



OFFICE OF THE
STATE AUDITOR



◦ STATE OF UTAH ◦

Department of Government Operations

Management Letter

For the year ended June 30, 2023

Report No. 23-20

February 20, 2024

Office of the State Auditor

Audit Leadership:

John Dougall, State Auditor

Jason Allen, CPA, CFE, Audit Director

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Management Letter No. 23-20

March 11, 2024

Marvin Dodge, Executive Director
Department of Government Operations
4315 South 2700 West
Taylorsville, UT 84129

Dear Director Dodge:

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, 2023. It is also issued as a result of the Department of Government Operation's (DGO) portion of the statewide federal compliance audit (Single Audit) for the year ended June 30, 2023. Our audit was conducted 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 final reports on internal controls and on compliance required under *Government Auditing Standards* and federal *Uniform Guidance* will be issued under separate cover. These reports will also provide further detail as to considerations made during the course of the audit regarding internal controls and compliance, both at the financial statement and at the federal program level, and the limited purposes of those considerations. The purpose of this letter is to communicate with DGO management concerns identified during the course of our audit.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or to detect and correct on a timely basis misstatements, errors, or instances of noncompliance. A material weakness in internal control is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatements, errors, or noncompliance are not prevented or are not detected and corrected on a timely basis.

Based on the audit procedures performed, we identified deficiencies in internal control which, while not considered material, we consider to be significant enough to merit the further attention of management and those charged with governance (Findings 1 and 2). We also identified Finding 3 as an instance of noncompliance which we are required to report under *Uniform Guidance*.

DGO's written responses to and Corrective Action Plans for these findings will be included in the final reports identified in the second paragraph above.

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 the DGO'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 DGO personnel extended to us during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,



Jason Allen, CPA, CFE

Audit Director

801-808-0716

jasonallen@utah.gov

cc: Marilee Richins, Deputy Director, Department of Government Operations
David Dyches, Deputy Director, Department of Government Operations
Van Christensen, Director, Division of Finance
Patricia Nelson, Assistant State Comptroller, Division of Finance
Jake Hennessey, Finance Director, Department of Government Operations
Alan Fuller, Chief Information Officer, Division of Technology Services
Daniel Frei, Finance Director, Division of Technology Services
John Barrand, Division Director, Division of Human Resource Management
Windy Aphayrath, Division Director, Division of Purchasing & General Services
Rachel Terry, Division Director, Division of Risk Management
Scott Tingley, Director, Performance Audit

Findings & Recommendations

Finding 1. Errors in Financial Reporting Preparation Process

(Finding Type: Significant deficiency)

DGO's Division of State Finance (Finance) does not have adequate internal controls to ensure preparation of the State's *Annual Comprehensive Financial Report* (ACFR) in accordance with generally accepted accounting principles. Auditors detected errors in information provided to and prepared by Finance during the ACFR preparation process. As a result, multiple material adjustments were needed to fairly present the State's financial activity.

Net Position Adjustments

Auditors detected two errors in two separate net position balances prepared by Finance personnel. Finance did not include \$2.0 billion of outstanding bonds when calculating Net Investment in Capital Assets in the government-wide financial statements due to a formula error. This resulted in an overstatement of Net Investment in Capital assets and a corresponding understatement of Unrestricted Net Position. Additionally, net position totaling \$25.4 million for the Community Impact Loan Fund was misclassified as unrestricted because Finance did not sufficiently consider restrictions on the various loan fund balances. Internal controls failed to prevent or detect and correct the errors.

Fiduciary External Investment Pool Correction

The State's pooled investments include its own funds as well as funds held for external parties. For reporting purposes, Finance did not appropriately calculate an allocation of the financial activity for external parties. Auditors proposed an adjustment to the allocation effecting Cash & Cash Equivalents, Debt Securities, Interest, Dividends, and Other Investment Income, Deposits, and additional related balances by amounts ranging from \$2.7 million to \$473.7 million. The adjustments were required because Finance personnel did not adequately calculate the allocation and internal controls failed to prevent or detect and correct the errors.

To ensure the ACFR materially reflects the State's financial position, Finance should perform sufficient reviews and analyses of information prepared for ACFR reporting. Inadequate controls over the preparation processes may result in undetected material misstatements in the ACFR.

Recommendation:

We recommend Finance establish, document, and perform internal controls sufficient to ensure information is prepared and calculated properly to reflect the State's financial position.

