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UTAH STATE AUDITOR

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Office of the State Auditor

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REPORT NO. 05-17

January 25, 2006

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

Dear Ms. Pignanelli:

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 Department of Administrative Services' (the Department's) portion of 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 resulting from the completion of the federal compliance audit will be issued to you as a supplement to this letter.

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 no matters involving the Department's internal control over financial reporting and administration of federal programs that we consider to be a material weakness. However, 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 material weaknesses, particularly since our review was based on our audit of the State as a whole.

During our audit, we noted certain matters involving the internal control over financial reporting and compliance of the Department and its operations. We are submitting for your consideration related recommendations designed to help the Department make improvements and achieve operational efficiencies. These matters are described in the accompanying schedule of findings and recommendations.

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.

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 538-1354.

Sincerely,

Auston G. Johnson, CPA
Utah State Auditor

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

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

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DEPARTMENT OF ADMINISTRATIVE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2005

1. INADEQUATE SEPARATION OF DUTIES

During our review of internal controls over the Financial Information System (FIS) section in the Division of Finance, we noted that there was not an adequate separation of duties between programmers who develop and make adjustments to computer programs and those who put them into production. Adequate internal controls mandate a separation of duties between these functions or a compensating control to ensure that all adjustments to existing programs and all new programs developed and put into production function properly and are authorized. Adequate separation of duties helps prevent material misstatements on the financial statements and misappropriation of State funds.

Recommendation:

We recommend that the Department of Administrative Services, Division of Finance, establish adequate separation of duties within the FIS section, or develop a compensating control to ensure that new programs placed into production and adjustments made to existing programs function properly and are authorized.

Department's Response:

The Division of Finance agrees with the finding. Several months ago, Information Technology Services (ITS) replaced ACF2 as the mainframe security administration application with RACF. This change eliminated the audit log reports we were receiving from the mainframe. RACF does not provide these reports.

To resolve this audit finding, the Division of Finance will work with ITS to see if some other reporting tool can be used to track and report the production work our programmers perform. In the meantime, we will also restrict access to production programs by giving a "one-time-use" password when a programmer is needed to resolve a specific production problem.

2. RESERVES IN EXCESS OF FEDERAL GUIDELINES

The Information Technology Fund held working capital reserves in excess of federal guidelines at June 30, 2005. Federal Guidelines permit internal service funds such as the Information Technology Fund to have a reasonable working capital reserve of no more than 45 days for fund 670 and 60 days for all other funds. As of June 30, 2005, the Information Technology Fund working capital reserves of \$8.2 million represented approximately 57 days of normal cash expenses. Excess working capital reserves for the Information Technology Fund of \$2.0 million could result in a federal liability since federal programs share an interest in the reserves.

DEPARTMENT OF ADMINISTRATIVE SERVICES

FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2005

Recommendation:

We recommend that the Information Technology Fund 670 eliminate excess working capital reserves.

Department's Response:

We agree with this recommendation. However, we are currently transitioning to the new Department of Technology Services. Our federal cost negotiators have agreed that the excess working capital reserves of the current Information Technology Internal Service Fund will not need to be addressed until after the transition to the new Department.