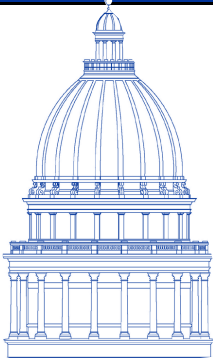




# **Thirty-Eighth Annual Report to the Utah State Legislature**

**Sixtieth Legislature  
2013 Session**



The Utah State Legislature created the Office of the Legislative Auditor General (OLAG) in 1975. OLAG has authority to audit any branch, department, agency, or political subdivision of the state.

The Legislative Auditor General is a constitutionally created position with a six-year term of appointment. The Auditor General reports directly to the Audit Subcommittee of the Legislative Management Committee. Traditionally, though not required, the committee has been composed of the President of the Senate, the Speaker of the House, the Senate Minority Leader and the House Minority Leader.

### ■ What Does the Office of the Legislative Auditor General Do?

OLAG may audit or review the work of any state agency, local government entity, or any entity that receives state funds. State law authorizes OLAG to review all records, documents, and reports of any entity that it is authorized to audit, notwithstanding any other provision of law.

OLAG's audits may have multiple objectives and many formats. OLAG publishes the findings of these audits in reports that are written for the Legislature, but available to the public.

OLAG staff also provide short-term assistance to the Legislature in the form of special projects. Examples of this type of service include studies of driving privilege cards and state entity prescription drug purchasing practices.

### ■ How Are Audits Initiated?

Any legislator can make an audit request simply by writing a letter to the Audit Subcommittee. This letter should identify specific issues of concern that should be addressed by the audit. While the letter of request can be signed by one legislator, the request may have more influence if it is signed by a group of legislators or by the legislators on a committee.

Once the request is received, the Audit Subcommittee will prioritize it in the order that subcommittee members determine to be appropriate. Issues given high priority are those that will confront the Legislature in the next session or have the potential for a significant statewide impact.

### ■ What Is the Audit Process?

An audit will be staffed according to its priority assignment and staff availability. Once an audit is staffed, an auditor generally contacts the legislator(s) requesting the audit to discuss their concerns and identify when the audit results are needed.

If all the audit questions cannot be answered in the necessary time frame, the auditors will work with the legislator(s) to identify the most critical questions. Once the audit is complete, the report is presented to the Audit Subcommittee, which then releases it to the appropriate legislative committees and the public.

### ■ What Is the Purpose of This Annual Report?

This report fulfills requirements set forth in *Utah Code* 36-12-15(11), which states that “(a) Prior to each annual general session, the legislative auditor general shall prepare a summary of the audits conducted and of actions taken based upon them during the preceding year. (b) This report shall also set forth any items and recommendations that are important for consideration in the forthcoming session, together with a brief statement or rationale for each item or recommendation.”

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## ■ How May I Receive Audit Reports?

You can download a copy of most audit reports from the legislative website: [www.le.utah.gov/audit/olag.htm](http://www.le.utah.gov/audit/olag.htm).

## ■ Who Are the Members of the Audit Subcommittee?

**Speaker Rebecca D. Lockhart, Co-Chair**  
Speaker of the House  
R-Utah County

**President Wayne L. Niederhauser, Co-Chair**  
President of the Senate  
R-Salt Lake County

**Representative Jennifer M. Seelig**  
House Minority Leader  
D-Salt Lake County

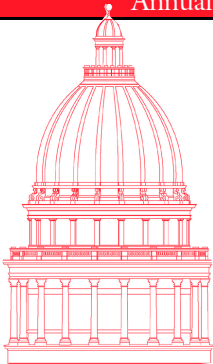
**Senator Gene Davis**  
Senate Minority Leader  
D-Salt Lake County

*“The legislative auditor shall have authority to conduct audits of any funds, functions, and accounts in any branch, department, agency or political subdivision of this state and shall perform such other related duties as may be prescribed by the Legislature. He shall report to and be answerable only to the Legislature.”*

