

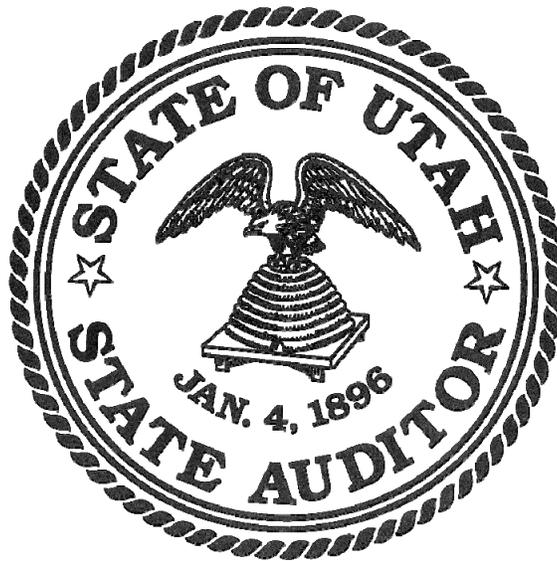
# DEPARTMENT OF HUMAN RESOURCE MANAGEMENT

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Single Audit Management Letter  
For the Year Ended June 30, 2017

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Report No. 17-16



## OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor  
Gregg Hastings, CPA, Audit Supervisor  
Sean Clayton, Audit Senior

**DEPARTMENT OF HUMAN RESOURCE MANAGEMENT**

**Single Audit Management Letter  
FOR THE YEAR ENDED JUNE 30, 2017**

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OFFICE OF THE  
STATE AUDITOR

**SINGLE AUDIT MANAGEMENT LETTER NO. 17-16**

November 29, 2017

Debbie Cragun, Executive Director  
Department of Human Resource Management  
2120 State Office Building  
SLC, Utah 84114

Dear Ms. Cragun:

This management letter is issued as a result of the Department of Human Resource Management's (Department's) portion of the statewide federal compliance audit for the year ended June 30, 2017, for which we tested the Department'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 the Department's compliance with the applicable types of compliance requirements as described in the *OMB Compliance Supplement* for the year ended June 30, 2017. We also considered the Department's internal control over compliance with the types of 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 the Department'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 merit attention by those charged with governance. We did not identify any deficiencies in the Department's internal control that we consider to be material weaknesses.

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 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.

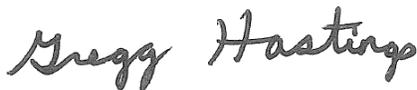
We identified an instance of noncompliance which we are required to report under Uniform Guidance. This matter is described in the accompanying finding and recommendation.

The Department'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.

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

Sincerely,

A handwritten signature in cursive script that reads "Gregg Hastings".

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

cc: Nate Winters, Director of Finance, Department of Human Resource Management  
John Reidhead, Director, State Division of Finance

**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: **2016-038; 2015-049; 2014-041**

As of June 30, 2017, the Department of Human Resource Management held working capital reserves in excess of federal guidelines as follows:

<u>Fund Description</u>	<u>Excess # of Days in Reserve</u>	<u>Excess Amount in Reserve</u>
<b>Fund Level</b>		
Division of HR Management	4	\$ 155,747
<b>Service Area Level</b>		
Payroll Field Services	11	\$ 21,104
Human Resources Field Services	6	\$ 199,626

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. The excess reserves are due to the inherent difficulty of accurately estimating expenses 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 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 Human Resource Management'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, 2017 at the fund level due to excess reserves in Payroll Field Services and Human Resources (HR) Field Services.*

*Corrective Action Plan:*

*The excess retained earnings for Payroll Field Services was caused by lower than anticipated expenses in fiscal year 2017. DHRM is evaluating the Payroll Field Services rate for fiscal year*

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*2018 and will adjust it prior to billing, if necessary. DHRM anticipates this retained earnings balance will be in compliance with the 60 day working capital limit by June 30, 2018.*

*The excess retained earnings for HR Field Services was due to the capitalization of development costs for the new Human Resources Information System (HRIS). Retained earnings should decrease as depreciation expense for the new system is charged over its useful life. HRIS is scheduled to be deployed February 2018. DHRM anticipates this retained earnings balance will be in compliance with the 60 working capital limit by June 30, 2019.*

*Contact Person: Nate Winters, Finance Director, 801-538-3364  
Anticipated Correction Date: June 30, 2019*