

# DEPARTMENT OF TECHNOLOGY SERVICES

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Single Audit Management Letter  
For the Year Ended June 30, 2013

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Report No. 13-21



OFFICE OF THE  
UTAH STATE AUDITOR

# DEPARTMENT OF TECHNOLOGY SERVICES

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Single Audit Management Letter  
For the Year Ended June 30, 2013

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Report No. 13-21

AUDIT TEAM:

Hollie Andrus, CPA, Audit Director

Rebekka Wilkinson, CPA, Audit Supervisor



OFFICE OF THE  
**UTAH STATE AUDITOR**

**SINGLE AUDIT MANAGEMENT LETTER NO. 13-21**

October 25, 2013

Mark VanOrden, Executive Director  
Department of Technology Services  
1 State Office Building, Floor 6  
SLC, Utah 84114

Dear Mr. VanOrden:

This management letter is issued as a result of the Department of Technology Services' (Department) portion of the statewide federal compliance audit for the year ended June 30, 2013, for which we tested the Department's working capital reserves. Our report on the statewide federal compliance audit for the year ended June 30, 2013 is issued under separate cover.

In planning and performing our audit of working capital reserves, we considered the Department's compliance with the applicable types of compliance requirements as described in the OMB Circular A-133 Compliance Supplement for the year ended June 30, 2013. We also considered the Department's internal control over compliance with the requirements previously described that could have a direct and material effect on working capital reserves in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or to detect and correct on a timely basis noncompliance with a type of compliance requirement of a federal program. A material weakness over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

We identified a reportable instance of noncompliance which we are submitting for your consideration. This matter is described in the accompanying finding and recommendation.

The Department's written response to the finding identified in our audit has not been subjected to the audit procedures applied in our audit and, accordingly, we express no opinion on it.

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. This communication is an integral part of an audit performed in accordance with OMB Circular A-133 in considering the Department's internal control over compliance. Accordingly, this communication is not suitable for any other purpose.

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 contact me.

Sincerely,

A handwritten signature in cursive script that reads "Hollie Andrus".

Hollie Andrus, CPA  
Audit Director  
801-808-0467  
handrus@utah.gov

cc: Daniel S. Frei, Finance Director, Department of Technology Services  
John Reidhead, Director, State Division of Finance

**DEPARTMENT OF TECHNOLOGY SERVICES**

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FINDING AND RECOMMENDATION  
FOR THE YEAR ENDED JUNE 30, 2013

**WORKING CAPITAL RESERVES IN EXCESS OF FEDERAL GUIDELINES**

(Reportable Noncompliance to Federal Programs)

Federal Agency: **Various**  
CFDA Numbers and Titles: **Various**  
Federal Award Numbers: **Various**  
Questioned Costs: **Undeterminable**  
Pass-through Entity: N/A

Three of the eight service areas within the Department of Technology Services held working capital reserves in excess of federal guidelines at June 30, 2013 as follows:

<u>Service Area</u>	<u>Number of Days in Reserve</u>	<u>Excess Amount in Reserve</u>
Mainframe Computer	614	\$ 4,496,580
Printing	382	\$ 513,881
Telecommunications	152	\$ 1,968,620

OMB Circular A-87 generally allows a reasonable working capital reserve as part of retained earnings. Per additional guidance received from the U.S. Department of Health and Human Services, working capital reserves related to technology services should not exceed 45 days cash expenses for normal operating purposes in each service area. In prior years, working capital reserves were monitored at the fund level and in total did not exceed what was allowed. Beginning in November 2012, the Department was required to begin monitoring working capital reserves at the lower service area level. Excess reserves could result in a federal liability since federal programs share an interest in the reserves.

**Recommendation:**

**We recommend that the Department of Technology Services reduce excess working capital reserves for each of the service areas identified to comply with federal guidelines.**

**Department's Response:**

*The Department of Technology Services disagrees with the finding that working capital reserves are in excess of Federal guidelines. The Department is currently in the appeal process with the Federal Negotiator on how excess reserves are calculated and would argue that the finding is unfounded until the matter has been resolved. Prior to November 2012, the Federal Negotiator had DTS report retained earnings similar to other Internal Service Funds at a fund level. Since November 2012, the Federal Negotiator had DTS report retained earnings at a service level. DTS has requested that retained earnings excess reserves be*

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FINDING AND RECOMMENDATION  
FOR THE YEAR ENDED JUNE 30, 2013

*calculated separately before and after the November 2012 process change. Until the matter has been resolved, the Department will take no further corrective action or change plan.*

*Contact Person: Daniel Frei, Finance Director, (801) 538-3459*

*Anticipated Correction Date: Pending appeal to Federal Negotiator*