DEPARTMENT OF ADMINISTRATIVE SERVICES

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

Report No. 17-18

OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

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

DEPARTMENT OF ADMINISTRATIVE SERVICES

Single Audit Management Letter

FOR THE YEAR ENDED JUNE 30, 2017

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STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 17-18

November 30, 2017

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' (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 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,

Gregg Hastings

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

cc: John Reidhead, Director, State Division of Finance
Marcie Handy, Assistant State Comptroller, State Division of Finance
Kent Beers, Director, Division of Purchasing and General Services
Brian Nelson, Director, Risk Management
Jeff Mottishaw, Director, Division of Fleet Operations

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: **2016-037; 2015-048; 2014-040; 2013-049; 12-51; 11-56**

As of June 30, 2017, three funds within the Department of Administrative Services held working capital reserves in excess of federal guidelines as follows:

Fund Description	Excess # of Days in Reserve	Excess Amount in Reserve
Division of Purchasing and General Services:		
Cooperative Contract Management	75	$ 598,825
Division of Risk Management:		
Workers Compensation Fund	170	$ 3,804,350
Division of Fleet Operations:		
Motor Pool	157	$ 6,397,632
Travel Office	13	$ 18,776

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 were 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 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:

We concur. We have developed corrective action plans and are working with the U.S. Department of Health and Human Services, Program Support Center, Cost Allocation Services in resolving these excess reserves.

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. In addition, the Division has invested in a new contract usage system and analytics tool. This new system will help improve the management of its cooperative contracts and will assist the Division in anticipating usage and decreasing the administrative fee of appropriate contracts.

Contact Person: Kent Beers, Director, Division of Purchasing and General Services, 801-538-3143.
Anticipated Correction Date: June 30, 2020

Division of Risk Management

Workers Compensation – The Division plans on refunding the federal portion of this fund's excess reserves and is requesting legislative approval to transfer out the remaining state only balance to other Risk Management funds in FY2018.

Contact Person: Brian Nelson, Director, Division of Risk Management, 801-538-9576
Anticipated Correction Date: June 30, 2018

Division of Fleet Operations

Motor Pool – The Division has agreed with Cost Allocation Services that if the excess reserves in the Motor Pool fund are not eliminated by June 30, 2018, the federal portion of the excess reserve balance remaining will be refunded. The Division has also decreased the Motor Pool rates for FY2018 and has proposed, for legislative approval, another decrease for FY2019. The Division is also continuing to work on the Motor Pool vehicle acquisition back log created in FY 2015 and FY2016. They are also continuing work on the fleet management software and reporting platform upgrades, and the installation of several thousand vehicle telematics units. All of these purchases will increase the Motor Pool fund's data processing, current, and depreciation expenses and will help to reduce the fund's future net income and retained earnings.

Travel Office – The excess was caused by an overlap of rebates received by the Travel Office during FY2017. Going forward, the Travel Office will not be receiving nearly as much in rebates. The Division projects that the retained earnings in this fund should drop over the next few years and come into compliance by FY2019.

Contact Person: Jeff Mottishaw, Director, Division of Fleet Operations, 801-538-3601.
Anticipated Correction Date: June 30, 2019