- Article VI, Section 33 of  
the *Utah Constitution*

## ■ Who Are the Auditor General Staff?

<b>Auditor General</b>	John M. Schaff, CIA
<b>Deputy Auditor General</b>	Richard D. Coleman, CIA, CPA
<b>Audit Managers</b>	Tim Osterstock, CIA, CFE Darin R. Underwood, CIA
<b>Audit Supervisors</b>	James Behunin, CIA Tim Bereece Leah Blevins Janice Coleman, CFE Brian J. Dean, CIA, CFE Deanna L. Herring, JD Wayne Kidd, CIA Kade Minchey, CIA Maria Stahla, CFE
<b>Audit Staff</b>	Michael Allred Matthias Boone Karleen Capell Ian Christensen Jake Dinsdale Hillary Galvin Matthew Harvey August Lehman Jesse Martinson Christopher McClelland Derek Olson Anndrea Parrish Candace Ware
<b>IT Auditor/ Systems Analyst</b>	David Gibson, CISA
<b>Quality Control/ Report Editor</b>	Leslie Marks, CFE
<b>Administrative Assistant</b>	Lynda Maynard



Based on issues addressed and recommendations made in our 2012 audits and the actions taken on 2011 audit recommendations, we believe the Legislature should consider the following items during the 2013 General Session.

### ■ 2012-14 A Performance Audit of DABC Operations

DABC has been self-appropriating operating expenses from the Liquor Control Fund for years. While the Legislature appropriated funds for these operating expenses during the 2012 General Session, the ability of the department to self-appropriate without legislative oversight still exists. We also found that DABC and State Purchasing may have violated state procurement law because of unclear statutory language.

**Action Needed:** The Legislature should consider clarifying *Utah Code* 63G-6-416 in order to either allow or prohibit cost-plus components of a contract. The Legislature should also consider stipulating in statute that unappropriated operating expenses should not be withdrawn from the Liquor Control Fund.

### ■ 2012-09 A Performance Audit of Utah's Radioactive Waste Facility Tax

The current radioactive waste tax structure is susceptible to control that can affect the amount of tax the state receives. Specifically, *EnergySolutions* (the major source of this tax) has the ability to control portions of the tax through vertical integration.

**Action Needed:** The Legislature should consider a new tax structure that is more straightforward and reduces the risk to the state that some tax dollars may not be collected. Specifically, we recommend that the Legislature consider moving away from a tax based on gross receipts to a tax structure based on the radioactive intensity of the waste (millicurie) or a combination of radioactive intensity and volume (cubic feet).

### ■ 2012-06 A Performance Audit of the Division of Housing and Community Development

Housing and Community Development has been holding some land in reserve. The funds invested in the property are considered to be land-banked. Land-banking is an unusual practice with a low-income (HOME) fund, but is a common practice of other federal housing funds, educational institutions, and private developers. *Utah Code* does not appear to forbid the practice for low-income housing, but is ambiguous on the matter. Land-banking delays funds from use and leveraging, while still retaining the value of the asset.

**Action Needed:** The Legislature should consider whether land-banking is consistent with legislative intent to leverage state monies for low-income housing.

### ■ 2011-12 A Performance Audit of Mandatory Student Fees at the U of U

The University of Utah's process for establishing and monitoring mandatory student fees lacks structure. Neither Utah statute nor Board of Regents policy provide needed guidance. We found the U of U did not have a centralized approval process or consistent student involvement. Documentation justifying the need for the fee and changes in fee amounts were not generally available, and monitoring the use of fees and fund balances varied by department.

**Action Needed:** The Legislature should consider establishing general principles guiding the use of

mandatory student fees, including (1) requiring the Board of Regents to establish policy restricting the use of student fees, (2) defining the level of student involvement in approving fees, and (3) requiring fee documentation and monitoring.

### ■ 2011-11 A Performance Audit of the Operating Efficiency of the Utah State Court System

Traffic schools in Utah's municipalities are currently unregulated. This has led to at least one municipality avoiding the sharing of revenue with the state by issuing invitations to traffic school, and thus sending people to traffic school instead of issuing citations. Additionally, since traffic schools are unregulated, they can vary greatly in quality and cost.

