology for determining current and noncurrent accounts receivable and calculating an allowance rate that meets the standards for financial reporting, the responsible Operational Accounting personnel will take the following steps:

- *Recalculate the numbers for FY 2012 using the State Auditor's methodology.*
- *Analyze FY 2011 data using the FY 2012 methodology.*
- *Compare the FY 2011 data to the FY 2012 data and evaluate for consistency and reasonableness.*

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- *Request accounts receivable data for FY 2010 benefit overpayments and FY10 through FY12 of the Special Administrative Expense Account (formerly known as the Special Admin Fund (SAF)).*
- *Identify any anticipated changes that could significantly impact UCF accounts receivables.*
- *Use an accepted methodology, as agreed to by State Finance and the State Auditors, for determining the current and noncurrent accounts receivable breakout classification.*
- *Use a two-year history (three-years, if we are able to obtain the FY 2010 data from MIS) to calculate the allowance rate.*
- *Apply the allowance rate to both the actual accounts receivable for benefit overpayments and Special Administrative Expense Account (formerly known as the Special Admin Fund).*

*Contact Persons: John Talcott, Administrative Support Division Director, 801-526-9402
Mitch Romo, Accounting and Payroll Manager, 801-526-9221*

Anticipated Correction Date: November 30, 2012

CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP)

2. INCORRECT ELIGIBILITY AND INCOME DETERMINATIONS

Federal Agency: **DHHS**

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

Federal Award Number: **5-1105UT5021**

Questioned Costs: **\$5,215**

Pass-through Entity: N/A

We reviewed the eligibility determination and documentation process for 60 Children's Health Insurance Program (CHIP) payments. We noted internal control weaknesses and noncompliance for 12 (20%) cases related to the 60 payments as described below. Three (5.0%) of the 60 payments, totaling \$65 (federal and state portions), were considered unallowable due to incorrect eligibility decisions. The 60 CHIP payments tested totaled \$4,427 and were taken from a total population of \$70,610,018 (federal and state portions). During our testwork we noted other noncompliance associated with the CHIP cases included in our sample. As a result of the incorrect eligibility decisions and other noncompliance issues, we have questioned the federal portion of costs associated with the errors identified for these cases: \$3,193 for federal fiscal year 2012 and \$2,022 for federal fiscal year 2011.

a. Incorrect Eligibility Decisions

For two cases, the caseworker placed children on CHIP even though they were eligible for Medicaid Child Age 0-5. According to CHIP policy 201, a child who is eligible for Medicaid is not eligible for CHIP; therefore, we have questioned all costs for these cases

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FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2012

during the time the children were eligible for Medicaid, totaling \$2,666. The cause of these errors appears to be that the caseworker did not properly consider Medicaid eligibility.

b. Improper Eligibility Review

For one case, because a change of income was reported during the 12 months prior to the February 2012 review, the review should have included income verification, per CHIP Policy 704. However, only a simple review form, which does not ask for verification of the household income, was sent for the February 2012 review. If a mandatory review form had been sent as required, it would have noted a household income that exceeded the CHIP limits. In addition, the client reported a change in income during the second month of the certification period (March 2012) which was calculated to be above the CHIP income limits. Although CHIP eligibility is normally determined only once per year, CHIP Policy 704-1, states that if income changes that make the household ineligible are received too late to correct the first month of the new certification period, the change should be made in the second month, if possible. These errors resulted in the household being placed on CHIP when it was not eligible. We have questioned the costs associated with this case during the time the household was ineligible less the premiums paid by the household to be on the program, totaling \$380. The cause of this error appears to be caseworker misunderstanding of CHIP policy for eligibility reviews when income changes are reported.

c. Available Employer Insurance Not Considered

For one case, the household remained on CHIP even after the child had access to employer-offered health insurance with a cost less than 5% of the household's gross countable income. Per CHIP policy 220-4, if an applicant has had at least one chance to enroll their child in any health insurance plan offered by an employer that is less than 5% of their household's gross countable income, the child is not eligible for CHIP. When an employer's insurance is available, the case should be closed when the current certification period ends. We have questioned the costs associated with this case during the new certification period less premiums paid by the household, totaling \$598. The cause of this error appears to be failure by the caseworker to consider available employer insurance.

d. Income Calculation Errors

1) For one case, earned income was calculated incorrectly because the caseworker did not use the correct number of expected weekly hours of a new job. Per CHIP Policy 415-1, income eligibility should be determined by establishing a "best estimate" of expected income. If the reasonable best estimate income had been calculated using the correct expected weekly hours, one child in the household would have been eligible for Medicaid Child Age 0-5 instead of CHIP. We have questioned the costs related to the ineligible child less premiums paid by the household, totaling \$1,379.

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- 2) For two cases in the same household, the household's self-employment income was not calculated in accordance with CHIP Policy 410-2. This error caused the household to be placed on the incorrect CHIP plan, with a lower premium than the plan for which the household was eligible. We have questioned the costs for the premiums the household should have paid, totaling \$96.
- 3) For two cases, best estimates of monthly income were calculated incorrectly because the caseworker did not factor income in accordance with CHIP policy 415-4. These errors caused the households to be placed on the incorrect CHIP plan. Because one of the households was on a CHIP plan with a lower premium than the plan for which the household was eligible, we have questioned the costs for the premiums the household should have paid, totaling \$96.
- 4) For two cases, best estimates of monthly income were calculated incorrectly because the case worker did not annualize unemployment income or seasonal income as required by CHIP policy 415-1. These errors resulted in the households being placed on the incorrect CHIP plan. Because the households for these cases paid more in premiums than required had they been on the correct CHIP plan, we have not questioned any costs associated with these errors.
- 5) For one case, the caseworker did not follow CHIP policy 415-3 to establish a reasonable best estimate of household income. After we brought this case to the Department's attention, a different reasonable best estimate income was provided. Because the household was eligible for the same CHIP plan under the new calculation, we have not questioned any costs associated with this error.

The cause of these income calculation errors appears to be caseworker misunderstanding of policies regarding best estimate income calculations, as well as human error.

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

Recommendation:

We recommend that DWS work with the Department of Health to strengthen internal controls, provide employee training, and ensure that eligibility decisions are appropriate by ensuring DWS eligibility specialists:

- a. **Understand and apply both Medicaid and CHIP eligibility policies during the CHIP application and/or review process.**
- b. **Understand CHIP policy for eligibility reviews when income changes are reported.**

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FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2012

- c. Consider available employer insurance.**
- d. Properly calculate household monthly income.**

DWS' Response:

We agree with the finding and recommendation. Currently, DWS is participating with the Utah Department of Health (DOH) in a data mining effort designed to look at problem areas as identified by various audits and internal case reviews. Training has been designed for staff to address the issues identified. New training modules based on best estimates, annualized income, reviews, and information gathering have been developed and will be delivered to all CHIP teams by the end of the fiscal year. Case specific examples will be used to train staff in problem areas. Supervisors as well as staff will participate in the training and will continue to have access to training materials and resources so ongoing instruction can be given regularly.

