



**DEPARTMENT OF ADMINISTRATIVE SERVICES**

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Management Letter  
For the Year Ended June 30, 2006

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Report No. 06-36

*Keeping Utah  
Financially Strong*

AUSTON G. JOHNSON, CPA  
UTAH STATE AUDITOR



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

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**REPORT NO. 06-36**

March 27, 2007

Kimberly Hood, Executive Director  
Department of Administrative Services  
3120 State Office Building  
Salt Lake City, Utah 84114

Dear Ms. Hood:

We have completed our audit of the financial statements of the State of Utah for the year ended June 30, 2006. Our report thereon, dated October 27, 2006, was issued under separate cover. We have also completed the Department of Administrative Services' (the Department's) portion of the statewide federal compliance audit for the year ended June 30, 2006. Our report on the statewide compliance audit for the year ended June 30, 2006 should be issued by April 2007.

In planning and performing our audit, 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 Jon Johnson, Audit Director, 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**  
FOR THE YEAR ENDED JUNE 30, 2006

**TABLE OF CONTENTS**

	<u>Page</u>
<b>FINDINGS AND RECOMMENDATIONS:</b>	
1. INADEQUATE INTERNAL CONTROLS OVER STATEWIDE COST ALLOCATION PLAN	1
2. ERRORS IN THE CLCS LOAN SYSTEM	2

# **DEPARTMENT OF ADMINISTRATIVE SERVICES**

## **FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2006**

### **1. INADEQUATE INTERNAL CONTROLS OVER STATEWIDE COST ALLOCATION PLAN**

During our testwork of the Statewide Cost Allocation Plan, which is prepared and submitted to the Federal Government by the Department of Administrative Services – Division of Finance (State Division of Finance), we noted the following errors:

- a. The sub-allocation amount on the fiscal year 2007 cost allocation plan was not updated to reflect changes on other supporting schedules. As a result, the State undercharged the Federal Government \$37,693. However, the only entity involved in the error that receives federal funding is the Department of Public Safety, which was underallocated \$4,073.
- b. The expenditures for the IT division in the Department of Human Resource Management (DHRM) (a central service function) were not included in the calculation of the fiscal year 2007 and fiscal year 2008 Indirect Cost Rates. This division includes personnel costs for DHRM's IT employees, as well as any and all data processing hardware and software that were purchased for DHRM. Thus, these costs should be included in the indirect cost rate calculation for payroll and human resource costs. This error resulted in an under estimate of \$1.67 in the indirect cost rate for Payroll and Human Resource costs in fiscal year 2007 and an underestimate of \$1.70 in fiscal year 2008.

All amounts on the allocation should be accurate and agree to supporting documentation to avoid misallocation of federal funds and to properly finance administration of federal programs. Lack of adequate internal controls over the Cost Allocation Plan could result in federal grants being over/under charged for indirect costs.

#### **Recommendation:**

**We recommend that the State Division of Finance implement adequate controls to ensure that:**

- a. Adjustments made to supporting schedules are reflected in the Cost Allocation Plan.**
- b. All applicable central service costs incurred by the State are included in the Indirect Cost Rate calculation.**

#### **Department's Response:**

*We agree with the audit finding and recommendation. The State Division of Finance has implemented additional reviews to ensure that adjustments made to supporting schedules are reflected in the Cost Allocation Plan and all central service costs are included in the Indirect Cost Rate calculation. The under estimate of the indirect cost rate for fiscal year 2008 was*

# **DEPARTMENT OF ADMINISTRATIVE SERVICES**

## **FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2006**

*corrected in the Statewide Cost Allocation Plan prior to being submitted to the Federal Government.*

### **2. ERRORS IN THE CLCS LOAN SYSTEM**

During our testwork at the State Division of Finance related to the CLCS loan system, which is used to service various state and federal loan programs, we sampled 40 loans and noted two instances where the terms of the loans were not correctly entered into the CLCS loan system. In the first instance, the late fees being charged to the loan were less than the late fees required in the Trust Deed Note. In the second instance, an amended agreement to the Trust Deed Note requiring two payments per month had not been entered into the CLCS loan system. We also noted that the CLCS loan system does not accrue late fees for late loan payments for the month of February.

#### **Recommendation:**

**We recommend that the State Division of Finance implement controls to ensure that new loans and modifications to the terms of loans are recorded correctly in the CLCS loan system. We also recommend that the State Division of Finance correct the CLCS loan system to properly record late fees related to the month of February.**

#### **Department's Response:**

*We agree with the audit finding and recommendation. The State Division of Finance implemented controls at least a year ago to ensure that new loans and modifications to the terms of new loans are recorded correctly in the CLCS loan system. The errors identified were to loans entered in CLCS prior to implementation of these controls. We are currently establishing procedures to sample existing loans to ensure they are also recorded correctly in CLCS. In addition, the CLCS loan system has been corrected to properly record late fees for the month of February.*