**Action Needed:** The Legislature should consider whether municipalities should be allowed to use traffic school invitations as an alternative to issuing citations. The Legislature should also consider whether regulation of traffic schools should occur.

### ■ 2011-08 A Performance Audit of Higher Education O&M Funding

Despite concerns that higher education facilities are not adequately maintained, there is limited transparency and accountability of operation and maintenance (O&M) funding. The current record-keeping system did not allow us to determine how much funding is appropriated annually by the Legislature. Further, building records do not identify which buildings are eligible for state O&M funds. At times, buildings may simply be added to an institution's maintenance schedule with no additional funds. Buildings without

O&M funds dilute the resources intended for state-funded buildings and may adversely affect buildings' functionality and longevity.

**Action Needed:** The Legislature should consider a variety of actions to adjust and/or more clearly articulate state O&M funding policy. Options include:

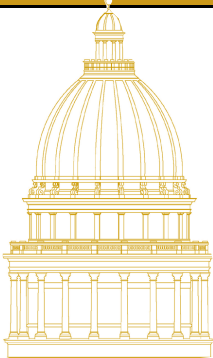
- Making state O&M funding decisions for non-state-funded buildings before construction begins
- Requiring the institutions to have a funding plan for all buildings that do not receive state O&M funds
- Funding O&M as an appropriation unit within the Education and General line item
- Directing the Board of Regents to maintain a record of all higher education buildings that denotes the source of their O&M funds
- Directing institutions to use reimbursed overhead funds provided for infrastructure and O&M for those purposes if needed

### ■ 2011-03 A Performance Audit of the Division of Parks and Recreation

During the 2011 General Session, the Legislature passed intent language for the Division of State Parks and Recreation to reduce its reliance on General Funds to \$4 million by 2015 as part of a plan to gradually reduce taxpayer support. Ultimately, the level of taxpayer subsidy should be based on a policy regarding which types of parks are expected to be self-supporting.

**Action Needed:** The Legislature should consider more clearly articulating state policy on the extent to which different types of parks and activities should receive public support, and continue to gradually adjust General Fund appropriations based on that policy.





In 2012, the Office of the Legislative Auditor General (OLAG) completed 21 audits (15 in-depth audits and 6 special projects shown below). For this annual report, we completed follow-up inquiries on 15 audits (6 audits from 2012 and 9 audits from 2011 shown on the next page). The 15 audits contained 74 recommendations to audited agencies, only 3 of which (4 percent) were not fully implemented. There were 15 legislative recommendations, of which 6 have yet to be implemented. (See “Legislative Action” section on page 3.) This section summarizes OLAG’s audits and audit follow-ups. Full reports can be found on the legislative website located at: [www.le.utah.gov/audit/olag.htm](http://www.le.utah.gov/audit/olag.htm).

### 2012 Completed Audits

Audit Name	Number	Number of Recommendations	2012 Release Date
Division of Occupational and Professional Licensing (DOPL)	2012-15	19	December
DABC Operations	2012-14	24	September
Division of Radiation Control	2012-10	7	September
Utah’s Radioactive Waste Facility Tax	2012-09	4	September
Medicaid Fraud Control Unit	2012-13	3	August
State Printing Costs and Practices	2012-12	2	August
Inmate High School Education	2012-11	6	August
Utah Telecommunications Open Infrastructure Agency (UTOPIA)	2012-08	4	August
Medicaid Eligibility	2012-07	4	June
Division of Housing and Community Development	2012-06	2	February
In-Depth Follow-Up of PEHP’s Business Practices	2012-05	9	January
DABC Oversight of Package Agencies	2012-04	4	January
In-Depth Follow-Up of Utah Medicaid’s Implementation of Audit Recommendations	2012-03	0	January
School Community Council Election Practices	2012-02	8	January
Utah Transit Authority	2012-01	9	January

### Completed Special Projects

Community Education Channel Agency’s TV Production Truck	ILR2012-F	2	December
Revenue Bond Funding Sources	ILR2012-E	0	December
Informal Poll of the Utah Senate on the U.S. Senate Candidates	ILR2012-D	0	April
Survey of University of Utah Legal Counsel Staffing	ILR2012-C	0	February
An In-Depth Follow-Up of the Division of Parks and Recreation	ILR2012-B	0	February
Survey of Salt Lake Community College Personnel Practices	ILR2012-A	2	January

### Best Practices

The Auditor General also has the statutory responsibility of reviewing all new government programs (programs that have received a Performance Note) and providing the new program or agency with a list of best practices to use in setting up the new program or agency. Since 2000, the Auditor General has published *Best Practices for Good Management* as a guide for new programs.