The data mining efforts between DWS and DOH also produced a list of system related issues that were causing errors on cases. One such error was the system failing to identify the need for a mandatory renewal when income was reported. This issue was swiftly corrected and will allow for the appropriate type of review to be sent following an income change report.

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

Targeted training support needs are identified monthly 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.

The efforts listed above will continue throughout the end of the performance year and are expected to generate continued improvement.

*Contact Person: Kevin Burt, Associate Director, 801-597-3907
Anticipated Correction Date: June 30, 2013*

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2012

WORKFORCE INVESTMENT ACT (WIA) CLUSTER

3. ELIGIBILITY ERRORS AND UNALLOWABLE ACTIVITIES

Federal Agency: **DOL**

CFDA Numbers and Titles: 1) **17.258 WIA Adult Program**
2) **17.259 WIA Youth Activities**
3) **17.278 WIA Dislocated Workers**
4) **17.260 WIA Dislocated Workers – ARRA**

Federal Award Numbers: **various**

Questioned Costs: 1) **\$4,138** 2) **\$9,872** 3) **\$4,049** 4) **\$1,554** = **\$19,613**

Pass-through Entity: N/A

We tested benefit expenditures of the Workforce Investment Act (WIA) Cluster at DWS by selecting a sample of 40 benefit payments, totaling \$18,147, related to 39 cases, taken from a total population of \$7,091,425. Of the 40 WIA benefit payments tested, we questioned a total of \$2,324 (12.8%). We also questioned additional payments made in State fiscal years 2011 and 2012 related to the sample cases tested totaling \$4,248 and \$13,041, respectively. The total of all costs questioned is \$19,613. We noted at least one error in 23 (59%) of the 39 sample cases tested; certain cases had multiple errors.

a. Participant Not Eligible

For one case, the WIA Youth participant's income exceeded the applicable WIA income guidelines. The error occurred because the employment counselor did not collect acceptable documents at eligibility to verify the participant's income in accordance with the DWS Workforce Development Division Policy Manual (WDDPM) §720-5. We have questioned all costs associated with this case, totaling \$2,467.

b. Nonexistent or Undocumented Reconciliation to Determine Allowable WIA Activities

For four cases, employment counselors did not obtain and reconcile receipts for certain purchases made by WIA Youth and WIA Adult participants using WIA funds to verify allowable expenditures in accordance with WDDPM §910. As a result, we were unable to determine whether WIA funds were expended for allowable activities. The required reconciliations did not occur due to the employment counselor not having sufficient time to complete required reconciliations for one case, the employment counselor not being aware of proper reconciliation procedures for one case, and lack of follow-through by the employment counselor for two cases. We have questioned the amount of WIA funds expended for which receipts were not obtained and reconciled by employment counselors, totaling \$1,590. In addition, for certain purchases made by participants in one of the four cases and one additional case, the employment counselors obtained and reconciled receipts but did not properly document the reconciliation in the case record.

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c. Lack of Compliance with Military Selective Service Act

For one case, the employment counselor did not follow the procedures in WDDPM §720-4 to ensure that a WIA Youth participant who reached the age of 18 while enrolled in WIA submitted to Selective Service registration. If a male WIA Youth participant turns 18 after eligibility is determined, he must submit to Selective Service registration as a condition of ongoing eligibility per federal regulations (29 USC 2939(h)). The error occurred due to employment counselor oversight. The employment counselor should have set a task to withhold benefits until such time that the participant's registration occurred. Not verifying that the participant had complied with the Military Selective Service Act resulted in unallowable costs being charged to the grant. We have questioned WIA funds expended on behalf of this participant during the period of time after the participant reached the age of 18 and before he submitted to Selective Service registration, totaling \$1,936.

d. Verification of Other Grant Assistance Not Obtained or Properly Considered

- For one case, the employment counselor did not obtain documentation to verify whether the WIA Dislocated Worker participant was eligible for a Federal Pell Grant and/or assistance from other sources or programs to pay the cost of training and/or supportive services. A participant enrolling in a training program that qualifies for financial aid must apply for the aid annually and must provide information regarding financial aid status upon determination (WDDPM §605-4). The participant's financial aid status was not verified due to employment counselor oversight. We determined that the participant received a Federal Pell Grant and a Federal Supplemental Educational Opportunity Grant (FSEOG) and did not require WIA assistance in addition to these grants.
- For one case, the employment counselor verified the WIA Dislocated Worker participant's Federal Pell Grant and FSEOG, but did not properly consider them when performing a financial needs assessment for the participant. As a result, the amount of WIA Dislocated Worker funds obligated for the case by the employment counselor does not appear to be justified since the participant did not require WIA assistance in addition to their Pell Grant and FSEOG. Employment counselors must obligate to the nearest dollar determined to meet the training and/or supportive services need and should not obligate the maximum amount available if the training or supportive services need does not justify that amount. The case record should justify the need (WDDPM §900(A)(3)).

For both cases, not obtaining evidence of participants' financial aid status and not considering all available assistance from other sources or programs resulted in the employment counselors using WIA Dislocated Worker funds to pay for training, training-related services and supplies, and supportive services for the participants when Federal Pell Grant and FSEOG funds should have been used for these expenses. Because WIA funds should supplement, not supplant, other sources of training and supportive services funds

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(29 USC §§2864(d)(4)(B), 2864(e)(2)), we have questioned all WIA funds expended for these cases that supplanted other sources of funds, totaling \$5,603.

e. Inappropriate Use of WIA Supportive Services Funds

For one case, the employment counselor authorized WIA supportive services funds for a WIA Youth participant in the amount of \$823 even though documentation obtained by the employment counselor showed that the supportive services expense was \$300. The amount expended which exceeded the documented expense, totaling \$523, is not considered a reasonable supportive services expense (WDDPM §1205), and we have questioned this cost. The employment counselor is no longer employed by DWS, so it is not known why this error occurred.

f. Excessive or Unallowable Youth Incentive Bonuses

For three cases, employment counselors issued numerous incentive bonuses to WIA Youth participants in amounts which exceeded dollar amounts authorized in the DWS Youth Incentive Plan (WDDPM §805-6(A)(1)(e) and §900(C)(1)). In addition, for one of the three cases, an incentive bonus was issued for an activity that is not included in the Youth Incentive Plan; for another one of the three cases, an incentive bonus was issued to a participant twice for the same activity. The errors occurred due to employment counselors not using the current Youth Incentive Plan when negotiating participants' incentive bonuses and due to employment counselor error. We have questioned the WIA Youth funds expended on behalf of these participants for youth incentive bonuses issued in excess of the authorized dollar amounts, totaling \$960.

