



**Auston G. Johnson, CPA**  
UTAH STATE AUDITOR

**STATE OF UTAH**  
**Office of the State Auditor**

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**REPORT NO. 05-10**

December 19, 2005

Francine Giani, Executive Director  
Department of Commerce  
160 East 300 South  
Salt Lake City, Utah 84111

Dear Ms. Giani:

We have completed our audit of the financial statements of the State of Utah for the year ended June 30, 2005. Our report thereon, dated October 28, 2005, was issued under separate cover. We have not yet completed the statewide federal compliance audit for the year ended June 30, 2005. Our report on the statewide federal compliance audit for the year ended June 30, 2005 should be issued by April 2006. Any additional findings relating to the Department of Commerce (the Department) which result from the completion of the federal compliance audit will be issued to you as a supplement to this letter.

In planning and performing our audit, we considered the Department of Commerce's (the Department) internal control over financial reporting and administration of major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on the State's financial statements and on the State's compliance with the requirements of its major programs and not to provide assurance on internal control. We noted a certain matter involving the Department's internal control over financial reporting and administration of federal programs that we consider to be a reportable condition. This condition is identified in the accompanying finding and recommendation and is not believed to be material weaknesses.

Reportable conditions are defined as matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting and compliance that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements or administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants.

This report by its nature focuses on exceptions, weaknesses, and problems. This should not be understood to mean there are not also various strengths and accomplishments. Our consideration of the internal control over financial reporting and administration of federal programs would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses, particularly since our review was based on our audit of the State as a whole.

This report is intended solely for the information and use of the Department and is not intended to be and should not be used by anyone other than this specified party.

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 call Joe Christensen, Deputy State Auditor, at (801) 538-1354.

Sincerely,

Auston G. Johnson, CPA  
Utah State Auditor

cc: Jason Perry, Deputy Director

## **DEPARTMENT OF COMMERCE**

FINDING AND RECOMMENDATION  
FOR THE YEAR ENDED JUNE 30, 2005

### **NONCOMPLIANCE WITH PAYROLL POLICY AND SEPARATION OF DUTIES WEAKNESS** (Reportable Condition)

Federal Agency: **various**  
CFDA Number and Title: **various**  
Federal Award Number: **various**  
Questioned Cost Amount: **\$0**  
Pass-through Entity: n/a

As part of our annual audit of State payroll expenditures, we reviewed the reports associated with 42 payroll expenditures to ensure that they were properly reviewed, approved, and retained. For the one expenditure selected from the Department of Commerce (the Department), we noted the following:

- a. The Department did not properly document the review and approval of the “Time Entered After Cutoff” and “Payroll Results Edit” reports. State Accounting Policies and Procedures (FIACCT 11-17.00) require departments to generate, review, approve, and retain certain payroll reports each pay period to ensure the accuracy and document approval of the payroll transactions entered into the SAP Payroll System (the System). Noncompliance with the policy could allow errors or misappropriations related to payroll expenditures to occur without detection.
- b. An individual who has the ability to enter time into the System also reviewed and approved the payroll reports. A separation of duties weakness exists when the same individual has the ability to enter time into the System and also reviews and approves required payroll reports. FIACCT 11-17.00 requires a manager or supervisor other than the time entry operator(s) to review and approve the payroll reports each pay period. Inadequate separation of duties could allow errors or misappropriations related to payroll expenditures to occur without detection.

#### **Recommendation:**

**We recommend that the Department generate, review, approve, and retain required payroll reports each pay period to document that payroll transactions entered into the System are accurate and approved. We further recommend that the payroll reports be reviewed and approved by managers or supervisors who do not have the ability to enter time into the System.**

#### **Department’s Response:**

*After audit recommendation we have had the Deputy Director do the payroll review and approval each pay period.*

Contact Person: Jason Perry, Commerce Deputy Director, (801) 530-6701  
Correction Date: Pay Period 16, 7/30/05 – 8/12/05