You may view a copy of this publication at [www.le.utah.gov/audit/BP\\_2009.pdf](http://www.le.utah.gov/audit/BP_2009.pdf).

<b>Audit Follow-Ups</b>			
<b>Audit Name</b>	<b>Number</b>	<b>Recommendations To Agencies</b>	<b>Follow-Up Status</b>
Division of Housing and Community Development	2012-06	1	1 In Process, (1 to Legislature Not Implemented)*
In-Depth Follow-Up of PEHP's Business Practices	2012-05	8	8 Implemented, (1 to Legislature Implemented)
DABC Oversight of Package Agencies	2012-04	3	2 Implemented, 1 In Process, (1 to Legislature Implemented)
School Community Council Election Practices	2012-02	6	3 Implemented, 3 In-Process, (2 to Legislature Implemented)
Utah Transit Authority	2012-01	9	9 Implemented
Higher Education Graduation Rates and Excess Hours	2011-15	10	7 Implemented, 3 In-Process
Utah Division of Wildlife Resources	2011-14	8	2 Implemented, 4 In Process, 2 Partially Implemented
Allegations Regarding the Management of the DABC	2011-13	2	1 Implemented, 1 In-Process, (1 to Legislature Implemented)
Mandatory Student Fees at the University of Utah	2011-12	3	3 Implemented (1 to Legislature Not Implemented)*
Operating Efficiency of the Utah State Court System	2011-11	5	4 Implemented, 1 In-Process, (2 to Legislature Not Implemented)*
IT Security at Universities and Quasi-Governmental Agencies	2011-10	5	1 Implemented, 4 Partially Implemented
Higher Education Institutions' Residency Determination	2011-09	5	5 Implemented
Higher Education Operating and Maintenance Funding	2011-08	6	1 Implemented, 3 In-Process, 2 Not Implemented, (5 to Legislature: 1 Implemented, 2 In-Process, 2 Not Implemented)*
School Districts' Health Insurance	2011-07	1	1 Not Implemented, (1 to Legislature Implemented)
Survey of Salt Lake Community College Personnel Practices	ILR2012-A	2	2 Implemented

*\* Recommendations to the Legislature which were not implemented are addressed in the "Legislative Action" section on page 3.*

## ■ Completed Audits

### Report No. 2012-15 A Performance Audit of the Division of Occupational and Professional Licensing (DOPL)

DOPL appears to process license applications timely and consistently. However, data management policies and staff training to ensure consistent use of data management tools should be improved. In addition, while most investigations close within policy time limits, others lack approved extensions. For the latter,

inadequate supervisor review appeared a likely cause. Our review of probation found that first, some probationers are allowed to accumulate numerous violations before DOPL responds and second, DOPL should clarify policies for imposing sanctions on probation violations. DOPL should review and clarify decision-making responsibilities with staff and needs a clear process for monitoring probation and reporting violations. Finally, DOPL should improve the diversion program's entrance and enforcement processes as well as diversion agreement monitoring.



**Report No. 2012-14 A Performance Audit of  
DABC Operations**

The Department of Alcoholic Beverage Control (DABC) needs to improve accounting of inventory and oversight of warehouse and store operations. DABC has been relying on inaccurate reports to enter physical inventory adjustments. DABC should continue to address system problems to ensure inventory accuracy. In the warehouse and state liquor stores, DABC needs to improve controls over inventory and enhance policies and procedures. Also, state resources have not been protected because of poor oversight of a service contract; enhanced employee ethics training is needed. Finally, DABC has been self-appropriating for years by covering operating expenses with unappropriated monies from the liquor control fund.