For two additional cases, employment counselors issued incentive bonuses to WIA Youth participants to recognize achievement which occurred prior to the participants' enrollment in WIA. Because the participants' achievement occurred prior to their enrollment in WIA, 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 \$150.

g. Participants' Unmet Need Not Established

For one case, the case record indicates that the WIA Youth participant's monthly household resources exceeded monthly expenses by amounts ranging from \$80 to \$162 per month for three months. Thus, it appears that the participant's financial resources would have covered the participant's expenses for supportive services authorized by the employment counselor during those months. Employment counselors are to calculate participants' resources and expenses and use supportive services funds to cover unmet supportive services need (WDDPM §1250(A)(3)). Funding is not to be provided when support is available through other resources, including personal or family financial resources. The employment

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counselor documented in the case record that there was unmet supportive services need for each of three months, but the financial needs assessment for the months does not appear to support that conclusion. Therefore, we have questioned the WIA Youth funds expended for this participant's supportive services during these months, totaling \$240.

h. Internship Placement Error, On-the-Job Training Extended Beyond End Date, and Incorrect Hours Paid for Internships

For one case, the employment counselor placed a WIA Adult participant in a paid internship in an unapproved occupation and without ensuring that the participant met the required placement criteria. At the time the placement occurred, WIA Adult paid internships were appropriate for participants who (1) had recently completed training in a specific occupation but needed work experience in that field to obtain employment, (2) needed an externship, or (3) were laid off workers, changing careers and needing experience in a new field in order to obtain employment (WDDPM §1105-5(B)(3)(a)-(c)). In addition, WIA Adult paid internship participants were to be placed in an occupation on the DWS Training Occupations Listing (WDDPM §1105-5(B)(5)). The employment counselor is no longer employed by DWS, so it is not known why this error occurred. We have questioned all WIA funds expended for this participant's paid internship, totaling \$3,987.

For one case, the WIA Dislocated Worker participant's On-the-Job Training (OJT) extended beyond the original end date documented on the OJT Position Agreement (DWS Form 341PAID). The error occurred because the employment counselor obligated the maximum amount of funds available instead of the funds needed for the negotiated length of the OJT. As a result, the employment counselor did not realize that the OJT should have ended. Employment counselors must obligate to the nearest dollar determined to meet the training and/or supportive services need and should not obligate the maximum amount available if the training or supportive services need does not justify that amount (WDDPM §900(A)(3)). We have not questioned any costs for this error because the participant's OJT did not exceed the maximum time limit for OJTs and the total amount paid on behalf of the participant did not exceed the maximum obligation amount per exposure.

For three cases, employment counselors erred when calculating the number of hours participated in WIA Youth and WIA Adult paid internships. The miscalculations resulted in an aggregate underpayment to a WIA Youth participant and a WIA Adult participant totaling \$76 and an overpayment to a WIA Youth participant totaling \$29. We have questioned the amount overpaid.

i. Inadequate Monitoring

Employment counselors are required to perform activities to confirm, substantiate, document, and/or verify participant success at least once every 4 months (WDDPM §820); however, for one case, there were two occasions where 5 months elapsed between

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monitoring activities. In both instances, the employment counselor determined that the WIA Youth participant was meeting performance expectations of the negotiated activities in their employment plan even though documentation in the case record indicates that the participant was not satisfactorily participating. In addition, the participant's employment plan was not renegotiated as a result of the most recent monitoring. Monitoring ensures that the participant is pursuing the activities agreed upon and narrated in their employment plan (WDDPM §820). If the participant does not meet the performance expectations of a negotiated service activity or task in the employment plan, employment counselors should address the lack of performance with the participant and close the failed service/activity or renegotiate the employment plan in a timely manner (WDDPM §835-7). Untimely monitoring together with not taking appropriate action when participants fail to meet performance expectations could result in unallowable costs being charged to the grant. Since no WIA funds appear to have been spent for unallowable activities for this participant, we did not question any costs associated with the inadequate monitoring.

j. Required Supervisory Approval Not Obtained

For one case, the employment counselor modified an existing paid internship for a WIA Youth participant, extending the internship beyond 3 months without obtaining supervisory approval for the extension as required by WDDPM §1105-2(B)(3)(a). Paid internships are generally limited to 3 months; however, supervisors may approve internships for up to 3 additional months. For one additional case, the employment counselor established two paid internships for the WIA Youth participant for periods of 6 months each. Supervisory approval to extend the internships beyond the 3-month limit was not obtained at the time the paid internships were initially established because the employment counselor assumed that WIA Youth could participate in paid internships until the maximum funding limit was reached. We have questioned all WIA funds expended for these paid internships beyond the 3 month limit, totaling \$2,128.

For two cases, employment counselors authorized certain issuances of WIA supportive services and training-related services and supplies as "cash-unrestricted" without obtaining the supervisory approval required by WDDPM §910. The errors occurred due to employment counselor oversight. We did not question any costs associated with these errors because WIA funds expended on behalf of the participants were questioned in part b. above.

k. Service Priority Level Determination Error

For one case, the employment counselor indicated that the WIA Adult participant did not have transferrable skills but did not narrate in the case record how this determination was made (WDDPM §755). The "no transferrable skills" criterion is one of the components used by DWS to calculate the service priority level for participants (29 USC 2864(d)(4)(E) and 20 CFR 663.600). Not properly documenting the transferrable skills determination in the case record could result in incorrect calculation of participants' service priority level. The

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employment counselor is no longer employed by DWS, so it is not known why this error occurred. We did not question any costs associated with this error because all WIA funds expended on behalf of this participant were questioned in part h. above.

1. Missing, Incomplete, or Late Forms

For ten cases, certain forms required by DWS policy were either missing, lacked required data, or were not completed timely. The errors occurred for various reasons including employment counselors not being aware of applicable policy and employment counselor oversight. Since the completion of these forms did not affect eligibility of WIA participants, we did not question any costs associated with these errors.

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. Workforce Development Division (WDD) created the Program Review Team (PRT) to conduct program and compliance reviews. PRT began with full reviews starting in the late spring of 2011. PRT is completing compliance reviews of 10 percent of total caseloads when eligibility is determined. Review of the cases allows errors to be caught and corrected before funding is issued. Spot compliance reviews are also completed. The results of the audit were shared with PRT with emphasis on the findings and we will evaluate our review tool to better align with audit issues. WDD anticipates that the compliance reviews will continue to reduce the amount of findings in the future.

In addition, the findings were shared with each Service Area Director, Supervisor, and the impacted Employment Counselor. Each Employment Counselor received training and created a corrective action plan to ensure that the error was not repeated. State staff conducted training via Secure Meeting with the ESA's during September and October and will follow up with office visits in the spring.

On December 3, 2012 the Department will implement the UCard for Employment and Training programs, including the WIA programs. The reconciliation process will be changed with this implementation. The case management system, UWORKS, will be programmed to support reconciliation more efficiently. Employment Counselors will be able to identify non-acceptable expenditures. These non-acceptable expenditures will be deducted from future authorizations for the customer. Also, if expenditures are not reconciled after 90 days, UWORKS will prevent

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future authorizations. We anticipate this will reduce errors due to reconciliation issues in the future.

