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UTAH STATE AUDITOR

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SUPPLEMENTAL REPORT NO. 05-17-a

March 20, 2006

D'Arcy Dixon Pignanelli, Executive Director
Department of Administrative Services
3120 State Office Building
Salt Lake City, Utah 84114

Dear Ms. Pignanelli:

As noted in Report No. 05-17 dated January 25, 2006 to the Department of Administrative Services (the Department), we had previously 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 now completed the Department's portion of the statewide federal compliance audit for the year ended June 30, 2005 and have included two additional findings and recommendations for your Department in this supplemental report. Our report on the statewide federal compliance audit for the year ended June 30, 2005 should be issued by April 2006.

In planning and performing our audits, we considered the Department's 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 certain matters involving the Department's internal control over financial reporting and administration of federal programs that we consider to be reportable conditions. These conditions are described in the accompanying findings and recommendations and are 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. However, the report is a matter of public record and its distribution is not limited.

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: John C. Reidhead, CPA, Director, Division of Finance

DEPARTMENT OF ADMINISTRATIVE SERVICES
SUPPLEMENTAL REPORT FOR THE YEAR ENDED JUNE 30, 2005

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DEPARTMENT OF ADMINISTRATIVE SERVICES

SINGLE AUDIT FINDINGS AND RECOMMENDATIONS SUPPLEMENTAL REPORT FOR THE YEAR ENDED JUNE 30, 2005

1. ERRORS IN STATEWIDE COST ALLOCATION PLAN (Reportable Condition)

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

While reviewing changes in the Statewide Cost Allocation Plan between Fiscal Year 2005 and Fiscal Year 2006 for reasonableness, we noted that the data submitted by one state agency was inaccurate. Because the Department of Administrative Services' Division of Finance (State Finance) did not review the changes between years for reasonableness, they did not detect the error. State Finance should review the data submitted by the various state agencies for reasonableness and investigate large variations between years when preparing the Statewide Cost Allocation Plan. While using the correct data did not change the total costs allocated in the plan, the allocation between state agencies changed; however, we were unable to quantify the effect of this error for individual grants.

Recommendation:

We recommend that State Finance review all data submitted by the various agencies for reasonableness and investigate large variations between years when preparing the Statewide Cost Allocation Plan.

Department of Administrative Services, Division of Finance Response:

We agree with the finding and recommendation.

We will ensure all data submitted by agencies is reviewed for reasonableness and investigate variations between years when preparing the Statewide Cost Allocation Plan. In addition, we will contact our federal negotiator for instructions in correcting our plan.

*Contact: Marcie Handy, Assistant Comptroller (801) 538-1678
Anticipated Correction Date: March 2006*

DEPARTMENT OF ADMINISTRATIVE SERVICES

SINGLE AUDIT FINDINGS AND RECOMMENDATIONS SUPPLEMENTAL REPORT FOR THE YEAR ENDED JUNE 30, 2005

2. INACCURATE SET UP OF DRINKING WATER LOAN PAYMENT SCHEDULE IN STATE LOAN SYSTEM (Reportable Condition)

Federal Agency: **EPA**

CFDA Number and Title: **66.468 Drinking Water State Revolving Fund**

Federal Award Number: **various**

Questioned Cost Amount: **\$-0-**

Pass-through Entity: **n/a**

We tested 4 sample loans for the Drinking Water program income requirement. The Loan Agreement for 1 of the 4 sampled loans required yearly repayments of \$25,000 for the first repayment and \$26,000 for all the following years; however, this loan was erroneously set up in the state loan system with all yearly repayments of \$25,000. The Department of Environmental Quality's Division of Drinking Water issues Drinking Water loans and forwards loan information to the State Division of Finance to set up the loans in the state loan system for loan servicing purposes. Neither the Division of Drinking Water nor the State Division of Finance had controls in place to identify and correct this error. As a result, the state loan system has billed and collected an incorrect amount for the second year of the loan.

Recommendation:

We recommend that the State Division of Finance and the Division of Drinking Water work together to resolve this lack of internal control and establish procedures to ensure that loans are accurately set up in the state loan system.

Department of Administrative Services, Division of Finance Response:

The State Division of Finance and Department of Environmental Quality agree with the finding and recommendation.

The State Division of Finance has developed procedures to ensure that the loan information is accurately set up in the State loan system. The Department of Environmental Quality has received inquiry access to the State loan system and is also developing procedures to review the accuracy of loan information set up in the loan system.

Contacts: Marcie Handy, Assistant Comptroller, Division of Finance (801) 538-1678

Craig Silotti, Finance Director, Dept. of Environmental Quality (801) 536-4460

Anticipated correction date: March 2006