DGO's Response and Corrective Action Plan:**Net Position Adjustments**

The Division of Finance (State Finance) consolidated many of the ACFR preparation schedules during fiscal year 2023 into one central location. This allowed many of the schedules to be linked together, which provides efficiency in the preparation of the financial statements and reduces the risks for errors. When the calculation of the Net Investment in Capital Assets was linked to the main preparation schedules, a formula did not properly summarize the amounts contained in the calculation, resulting in the misclassification of categories within Net Position while total Net Position was properly stated. State Finance will perform a more detailed analytical analysis of the categories within the Net Position of the government-wide financial statements to ensure they are properly stated and consistent. Additionally, a more detailed review will be performed when designing new processes within the preparation of the statements. State Finance will also review funding sources and spending annually to determine the proper classification of net position for individual funds.

Fiduciary External Investment Pool Correction

Late in the fiscal year 2022 State Finance changed how shares in the Public Treasurer's Investment fund (PTIF) were reported through the ACFR to a presentation they considered more transparent. When reviewing this change in the preparation of the fiscal year 2023 ACFR, State Finance determined that the prior year's methodology of allocating the PTIF's activity between internal and external participants was incorrect and made a change in the allocation. Members of the Office of the State Auditor and the Treasurer's Office were consulted to determine the most appropriate and consistent way to allocate the PTIF's activity between internal and external participants. After consulting with these parties, State Finance agreed that corrections needed to be made to more accurately reflect the external portion of the PTIF activity.

Contact Person: Patricia Nelson, patriciarnelson@utah.gov, Assistant State Comptroller, State Division of Finance

Anticipated Correction Date: June 30, 2024

Finding 2. Bank Reconciliation Not Performed Timely**(Finding Type: Significant deficiency)**

Finance did not complete the bank reconciliations for the State's main bank account until six months past yearend. Finance policy 19-01.01 requires reconciliations to be completed "no later than the last business day of the month following the period reported." This occurred because Finance hired new personnel who lacked experience in the process of preparing the reconciliations. In addition, priorities were shifted to the preparation of the ACFR, which contributed to the delay.

Monthly bank reconciliations are a key internal control over cash receipts and disbursements for the whole State. Without timely reconciliations, errors and irregularities may remain undetected beyond the point where appropriate corrective actions may be taken.

Recommendation:

We recommend Finance complete bank reconciliations within the timeframe required by policy.

DGO's Response & Corrective Action Plan:

A reconciliation of bank balances to the State's general ledger is performed by the Treasurer's Office monthly. The reconciliations performed by State Finance consists of reviewing payments generated from the various payment "feeder" systems to ensure outstanding items, incorrect feeder codes, and returned items are appropriately reflected in the general ledger. Items are generally reconciled by day in the monthly reconciliation. At yearend, all the feeder reconciliations are then consolidated into one reconciliation for auditing purposes. This combined reconciliation was completed and provided to the auditors three months after yearend. Immediately after, Finance determined that the level of detail in the reconciliation was not adequate for auditing purposes and pulled back the document. Due to a lack of resources, a more detailed reconciliation was not provided to the auditors until December. This new detailed consolidated reconciliation process will continue to be used each yearend. Finance has also hired additional experienced staff to perform this process in a timely manner.

Contact Person: Patricia Nelson, patriciarnelson@utah.gov, Assistant State Comptroller, State Division of Finance

Anticipated Correction Date: June 30, 2024

Finding 3. Working Capital Reserves in Excess of Federal Guidelines

(Finding Type: Reportable Noncompliance)

Federal Agency: Various

Assistance Listing Number and Title: Various

Federal Award Number: Various

Questioned Costs: Undeterminable

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: 2022-027, 2021-025, 2020-036; 2019-023; 2018-033; 2017-021; 2016-037; 2015-048; 2014-040; 2013-049; 2012 12-51; 2011 11-56

As of June 30, 2023, five divisions within DGO held working capital reserves in excess of federal guidelines of at least the amounts that follow:

Fund Description	Excess # of Days in Reserve	Excess Amount in Reserve
Division of Purchasing and General Services		
Cooperative Contract Management	531	\$6,464,060
Federal Surplus Property	1,872	\$217,163
Division of Finance		
Purchasing Card	314	\$719,712
Division of Risk Management		
Workers' Compensation Fund	176	\$2,872,720

The following divisions do not have excess reserves at the internal service fund level; however, the federal oversight agency requires them to be assessed at the service area level, which resulted in excess reserves as follows:

Service Area Description	Excess # of Days in Reserve	Excess Amount in Reserve
Division of Technology Services (DTS)		
Communication Services	57	\$1,475,276
Mainframe Services	91	\$1,004,831
Division of Human Resource Management		
Human Resources Field Services	4	\$133,633

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. For DTS, the federal oversight agency only allows 45 days. 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 each division within DGO reduce excess working capital reserves within each of the respective funds or service areas.¹

DGO's Response and Corrective Action Plan:Division of Purchasing and General Services

Cooperative Contract Management Fund – Public entities in Utah rely on the Division of Purchasing and General Services (State Purchasing) to maintain the cooperative contract program to assist with public procurement in Utah. The usage of state cooperative contracts by public entities continues to increase yearly, resulting in a corresponding increase in the collection of administrative fees. State Purchasing continues to review contract administrative fees on state cooperative contracts as each contract expires and is resolicited. This is a slow process since State Purchasing has approximately 1,200 cooperative contracts that expire only every five years and are then resolicited. While State Purchasing is allowed under law to collect up to a 1.0% administrative fee on each cooperative contract, currently the average administrative fee is approximately 0.35%, a decrease of 18.6% from the average contract administrative fee in fiscal year 2022.