In addition, UWORKS will be programmed (effective January 2013) to send a task to the Employment Counselor 30 days before a male customer turns 18 to remind the Employment Counselor the person needs to register with Selective Service. Once the Selective Service is complete, the Employment Counselor will enter a note and the Selective Service registration number. If this information is not entered 30 days after the person turns 18, UWORKS will prevent future authorizations until the registration is complete.

Lastly, the state program team is working with the ESA's on their youth incentive plans to create more consistency statewide.

*Contact Persons: Karla Aguirre, Associate Director, 801-526-9724
Rachael Stewart, Program Manager, 801-526-9257*

Anticipated Correction Date: June 30, 2013

CHILD CARE AND DEVELOPMENT FUND (CCDF) CLUSTER

4. INTERNAL CONTROL WEAKNESSES AND NONCOMPLIANCE

Federal Agency: **DHHS**

CFDA Numbers and Titles: 1) **93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund**
2) **93.713 Child Care and Development Block Grant – ARRA**

Federal Award Numbers: 1) **G-0901UTCCDF, G-1001UTCCDF, G-1101UTCCDF**
2) **G-0901UTCCD7**

Questioned Costs: **1) \$1,149 2) \$18 = \$1,167**

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 \$31,079, related to 60 cases, taken from a population of \$46,776,676. Of the 60 Child Care benefit payments tested, we questioned a total of \$1,167 (3.75% of the total sample benefit amount). We noted errors in 13 (21.67%) of the 60 sample cases tested.

a. Inadequate Verification of Providers' Charges and Child Care Need

For four cases, the caseworkers did not properly obtain, use, or verify the Child Care Subsidy Worksheet (DWS Form 980), which is completed by the provider, to ensure the accuracy of the providers' charges or the child care monthly need prior to authorizing the

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child care payment, as required by the DWS Child Care Eligibility Manual (Eligibility Manual) §330-3A. We noted the following errors:

- 1) For one case, the period covered by form 980 had expired and the caseworker ordered the next payment without obtaining a new form 980.
- 2) For one case, the provider had submitted an updated form 980 to include a child recently born, but the caseworker did not use it.
- 3) For one case, the provider listed an amount on form 980 which showed a significant decrease from previous months' charges. The decrease was actually determined to be a typographical error subsequent to our audit; however, rather than verify whether the decreased amount listed on the form 980 was an error, the caseworker instead authorized the provider charge from the previous form 980.
- 4) For one case, the provider charge was entered incorrectly into the Electronic Resource Eligibility Product (eREP) system and the caseworker did not verify that the amount entered into the eREP system matched the amount on the form 980.

For each of these cases, either the errors resulted in underpayments to the participants, or DWS personnel contacted the providers subsequent to our audit and verified that the children were actually in care with the provider during the month and that the provider charge was correct. Therefore, we have not questioned any costs associated with these cases.

b. Incorrect Determination of Earned Income or Hours Worked

For eight cases, we were unable to reconcile the earned income and/or hours worked entered into the eREP system to the information documented in the case record. While reviewing the case records we noted the following reasons for the differences:

- 1) For two cases, the parents were not working during the benefit month selected and had no other participation that would qualify them for the monthly child care benefit. These errors resulted in overpayments of child care totaling \$1,167. We have questioned these costs.
- 2) For two cases, the caseworker did not apply the "best estimate" methodology correctly by including tips, incentive pay, and bonuses as income or narrating the case record to explain why they were excluded from income. Per the Eligibility Manual §450, the best estimate of income is based on the income that is expected to be received in each month of the eligibility period. The caseworker is to 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. These errors did not affect the copay amount for these cases; therefore, we have not questioned any costs associated with these cases.

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- 3) For one case, the eREP system calculated parent participation based on hours worked, as entered on eREP, but the caseworker calculated parent participation differently than the eREP system and did not narrate in the case record how the hours worked were prorated when calculating parent participation. The error resulted in an underpayment; therefore, we have not questioned any costs associated with this error.
- 4) For three cases, the caseworkers made clerical errors when summing income reported on self-employment forms or when entering earned income and hours worked on eREP. These errors did not affect the copay amount for these cases; therefore, we have not questioned any costs associated with these cases.

c. Child's Age Not Verified At Time of Benefit Determination

For one case, the child's age was not verified at the time of benefit determination. To be eligible for child care benefits, a child must be less than 13 years of age (42 USC 9858n(4)) or be under age 19 if under court supervision or incapable of self care (45 CFR 98.20(a)). When the age of the child is not verified, ineligible payments for child care could occur. We have not questioned any costs associated with this case since the child's age was verified subsequent to our audit and the child was determined to be eligible for child care benefits.

Recommendation:

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. **Obtain a current form 980 and verify the accuracy and completeness of data submitted by child care providers on form 980 prior to ordering child care payments.**
- b. **Review the accuracy and completeness of earned income and hours worked entered on the eREP system; apply "best estimate" methodology correctly by including tips, incentive pay, and bonuses as income or narrating the case record to explain why they were excluded from income; and narrate all other information pertinent to the calculation of earned income, hours worked, and parent participation.**
- c. **Verify the age of the children prior to issuing benefits to avoid paying child care benefits for an ineligible child.**

DWS' Response:

We agree with the finding and recommendation. The Department has already taken the following steps to reduce future errors associated with the FY2012 audit results:

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- a. *Eligibility Services Division (ESD) Managers, Community Based Team (CBT) Supervisors, Child Care Program Specialists, and Performance Review Team (PRT) reviewers met on October 2, 2012 to discuss the audit findings. We reviewed the Child Care Subsidy Worksheet (Form 980) errors and stressed the importance of making sure the form is complete and the provider charge entered in eREP is correct for any month a subsidy payment is issued. The CBT Supervisors will review the audit findings at their next team meeting.*
- b. *The Program Specialist Training unit is conducting and will continue to conduct Best Estimate training to ESD teams. The trainers review best estimate methodology and stress the importance of narrating what income was used and why. The CBT teams have either completed the training or will be scheduling it for their teams by November 1, 2012.*
- c. *ESD Managers, CBT supervisors, Child Care Program Specialists, and PRT reviewers met on October 2, 2012 to discuss the audit findings. At this meeting we reviewed the importance of conducting an eFIND search on children at application or when adding a new child to the Child Care program. The CBT Supervisors will review the audit findings at their next team meeting.*

Contact Person: Kevin Burt, Associate Director, 801-597-3907
Anticipated Correction Date: June 30, 2013

MEDICAID CLUSTER

5. INCORRECT ELIGIBILITY DETERMINATION

Federal Agency: **DHHS, CMS**

CFDA Numbers and Titles: 1) **93.778 Title 19 Medical Assistance Program**
2) **93.778 Title 19 Medical Assistance Program – ARRA**

Federal Award Numbers: 1) **05-1205UT5MAP** 2) **05-1105UTARRA**

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

Pass-through Entity: N/A

We reviewed the case files for 60 Medicaid service expenditures at the Department of Health. The expenditures for these cases totaled \$703,037 and were taken from a total population of \$1,863,315,835. Of these case files, we noted 2 cases (3.3%) with eligibility determination errors.

