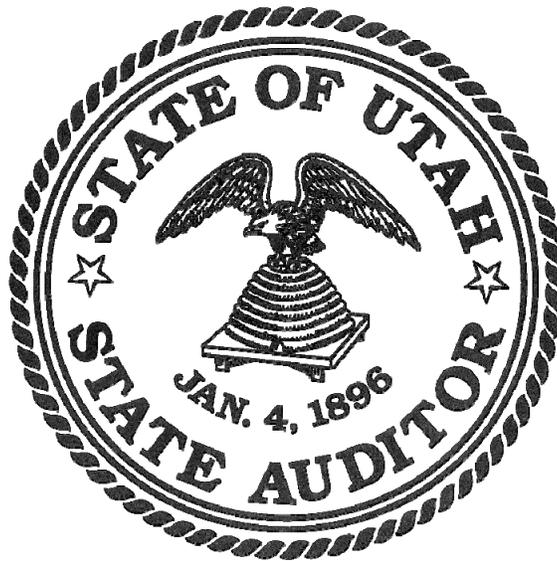


DEPARTMENT OF HUMAN RESOURCE MANAGEMENT

Single Audit Management Letter
For the Year Ended June 30, 2019

Report No. 19-22



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
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DEPARTMENT OF HUMAN RESOURCE MANAGEMENT

Single Audit Management Letter FOR THE YEAR ENDED JUNE 30, 2019

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Finding Type:

SD Significant Deficiency of Internal Control
RN Reportable Noncompliance or Illegal Acts

Applicable To:

s State Financial Statements
f Federal Program



OFFICE OF THE
STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 19-22

December 12, 2019

Mr. Paul R. Garver, Executive Director
Department of Human Resource Management
2120 State Office Building
SLC, Utah 84114

Dear Mr. Garver:

This management letter is issued as a result of our audit of the basic financial statements of the State of Utah as of and for the year ended June 30, 2019 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 25, 2019, is issued under separate cover. We have also completed the Department of Human Resource Management's (DHRM's) portion of the statewide single audit for the year ended June 30, 2019. Our final report on compliance and internal control over compliance issued to meet the reporting requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is also issued under separate cover.

In planning and performing our audit of the basic financial statements of the State of Utah, we considered DHRM's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of DHRM's internal control over financial reporting. Additionally, in planning and performing our statewide single audit procedures, we considered DHRM's compliance with working capital reserve requirements as described in the *OMB Compliance Supplement* for the year ended June 30, 2019. We also considered DHRM's internal control over compliance with those requirements in order to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing opinions on working capital reserve compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of DHRM's internal control.

Our consideration of internal control was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as described in the accompanying findings and recommendations, we did identify a certain deficiency in DHRM's internal control over financial reporting that we consider to be a significant deficiency.

A deficiency in internal control over financial reporting or compliance exists when the design or operation of an internal control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct on a timely basis financial statement misstatements or noncompliance with a relevant compliance requirement of a federal program. *A material weakness in internal control over financial reporting or compliance* is a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that material financial statement misstatements or material noncompliance with a relevant compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in DHRM's internal control that we consider to be material weaknesses.

A significant deficiency in internal control over financial reporting or compliance is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in DHRM's internal control presented in Finding 1 to be a significant deficiency.

We also identified an instance of noncompliance which we are required to report under the Uniform Guidance (see Finding 2).

DHRM's written responses and corrective action plans to the findings identified in our audits have not been subjected to the audit procedures applied in our audits and, accordingly, we express no opinion on them.

The purpose of this communication is solely to describe the scope of our testing of internal control and the results of that testing and not to provide an opinion on the effectiveness of DHRM's internal control. Accordingly, this communication is not suitable for any other purpose.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing and not to provide an opinion on the effectiveness of DHRM's internal control over compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to *Utah Code* Title 63G Chapter 2, this report is a matter of public record, and as such, its distribution is not limited.

We appreciate the courtesy and assistance extended to us by DHRM personnel during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,



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

cc: Jeff J. Mulitalo, Deputy Director, Department of Human Resource Management
Mysti Miskimins, Director of Finance, Department of Human Resource Management
John Reidhead, Chief Financial Officer, State Division of Finance
John Angus, IT Director, Department of Technology Services

1. LACK OF SEPARATION OF DUTIES WITHIN HRIS

Within the Department of Human Resource Management's (DHRM's) Human Resource Information System (HRIS), 64 employees have the ability to both enter and approve an employee or salary action transaction. System users who enter transactions should be prevented from approving those same transactions. Because DHRM has not implemented proper separation of duties controls in HRIS, the risk of improper employee or salary actions being entered into HRIS is increased.

Recommendation:

We recommend DHRM properly separate the transaction entry and approval functions in HRIS.

DHRM's Response:

The Department of Human Resource Management (DHRM) agrees with the finding. DHRM's Human Resource Information System (HRIS) does allow system users to both enter and approve transactions. However, for Executive Branch employees, all transactions are reviewed by Employee Resource Information Center (ERIC) before the transaction workflow is closed, as written in transaction Standard Operating Procedures (SOPs) found at cfe.utah.gov/hr-innovation/portfolio/. Non-executive branch agencies utilizing the HRIS are not required to follow DHRM SOPs. Therefore, there may be internal control deficiencies within these agencies.

Corrective Action Plan:

DHRM will investigate whether internal controls within the HRIS are necessary for non-executive branch agencies utilizing HRIS. Additionally, DHRM will review current transaction SOPs to determine if internal controls for Executive Branch agency transactions are adequately mitigating the risk of improper employee or salary actions being entered into HRIS.

Contact Person: Mysti Miskimins, Financial Director, 385-256-5394

Anticipated Correction Date: June 30, 2020

2. WORKING CAPITAL RESERVES IN EXCESS OF FEDERAL GUIDELINES

Federal Agencies: **Various**

CFDA Numbers and Titles: **Various**

Federal Award Numbers: **Various**

Questioned Costs: **Undeterminable**

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Numbers: **2018-034; 2017-022; 2016-038;
2015-049; 2014-041**

As of June 30, 2019, the Department of Human Resource Management held working capital reserves in excess of federal guidelines as follows:

Service Area Level – Payroll Field Services

Excess # of Days in Reserve – 34

Excess Amount in Reserve – \$57,708

2 CFR part 200, Appendix V, paragraph G.2, generally allows a working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes in each internal service fund. It is inherently difficult to accurately estimate expenses and their effect on working capital reserves when setting rates. Excess reserves could result in a federal liability since federal programs share an interest in the reserves.

Recommendation:

Depending on the business requirements, we recommend that the Department of Human Resource Management reduce excess working capital reserves for its Payroll Field Services service area level or obtain a waiver from the federal cost negotiator allowing for an increase in the number of days of working capital allowed to comply with federal guidelines.

DHRM's Response:

The Department of Human Resource Management (DHRM) agrees with the finding. DHRM is aware that the working capital reserves held in retained earnings exceeded the allowable 60 days of cash expenses on June 30, 2019 at the fund level due to excess reserves in Payroll Field Services.

Corrective Action Plan:

The excess retained earnings for Payroll Field Services was caused by lower than anticipated expenses in fiscal year 2019. DHRM is evaluating the Payroll Field Services rate for fiscal year 2020 and will adjust it, if necessary. DHRM anticipates this retained earnings balance will be in compliance with the 60 day working capital limit by June 30, 2020.

Contact Person: Mysti Miskimins, Financial Director, 385-256-5394

Anticipated Correction Date: June 30, 2020