DEPARTMENT OF
ADMINISTRATIVE SERVICES

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

Report No. 19-20

OFFICE OF THE
STATE AUDITOR

AUDIT LEADERSHIP:
John Dougall, State Auditor
Gregg Hastings, CPA, Audit Manager
Andrew Driggs, Audit Senior
## TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>SINGLE AUDIT MANAGEMENT LETTER</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINDING AND RECOMMENDATION:</td>
<td>3</td>
</tr>
<tr>
<td>1. WORKING CAPITAL RESERVES IN EXCESS OF FEDERAL GUIDELINES (Reportable Noncompliance – Federal Programs) (Repeat Finding)</td>
<td>3</td>
</tr>
</tbody>
</table>
SINGLE AUDIT MANAGEMENT LETTER NO. 19-20

December 17, 2019

Tani Downing, Executive Director
Department of Administrative Services
3120 State Office Building
Salt Lake City, Utah  84114

Dear Ms. Downing:

This management letter is issued as a result of the Department of Administrative Services’ (DAS’s) portion of the statewide single audit for the year ended June 30, 2019, for which we tested DAS’s working capital reserves. Our final report on compliance and internal control over compliance issued to meet the reporting requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) is issued under separate cover.

In planning and performing our audit of working capital reserves, we considered DAS’s compliance with the types of compliance requirements subject to audit as described in the OMB Compliance Supplement for the year ended June 30, 2019. We also considered DAS’s internal control over compliance with the requirements described above that could have a direct and material effect on working capital reserves in order to determine the auditing procedures that were appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of DAS’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct on a timely basis noncompliance with a type of compliance requirement of a federal program. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness, yet important enough to be reported under Uniform Guidance.

Our consideration of internal control over compliance was for the limited purposes described in the second paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in DAS’s internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.
We did identify an instance of noncompliance which we are required to report under the Uniform Guidance.

DAS’s written response to and Corrective Action Plan for the finding identified in our audit were not subjected to the audit procedures applied in our audit and, accordingly, we express no opinion on them.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing. Accordingly, this communication is not suitable for any other purpose. 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 DAS’s 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,

Gregg Hastings, CPA
Audit Manager
801-808-0293
ghastings@utah.gov

cc: John Reidhead, Chief Financial Officer, State Division of Finance
    Ken Hansen, Deputy Director, State Division of Finance
    Patricia Nelson, Assistant State Comptroller, State Division of Finance
    Christopher Hughes, Director, Division of Purchasing and General Services
    Brian Nelson, Director, Risk Management
    Darin Dennis, Assistant Director, Risk Management
1. **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  

As of June 30, 2019, two funds within the Department of Administrative Services held working capital reserves in excess of federal guidelines as follows:

<table>
<thead>
<tr>
<th>Fund Description</th>
<th>Excess # of Days in Reserve</th>
<th>Excess Amount in Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Division of Purchasing and General Services:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cooperative Contract Management</td>
<td>143</td>
<td>$1,307,071</td>
</tr>
<tr>
<td>Print Services</td>
<td>4</td>
<td>$20,623</td>
</tr>
<tr>
<td>State Surplus Property</td>
<td>138</td>
<td>$212,679</td>
</tr>
<tr>
<td><strong>Division of Risk Management:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Workers Compensation Fund</td>
<td>29</td>
<td>$596,647</td>
</tr>
<tr>
<td>Property Liability Self-Insurance Fund</td>
<td>80</td>
<td>$3,793,525</td>
</tr>
</tbody>
</table>

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 Administrative Services reduce excess working capital reserves within each of the respective funds 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.

**Department of Administrative Services’ Response:**

The Department of Administrative Services concurs with the findings.
Corrective Action Plans:

Division of Purchasing and General Services

Cooperative Contract Management
The Division continues to decrease the administrative fees on each of its state cooperative contracts as each contract expires and is rebid. The Division is allowed under law to collect up to a 1.0% administrative fee on each cooperative contract. Currently, the average administrative fee is 0.38%.

In addition, the Division has also hired two additional employees and invested in a new contract usage system and analytics tool. The new system and additional employees will help improve the management of its cooperative contracts. The system also will assist the Division in anticipating usage and decreasing the administrative fees of appropriate contracts.

Print Services
Print Services has reviewed and decreased its administrative fees.

State Surplus Property
State Surplus will use the excess reserve funds to invest in a new building when they relocate in 2021.

Contact Person: Christopher Hughes, Director, 801-538-3254
Anticipated Correction Dates: Cooperative Contract Management – June 30, 2022
Print Services – June 30, 2020
State Surplus Property – June 30, 2021

Division of Risk Management

Workers’ Compensation Fund
The Division has requested a $1 million transfer out of this fund in fiscal year 2020, subject to legislative approval.

Property Liability Self- Insurance Fund
The Division’s role is to estimate insurance claims and set rates to match. Claim and other costs have been lower than anticipated for a few years. We have intentionally reduced rates to compensate. The Division used a lower property rate than the actuary recommended for fiscal years 2019 and 2020. We will use a lower property rate than the actuary recommended for fiscal year 2021 to reduce retained earnings. We will continue to observe claim levels and set rates intended to reduce the retained earnings to appropriate levels.

Contact Person: Brian Nelson, Director, 801-538-9576
Anticipated Correction Dates: Workers Compensation Fund - June 30, 2020
Property Fund - June 30, 2021