- a. For one case, the caseworker did not include the client's monthly Veterans benefit when calculating income for eligibility even though the benefit was documented on both the application and the bank statements. Medicaid Policy 700 indicates that all income should be

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verified and included when calculating eligibility. This error did not result in an improper eligibility decision, so no costs were questioned. However, such errors could result in improper eligibility decisions.

- b. For one case, the household was put on the Family LIFC program for the months of May through July 2011; however, they only qualified for the Family 12-month transitional program because the household income exceeded the Family LIFC limits. Since the household was eligible for a different Medicaid program, we have not questioned any costs. However, such errors could result in improper eligibility decisions.

The cause of these errors appears to be that caseworkers did not correctly determine eligibility as required by Medicaid policy, mainly due to human error or unfamiliarity with policy.

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 work with the Department of Health to ensure that they follow established policies and procedures when determining eligibility for Medicaid Programs.

DWS' Response:

We agree with the finding and recommendation. Currently, the Department is participating with the Utah Department of Health (DOH) in a data mining effort designed to look at problem areas as identified by various audits and internal case reviews. Training has been designed for staff to address the issues identified. New training modules based on income and specialized medical programs have been developed and will be delivered to Medicaid teams. Case specific examples will be used to train staff in problem areas. Supervisors as well as staff will participate in the training and will continue to have access to training materials and resources so ongoing training can be given regularly.

The data mining efforts between DWS and DOH also produced a list of system related issues that were causing errors on cases. For example, it became evident that staff was having difficulty recognizing whether or not they had LIFC or a Transitional Medicaid program open because transitional programs are a sub-category of the LIFC category. Programming has been completed to allow the sub-type or transitional program to display clearly on the Program Home Page in eREP. This makes it apparent to workers if they have chosen the incorrect program.

The Performance Review Team (PRT) conducts in-depth case reviews on every Medicaid worker each month. Particular areas of focus are applications, income, assets, Third Party Liability (TPL), and case reviews. Case reviews are conducted by a small number of specialized

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reviewers to bolster consistency and maintain a focus on problematic areas. PRT efforts are focused, whenever possible, on real-time case reviews to render immediate feedback to workers.

Targeted training support needs are identified monthly 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.

The efforts listed above will continue throughout the end of the performance year and are expected to generate continued improvement.

*Contact Person: Kevin Burt, Associate Director, 801-597-3907
Anticipated Correction Date: June 30, 2013*

6. THIRD PARTY LIABILITY INFORMATION NOT ADEQUATELY OBTAINED OR UPDATED

Federal Agency: **DHHS, CMS**

CFDA Numbers and Titles: **1) 93.778 Title 19 Medical Assistance Program
2) 93.778 Title 19 Medical Assistance Program – ARRA**

Federal Award Numbers: **1) 05-1205UT5MAP 2) 05-1105UTARRA**

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

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

We reviewed the case files for 60 Medicaid service payments at the Department of Health and noted an error related to Third Party Liability (TPL) for one (1.7%) of the cases. Medicaid Policy 225-1 states that Medicaid applicants must provide information about any possible third party insurance coverage. For one case, insurance coverage for the parents was properly documented, but the caseworker did not obtain or request additional TPL information from the family regarding possible insurance coverage of a newborn child. It was subsequently determined that the parents were trying to add the child to their insurance plan; however, due to an error at the insurance company, there was a delay in getting the coverage for the child. The additional insurance now covers the child back to the day she was born; consequently, a portion of the total federal costs associated with this case of \$236,244 can now be recovered from a third party. After our testwork, DWS referred these costs to the Office of Recovery Services for collection procedures; therefore, we have not questioned any costs associated with this case. This error was probably due to a caseworker oversight. Not properly obtaining potential TPL information could result in Medicaid overpayments.

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

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Recommendation:

We recommend that DWS work with the Department of Health to ensure that Medicaid caseworkers follow policies and procedures to report TPL information in a timely manner.

DWS' Response:

We agree with the finding and recommendation. The Performance Review Team (PRT) evaluates appropriate management of TPL information on every Medicaid and CHIP case review. The PRT evaluates whether or not TPL information was gathered, acted upon, and referred correctly. Errors are cited for failure to follow any of the prescribed TPL process. Immediate feedback is given to workers whenever possible so that any available TPL can be updated and referred.

Targeted support continues to be administered to workers and teams to increase not only an understanding of the process that must be followed, but of the importance of the TPL process from a cost perspective.

Formal training regarding the TPL process is maintained and available to teams on an ongoing basis.

System enhancements, including automation of the referral process, have been established in the myCase system to supplement the worker assisted TPL process and provide a failsafe for missed referrals.

Continued education to workers and a further honing of the automated process are expected to sustain improvement in the accuracy of TPL information gathering and appropriate referrals.

Contact Person: Kevin Burt, Associate Director, 801-597-3907

Anticipated Correction Date: June 30, 2013

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2012

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) CLUSTER

7. **NONCOMPLIANCE WITH CHILD SUPPORT NON-COOPERATION REDUCTION IN BENEFIT REQUIREMENTS**

Federal Agency: **DHHS**

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

Federal Award Numbers: **G-1002UTTANF, G-1102UTTANF, 1202UTTANF**

Questioned Costs: **\$663**

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

DWS uses an official problem solving process to review participants' cooperation in establishing paternity, or in establishing, modifying, or enforcing a support order with respect to a child of the participant. The DWS Financial Eligibility Manual §305-4 requires Temporary Assistance for Needy Families (TANF) to be denied to persons who do not cooperate in the child support process. We selected a sample of 40 TANF cases from a population consisting of non-cooperation notices received by DWS from the Office of Recovery Services (ORS), Utah's IV-D agency. We tested the selected cases to ensure that DWS took appropriate action to deny TANF assistance to participants with the non-cooperation notices and noted that non-cooperation was never addressed for one case. The error occurred when the case was reassigned and the caseworker marked the non-cooperation task for the case on the Utah Workforce Case Management System (UWORKS) as having been completed prior to transferring the case to the new caseworker. Not addressing all participation issues during problem solving may lead to incorrect conclusions regarding the recipient's participation and may result in overpayments in benefits and questioned costs. We have questioned the benefits issued to the participant for the month in which problem solving could and should have taken place, totaling \$663.

Recommendation:

We recommend that DWS adequately train and supervise caseworkers to ensure that non-cooperation notices are appropriately addressed in a timely manner in order to comply with applicable regulations.

DWS' Response:

We agree with the recommendation. This issue was addressed and trained with the Employment Counselor/Supervisor of this specific finding on October 10, 2012. Also, training was completed in the TANF Functional Call on October 18, 2012 with all TANF Managers and Supervisors to review how ORS tasks in UWORKS are received and worked. They will then be required to share this information with their staff no later than October 31, 2012.