The Division of Purchasing and General Services also continues to work with the Department of Government Operations executive leadership to request the Utah Legislature appropriate out a portion of the excess reserves in the Cooperative Contract Management Fund. The calculation of the federal portion of these transfers will be submitted to Cost Allocation Services for review and approval when these transfers are completed.

Federal Surplus Property Fund- Surplus Property anticipated relocating by the end of fiscal year 2023 with the completion of the new Utah State Prison. Due to schedule changes, the new location for Surplus Property was not completed in time and the new anticipated relocation date is the end of fiscal year 2025. At the time of relocation, Surplus Property will use the excess reserve funds to move and furnish the new location, including replacing aged equipment.

¹ We have previously recommended DGO attempt to obtain a waiver from the federal cost negotiator to allow for an increase in the number of days of working capital reserves. Based on our understanding, this remedy has been attempted in the past with no success.

Contact Person: Windy Aphayrath, waphayrath@utah.gov, Director, Division of Purchasing and General Services

Anticipated Correction Date: June 30, 2025

Division of Finance

Purchasing Card Fund – State Finance is in the process of implementing a new travel and expense reporting system for all state agencies. This system will simplify travel approvals, travel reimbursements, and reduce the administrative burden for the purchasing card (P-Card) expense reports on state agency personnel. To cover system implementation costs, State Finance elected not to distribute the rebates received from U.S. Bank related to state agency P-Card spending for calendar years 2021, 2022, and 2023. Rebates were still sent to participating entities external to the primary government. The anticipated completion date for the new system is the end of the calendar year 2024. State Finance will then review annually the costs of the system, develop a cost allocation strategy between the travel and P-Card programs, and adjust travel rates to cover the travel program's ongoing costs. The P-Card program will then distribute any remaining P-Card rebates to state agencies respective to their spend. This effort should reduce and/or eliminate any excess federal reserves in the P-Card fund by the end of fiscal year 2025.

Contact Person: Allyson Branch, abbranch@utah.gov, Assistant Director, Division of Finance

Anticipated Correction Date: June 30, 2025

Division of Risk Management

Workers' Compensation Fund – The Division of Risk Management did not request an increase in rates for fiscal year 2024 for the Workers Compensation Fund. It is also anticipated that premiums for worker compensation insurance for fiscal year 2025 will increase. This increase will help bring this fund back into compliance. The Division of Risk Management will also reevaluate this program at the end of fiscal year 2024 to determine if a legislative request to transfer funds out and/or refund the federal portion of retained earnings is needed to reduce and/or eliminate the excess federal reserves remaining in this fund.

Contact Person: Rachel Terry, rachelgterry@utah.gov, Director, Division of Risk Management

Anticipated Correction Date: June 30, 2025

Division of Technology Services

Communication Services – The fiscal year 2024 Communication Services rate was set to under recover the cost of providing this service by \$276,000. The fiscal year 2025 rate was also set to under recover the cost of providing this service by an additional \$398,000. DTS plans to annually review and adjust rates and issue mid-year rebates, if necessary, to bring DTS Communication Services into compliance with federal excess reserve guidelines by the end of fiscal year 2025.

Mainframe Services – This service will be coming to an end by fiscal year 2024. As this service ends, DTS will issue rebates of any remaining Mainframe Services retained earnings to the state agencies who used the system.

Contact Person: Dan Frei, dfrei@utah.gov, Finance Director, Division of Technology Services

Anticipated Correction Date: June 30, 2025

Division of Human Resource Management

Human Resources Field Services – During fiscal year 2023, the Division of Human Resource Management worked to better align expenses with the corresponding rate. A cost allocation plan was developed to accomplish this goal. As a result of that effort, the Human Resources Field Services rate was decreased, and the Payroll Services and Core Services rates were increased for fiscal year 2025. The Division anticipates that these rate adjustments will eliminate the excess reserves.

Contact Person: John Barrand, jbarrand@utah.gov, Director, Division of Human Resource

Management Anticipated Correction Date: June 30, 2025