**2012-13 A Performance Audit of the Medicaid  
Fraud Control Unit**

The Utah Medicaid Fraud Control Unit's (MFCU's) overall recoveries of inappropriately paid out Medicaid funds are comparatively strong. These fraud recoveries are primarily due to successful litigation involving drug manufacturers. However, outcomes of criminal fraud cases involving local providers appear comparatively less substantial. These less substantial outcomes may be indicative of historically insubstantial case referrals that likely reduced the MFCU's effect on provider fraud. Related to the need for improved and increased referrals is a need to strengthen MFCU's case management system. Case files show significant gaps of time between basic case activities and some cases that were not completed within the statute of limitations timeframe.

**2012-12 A Performance Audit of State Printing  
Costs and Practices**

Printing functions within the state of Utah are overseen primarily by three organizations, State Print Services, Utah Correctional Industries Printing, and the Legislative Printing Office. In the past five fiscal years (since 2007), statewide printing volumes have declined about 23 percent, with accompanying cost reductions

of about 43 percent. This reduction includes all three branches of government and follows national trends. In order to continue and further this reduction in costs, state agencies and institutions of higher education should implement printing policy based on best practices outlined in this report. Printing costs for higher education have also declined, but at the slower rate of 5 percent over the last three fiscal years.

**2012-11 A Performance Audit of Inmate High  
School Education**

In 2011, school districts provided educational services to 5,268 inmate students at a cost of about \$5.4 million. Because school districts with prison programs received significantly more funds than districts with jail programs, USOE needs to remedy funding inequities, which include providing fewer funds for inmate students on jail contract. Our audit also shows that while inmates are achieving academic benefits, the impact of high school education on employment is unclear and should be addressed jointly by USOE and the Department of Corrections. Finally, some inmate high school education programs used an excessive amount of contact hours to educate inmates, including providing services to many inmate students who already had diplomas. USOE should establish guidelines for the number of contact hours, and consider placing contact hour limits on inmate students who already have diplomas.

**2012-10 A Performance Audit of the Division of  
Radiation Control (DRC)**

This audit reviewed the oversight role of the DRC regarding the receipt and disposal of radioactive waste at the Clive, Utah facility, which is privately owned and operated by EnergySolutions. The report concludes that the DRC is not providing adequate independent oversight of incoming waste. The DRC is charged with protecting Utah citizens and the environment from sources of radiation that constitute a significant health hazard. It is the responsibility of the DRC to monitor the activities of EnergySolutions and waste generators to ensure that only approved waste enters the state. The



DRC's position is that they work under a common and recognized regulatory framework that relies on the regulated entity to self-police compliance and report any violations. They reported that this framework is widely used in environmental regulation. However, Utah has unique waste prohibitions and is the only state with a business privately owning a radioactive waste disposal site. Consequently, we are concerned that the DRC is not providing adequate independent oversight of incoming waste because of the self-policing model.

#### **2012-09 A Performance Audit of Utah's Radioactive Waste Facility Tax**

The report concludes that there are concerns with the Radioactive Waste Facility Tax structure. Specifically, EnergySolutions has the ability to control portions of the tax through vertical integration. This means the company can accept waste, and earn revenue outside the state for disposal of waste inside the state. This practice can affect taxes paid in Utah. While EnergySolutions has not violated the law or acted with the intent to avoid taxes, we believe the Legislature should consider a new tax structure that is more straightforward and reduces the risk to the state that some tax dollars may not be collected. Specifically, we recommend that the Legislature consider moving away from a tax based on gross receipts to a tax structure based on the radioactive intensity of the waste (millicurie) or a combination of radioactive intensity and volume (cubic feet). This recommendation is designed to be revenue neutral.