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FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2012

*Contact Persons: Karla Aguirre, Associate Director, 801-526-9724
Helen Thatcher, Program Manager, 801-526-4370*

Anticipated Correction Date: October 31, 2012

8. **ACF-204 REPORTING ERRORS**

Federal Agency: **DHHS, ACF**

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

Federal Award Numbers: **G-1002UTTANF, G-1102UTTANF, 1202UTTANF**

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

Pass-through Entity: N/A

While performing testwork on the TANF Form ACF-204 (the annual report on State Maintenance-of-Effort Programs), we noted that for 1 (12.5%) of the 8 programs described on the ACF-204, the amount of FY 1995 Expenditures (Line 11) did not agree to actual expenditures in FY 1995. This resulted in expenditures being overreported by \$614,503. This error was caused by a miscalculation by personnel preparing the report and the third-party consultant. Reports should be accurate and agree to underlying documentation in order to comply with federal regulations regarding the submission of this report. Failure to report according to federal regulations could result in loss of funds or require funds be repaid.

Recommendation:

We recommend that DWS establish controls to ensure reports are prepared accurately and agree to supporting documentation.

DWS' Response:

We agree with the finding that the ACF-204 report contained a miscalculation. This error has been corrected for the report in question. Additionally, DWS is in the process of reviewing controls and federal report validation processes to ensure federal revenues are reported accurately in the future. The broader review and the corresponding actions will take this particular report into consideration. As a result of this review, the new validation processes within the division will ensure that this error is not made again.

*Contact Persons: John Talcott, Director of Administrative Support, 801-526-9402
Dan Schuring, Budget and Grant Manager, 801-526-4306*

Anticipated Correction Date: October 31, 2012

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MULTIPLE PROGRAMS

9. NONCOMPLIANCE WITH TREASURY-STATE AGREEMENT

Federal Agencies: 1) **DOL** 2) **DHHS**

CFDA Numbers and Titles:

- 1) **17.225 Unemployment Insurance (UI)**
- 2) **93.558 Temporary Assistance for Needy Families (TANF)**
- 93.575 Child Care and Development Block Grant (CCDF Cluster)**
- 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF Cluster)**

Federal Award Numbers: **various**

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

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

We tested weekly cash draws made by DWS and noted the following noncompliance with the Treasury-State Agreement:

- a. Draws for certain administrative costs that were made based on estimated expenditures 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 the CCDF Cluster, TANF, and UI, divides the estimate by 13 to arrive at a weekly estimate, and draws the estimated amount weekly. Once the DWS Cost Allocation is completed each quarter, the Treasury-State Agreement requires DWS to adjust each grant to bring draws into reconciliation with actual expenditures, returning or drawing funds as necessary. DWS only performed this reconciliation once for TANF, once for UI, and twice for the CCDF Cluster during State fiscal year 2012. The reconciliations resulted in reconciling draws for State fiscal year 2012 for the CCDF Cluster and TANF totaling \$5,664,254 and \$30,858,708, respectively, a portion of which is attributable to administrative costs. The UI reconciliation resulted in the need to return overdrawn funds for UI administrative costs, totaling \$1,630,510. The required reconciliations were not performed at the required frequency because the financial manager responsible for performing federal draws was occupied with other duties and responsibilities which took precedence over the required reconciliations.
- b. Two weekly draws for TANF and three weekly draws for both UI and the CCDF Cluster were made for amounts that were double the estimated weekly amount for the respective grant. The error occurred because the financial manager responsible for performing federal draws doubled the estimated weekly draw amount for one week for each grant to compensate for not drawing funds in the previous week. However, the doubled amount was not adjusted back to the estimated weekly amount and was also drawn in subsequent weeks, resulting in overdrawn funds totaling \$876,000, \$1,470,000, and \$553,663 for the CCDF Cluster, TANF, and UI, respectively. Overdrawn amounts for the CCDF Cluster were returned at the time

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the error was discovered, but overdrawn funds for TANF and UI were not returned for 6 weeks.

Not complying 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:

- a. Performing required reconciliations quarterly and returning or drawing funds as necessary.**
- b. Drawing the estimated weekly amount for certain CCDF Cluster, TANF, and UI administrative expenditures on a weekly basis.**

We further recommend that DWS manage employees' workloads to ensure that each employee has time to perform all the responsibilities of their job in a timely fashion.

DWS' Response:

We agree with the finding and recommendation. Effective immediately, the Financial Manager for Revenue will perform a quarterly reconciliation to ensure federal funds are properly drawn or returned as necessary. We will also draw the estimated amounts for the CCDF Cluster, TANF, and UI administrative expenditures on a weekly basis.

The Financial Manager for Operational Accounting will review the quarterly reconciliations and draw activity using a tracking schedule to ensure draws have been made according to the Treasury-State Agreement. The Operational Accounting Manager will also review and approve the Cash Receipt entries posted in FINET for the weekly draws.

*Contact Persons: John Talcott, Director of Administrative Support, 801-526-9402
Mitch Romo, Accounting and Payroll Manager, 801-526-9221*

Anticipated Correction Date: October 31, 2012

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FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2012

10. COST ALLOCATION ERRORS

Federal Agency: **Various**
CFDA Number and Title: **Various**
Federal Award Numbers: **Various**
Questioned Cost Amount: N/A
Pass-through Entity: N/A

While performing testwork on the 1st quarter Cost Allocation, we noted that hours from portions of two different pay periods were not included in the calculations for the Cost Allocation due to an error in the organization of data queried from the State's Data Warehouse. A DWS financial manager normally queries the data, organizes it, and verifies that all hours are included in the final total to be used in the Cost Allocation. However, the financial manager responsible for organizing the data was occupied with other responsibilities near year-end close out and chose not to perform this check of the data in lieu of other responsibilities. Thus, the error was not detected and the 1st quarter Cost Allocation was issued with those errors uncorrected. Because this error affects only the allocation of expenditures in the Cost Allocation, it did not cause a misstatement of total expenditures. However, it caused over allocations of up to \$112,202 and underallocations of up to \$145,154 to the individual federal programs' expenditures for the quarter. DWS subsequently made corrections for these errors in the 4th quarter Cost Allocation, which corrects the yearly totals because the Cost Allocation is cumulative. Errors in the Cost Allocation can result in improper expenditures reported for each of the programs at DWS and improper funds drawn.

Recommendation:

We recommend that DWS manage employees' workloads to ensure that each employee has time to perform all the responsibilities of their job accurately and in a timely manner.

DWS' Response:

We agree with the finding that payroll hours for the first quarter were not correct in the first quarter cost allocation calculations. The recommendation is that employee workload issues should be managed to prevent the error in the future. After review, the root cause appears to be a lack of independent review for the payroll data included in the cost allocation process. The division is in the process of reviewing the process and will identify and assign the independent validation step to someone in conjunction with the next quarterly cost allocation.

*Contact Persons: John Talcott, Director of Administrative Support, 801-526-9402
Dan Schuring, Budget and Grant Manager, 801-526-4306
Mitch Romo, Accounting and Payroll Manager, 801-526-9221*

Anticipated Correction Date: January 31, 2013

DEPARTMENT OF WORKFORCE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2012

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP)

11. LIHEAP DOCUMENTATION AND ELIGIBILITY DETERMINATION ERRORS

Federal Agency: **DHHS, ACF**
CFDA Number and Title: **93.568 Low-Income Home Energy Assistance Program**
Federal Award Numbers: **G-10B1UTLIEA, G-11B1UTLIEA, G-12B1UTLIEA**
Questioned Cost Amount: **\$753**
Pass-through Entity: N/A

We reviewed case files for 60 LIHEAP households. The expenditures for these cases totaled \$18,832 and were taken from a total population of \$19,776,499. We noted 9 cases (15%) with some form of error, as described below, and we have questioned the overpayment of the LIHEAP benefits for 3 cases (5%), totaling \$753. For the 6 cases where costs were not questioned, control errors exist that could lead to questioned costs in other situations. Errors appear to result from inattention to the program policy.

- a. For three households, caseworkers did not take proper action when names on utility bills did not match names of household members:
 - For two households, the names on the applicants' utility bills did not match any of the household members. For one of these cases, the case editor noted the error prior to payment but approved the LIHEAP payment anyway. Thus, the LIHEAP payments were approved without fully determining eligibility per LIHEAP Policy Manual section 200.B (whether the household was vulnerable and whether another person with countable income should be included in the household). When we notified the respective subrecipients of the errors, they were unable to provide information regarding the person listed on the utility bill for one case. For the other case, they explained that the person listed on the utility was a parent who had opened the utilities for her child but never actually lived in the household; however, this raises questions of whether the household was vulnerable if another person was responsible for paying the bill. We have questioned the entire amount of LIHEAP payments for both cases, totaling \$670.
 - For one household, both the name of the applicant and the name of a person not included in the household were listed on the utility bill. The case worker overlooked determining whether the second person on the utility bill should have been included in the household. The addition of a household member could affect the eligibility determination and calculation of the LIHEAP payment. When we notified the respective subrecipient of this error, the subrecipient contacted the household and determined that the second person on the utility bill was properly excluded from the household; therefore, we have not questioned costs for this error; however, such an error could result in questioned costs in other cases.

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- b. For one household, the LIHEAP payment calculation for an application dated December 2, 2011 included medical deductions from October 2011. Per HEAT Policy Manual section 310.G, only medical deductions received in the month prior to the application month are eligible for deduction. Excluding these medical deductions from the calculation results in an overpayment of \$83. We have questioned this amount.
- c. For three households, case files contained errors related to income verifications:
- For one household, the case file did not document whether an 18-year-old living in the household was in high school. Per HEAT Policy Manual section 310.E.1, if he was not in high school any income would need to be verified or a Zero Income Statement completed. When we notified the respective subrecipient of this error, they contacted the household and obtained a Zero Income Statement signed by the 18-year-old; therefore, we have not questioned costs for this error.
 - For one household, income was verified for the month of the HEAT application instead of the month prior to the HEAT application as required by HEAT Policy Manual section 310.A. In this case, it is unlikely that income for the prior month would be different enough that an overpayment exceeding the \$75 error limit defined in HEAT Policy Manual section 500.A would result. Additionally, the Zero Income Statement completed by one member of the household only restates that he made zero income and does not indicate how the household is able to meet its living expenses, as required by HEAT Policy Manual 320.L. In this case, it is unlikely that this error would result in an incorrect eligibility determination or an overpayment of HEAT benefits; therefore, we have not questioned costs for these errors.
 - For one household, the bank statement provided by the applicant to verify child support income and a deposited paycheck also included two ATM cash deposits totaling \$240. These deposits could represent earnings; thus, the case worker should have inquired about them, but did not. If the deposits did represent countable income, the result would be a \$57 overpayment. Since this amount is under the \$75 error limit defined in HEAT Policy Manual section 500.A., we have not questioned this cost.
- d. For two households, the case files do not document the young child target group (through either birth verification documents or narration of visible observation of the child's age) as required by HEAT Policy Manual section 330.3. We were able to find the birth certification for the child in each household by using another State system, so it appears each household was eligible for the \$35 young child target group credit. Therefore, we have not questioned costs for these errors.

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Recommendation:

We recommend that DWS strengthen existing internal controls to ensure that LIHEAP eligibility determinations and assistance amount calculations are correct and comply with policy.

DWS' Response:

We agree with the finding and recommendation. The Department will address the audit findings with the Local HEAT Office Supervisors. Additional training will be provided to all HEAT workers during the fall training to cover the specific issues mentioned. We will review case files during monitoring for the specific issues mentioned in the findings.

*Contact Persons: Mike Glenn, Housing Programs Director, 801-526-4495
Sue Kolthoff, Program Director, 801-526-9303*

Anticipated Correction Date: November 30, 2012

12. **FAILURE TO PROVIDE FEDERAL AWARD INFORMATION TO SUBRECIPIENTS**

Federal Agency: **DHHS, ACF**
CFDA Number and Title: **93.568 Low-Income Home Energy Assistance Program**
Federal Award Numbers: **G-12B1UTLIEA**
Questioned Cost Amount: N/A
Pass-through Entity: N/A

For fiscal year 2012, we reviewed ten contracts with LIHEAP (Weatherization) grant subrecipients and noted that federal award information required to be identified to the subrecipients (i.e., CFDA title, award name and number, and name of federal awarding agency) was missing from each contract. Per the OMB A-133 Compliance Supplement, each pass-through entity is responsible for identifying the federal award information to the subrecipient at the time of the award. These errors occurred because controls over this requirement had not been fully implemented after we issued the same finding in our prior year audit. Failure to disclose federal award information to subrecipients could result in subrecipient noncompliance with grant requirements.

Recommendation:

We recommend that DWS implement controls to ensure that the required federal award information is included in all contracts with subrecipients.

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DWS' Response:

We agree with the finding and recommendation. The missing CFDA title award information is missing on the FY11 open contracts and we are working to get those corrected. The staff has been trained and we have verified that the FY12 contracts have the correct information. The Weatherization team will correct the nine contracts from previous years that received LIHEAP funds and are still open and need correction.

*Contact Persons: Mike Glenn, Housing Programs Director, 801-526-4495
Sue Kolthoff, Program Director, 801-526-9303*

Anticipated Correction Date: November 30, 2012

13. **LIHEAP FINANCIAL REPORTING ERROR**

Federal Agency: **DHHS, ACF**
CFDA Number and Title: **93.568 Low-Income Home Energy Assistance Program**
Federal Award Numbers: **G-10B1UTLIEA, G-11B1UTLIEA**
Questioned Cost Amount: **\$-0-**
Pass-through Entity: N/A

We tested the SF-425 annual reports for the year ended September 30, 2011 for the LIHEAP grants awarded in federal fiscal years 2010 and 2011. The amount reported as "Federal share of unliquidated obligations" on line 10.f. is incorrect on both SF-425 reports. For each report, the amount reported on line 10.f. is the calculated difference between the total federal funds authorized (line 10.d.) and the federal share of expenditures (line 10.f.); it does not represent obligations that have actually been incurred. Per the instructions for the SF-425 report, line 10.f, "Unliquidated obligations on a cash basis are obligations incurred, but not yet paid." This error occurred due to a misunderstanding of reporting requirements. This error causes errors in other lines of the reports and ultimately provides inaccurate program information to the Federal Government.

Recommendation:

We recommend that DWS: 1) use more diligence in understanding reporting requirements to ensure the SF-425 reports are prepared in accordance with applicable federal instructions, and 2) submit corrected reports.

DWS' Response:

We agree with the finding and recommendation. Under previous Housing and Community Development Division (HCDD) financial management at the Department of Community and

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FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2012

Culture, much of the financial reporting was assigned to program staff. This practice will be changed and all financial reporting will now be generated by financial staff and reviewed by financial managers to ensure accuracy and the adequacy of supporting documentation supplementing the reports. We will also submit corrected reports.

*Contact Persons: John Talcott, Director of Administrative Support, 801-526-9402
Kimberley Schmeling, HCDD Budget & Accounting Director, 801-526-9504*

Anticipated Correction Date: June 30, 2013

14. LIHEAP SPECIAL REPORTING ERROR

Federal Agency: **DHHS, ACF**
CFDA Number and Title: **93.568 Low-Income Home Energy Assistance Program**
Federal Award Number: **G-11B1UTLIEA**
Questioned Cost Amount: **\$-0-**
Pass-through Entity: N/A

We noted the following reporting errors for the LIHEAP Household Report for federal fiscal year 2011 (Long Format):

- The reported number of households *applying* for crisis payments is 5,559, while the reported number of households *assisted* with crisis payments is 5,851, a difference of 292 households. As a rule, the number of assisted should not be greater than the number applying. A lag can exist between when a person applies for crisis payments and when they are assisted, which could skew reported numbers. However, crisis payments are meant to serve an immediate need, and a lag for 292 households is unusual. This could be due to incorrect data provided by subrecipients.
- The reported number of crisis households with a young child is 605, which is 1,200 households fewer than the 1,805 households recorded in the source documentation. This appears to be a typographical error.
- The reported unduplicated number of households with any target group is 487, which is 2,518 households fewer than the 3,005 households recorded in the source documentation. Also, the reported unduplicated number of households with any target group is less than the unduplicated number for the target group with the fewest households, which is not possible. It is unclear what caused these errors.

Reporting errors such as these result in inaccurate program information being included in the annual LIHEAP report to Congress.

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Recommendation:

We recommend that DWS: 1) ensure that subrecipients are reporting correct data, 2) strengthen internal controls to ensure proper accumulation of data, and 3) submit corrected reports.

DWS' Response:

We agree with the finding and recommendation. We have received additional clarification of the information that is required to be reported on the form. Adjustments have been made in our procedures to account for this information going forward and staff are working with the cognizant federal agency to ensure that all reporting issues have been resolved.

*Contact Persons: Mike Glenn, Housing Programs Director, 801-526-4495
Sue Kolthoff, Program Director, 801-526-9303*

Anticipated Correction Date: December 31, 2012

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)

15. **ERRORS IN PERFORMANCE EVALUATION REPORTS**

Federal Agency: **HUD**

CFDA Number and Title: **14.228 Community Development Block Grant (NSP)**

Federal Award Number: **B-10-DC-49-0001**

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

Pass-through Entity: N/A

We reviewed Part I of the June 30, 2011 Performance Evaluation Report for the B-10-DC-49-0001 award submitted on September 30, 2011 through IDIS using the new methodology recommended in Notice CPD-11-03 from the Department of Housing and Urban Development (HUD). We noted the following errors:

- The "Total Obligated to Subrecipients" (Line B.11) of \$7,439,765 was \$173,705 more than the supporting documentation.
- The \$4,169,563 "Total Drawn" reported on Line C.40 was \$634,691 less than the amount in the State's general ledger (FINET) system.
- Because the new methodology creates a point-in-time report, amounts on the report inaccurately reflected IDIS activity through the date the report was produced instead of including only data as of the June 30, 2011 reporting period.

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Creating the Performance Evaluation Reports in IDIS requires more data elements than the previous methodology. As a result, personnel who prepared the report were confused as to what should be included in the report, and thus, inaccurate information was reported to HUD. Continuation of similar errors may affect future funding and/or sanctions by HUD.

Recommendation:

We recommend that DWS work with its HUD contact to better understand the data elements that should be included in the Performance Evaluation Reports under the new methodology.

DWS' Response:

The Department agrees with the finding and recommendation. Corrections have been made to report the data elements that should be included in the Performance Evaluation reports using the new methodology per HUD Notice CPD-11-03. This was completed for the new reports in September 2012.

*Contact Person: Keith Heaton, Program Director, 801-526-9461
Correction Date: September 30, 2012*

WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS

16. ERRORS IN THE WEATHERIZATION ASSISTANCE PROGRAM FEDERAL FINANCIAL REPORT

Federal Agency: **DOE**

CFDA Number and Title: **81.042 Weatherization Assistance for Low-Income Persons**

Federal Award Number: **DE-EE0000148**

Questioned Cost Amount: N/A

Pass-through Entity: N/A

On the SF-425 report for the Weatherization Assistance Program grant (non-ARRA) for the quarter ended March 31, 2012, the cash receipts were overstated by \$19,409, the cash disbursements were understated by \$275,106, and consequently, the cash on hand was overstated by \$294,515. The cash receipts and cash disbursements reported on the SF-425 should agree with the state's general ledger (FINET), but they do not. These discrepancies were caused by clerical errors in the preparation of the report. These errors result in inaccurate program information being reported to the Federal Government.

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Recommendation:

We recommend that DWS implement internal controls which will ensure that accurate financial information is reported on the SF-425 reports.

DWS' Response:

We agree with the finding and recommendation. Under previous Housing and Community Development Division (HCDD) financial management at the Department of Community and Culture, much of the financial reporting was assigned to program staff. This practice will be changed and all financial reporting will now be generated by financial staff and reviewed by financial managers to ensure accuracy and the adequacy of supporting documentation supplementing the reports. HCDD corrected the SF-425 report for the understated disbursements and overstated cash on hand on June 13, 2012. The overstatement of cash receipts will be corrected as part of the next report due October 30, 2012.

*Contact Persons: John Talcott, Director of Administrative Support, 801-526-9402
Kimberley Schmeling, HCDD Budget & Accounting Director, 801-526-9504*

Anticipated Correction Date: June 30, 2013