#### **2012-08 A Performance Audit of the Utah Telecommunications Open Infrastructure Agency (UTOPIA)**

Due to a number of unforeseen challenges, UTOPIA has been unable to complete its advanced fiber optic network as quickly as planned. As a result, revenues have not been sufficient to cover agency costs and the agency has found itself in a difficult financial situation. The report concludes that poor planning, mismanagement, and unreliable business partners have contributed to the agency's financial difficulties. A lack of subscribers is also contributing to the agency's poor financial condition. Eight UTOPIA member cities have

developed a new construction plan aimed at addressing past mistakes and completing the network. In order to increase the likelihood of success, the report suggests the UTOPIA board and management team adopt a number of management and financial controls aimed at strengthening their oversight of the agency and holding people accountable for results.

#### **2012-07 A Performance Audit of Medicaid Eligibility**

Most recipients were accurately assessed for eligibility. Eligibility was incorrect for only one case, affecting five recipients' benefits. Of greater concern, about 2,300 recipients of public assistance programs, including Medicaid, have been issued multiple unique identification numbers. Agency errors represent about one-third of medical overpayments, and accounted for nearly \$1 million for fiscal year 2011. DWS began conducting case reviews prior to benefit issuance to help reduce overpayments. Finally, by issuing one-time identification cards to Medicaid recipients, the state could save about \$1.27 to 1.39 million per year.

#### **Report 2012-03 An In-Depth Follow-up of Utah Medicaid's Implementation of Audit Recommendations**

This report presents an in-depth follow-up of 63 recommendations made in four previous Medicaid audits. We found that of those 63 recommendations, 41 (65 percent) have been implemented and the other 22 (35 percent) are in the process of being implemented. Substantial cost savings have been achieved by the Utah Medicaid program and the Office of Inspector General's implementation of the audit recommendations. We estimate that cost savings could reach a \$0.5 billion dollars or more over the next ten years.

#### **ILR 2012-F Community Education Channel Agency's TV Production Truck**

We found that there have been significant oversight concerns with the Community Education Channel Agency (CECA), an interlocal agreement in Washington County. For example, the CECA

purchased a full-size TV production truck that, over time, was seldom used for local mission-supported broadcasting. Instead, the CECA leased the vehicle on the open market, an action which reportedly competed with private business. We recommend the Legislature consider amending *Utah Code* to clarify oversight requirements of interlocal entities like the CECA.

#### **ILR 2012-E A Survey of Revenue Bond Funding Sources**

The conclusion of the preliminary survey work showed that the revenue bond approval process has good controls to ensure sufficient funding is pledged to meet bonding commitments. In addition, the Office of the State Auditor's annual financial audits of higher education institutions include a review of revenue bond projects. The State Auditor's examination provides a control to ensure pledged revenues are adequate and being used to pay obligations.

#### **ILR 2012-D Informal Poll of the Utah Senate on the U.S. Senate Candidates**

This informal poll was required by Senate Resolution 1 of the 2012 General Session. Senate Resolution 1 directed the Legislative Auditor General to conduct an informal poll of the Senate to determine each member's preferred candidate for the United States Senate. The resolution provided that the poll was to be conducted by secret ballot and that participation was voluntary on the part of each senator.

#### **ILR 2012-C Survey of University of Utah Legal Counsel Staffing**

A limited survey of attorney staffing levels within Pacific Athletic Conference (PAC) universities having both a medical school and a hospital suggests that the University of Utah's (U of U's) Office of General Counsel (OGC) may have more attorneys for its size than its counterparts have. In addition, it was our intent to provide salary comparison data which could indicate whether OGC salaries seem reasonable. Some salary

data was gathered, but not enough could be gathered in this survey to enable a reasonable comparison.

#### **ILR 2012-B An In-Depth Follow-Up of the Division of Parks and Recreation**

While substantial progress has been made, the Utah Division of Parks and Recreation is still in the process of implementing many of the recommendations listed in a January, 2011 audit report titled A Performance Audit of Utah State Parks (No. 2011-03). Although it may take several years for the division to fully implement the recommendations, the agency has shown a clear commitment to adopting some of the business practices described in the report.

### **■ Completed Audits with Follow-Up**

#### **2012-06 A Performance Audit of the Division of Housing and Community Development (HCD)**

This report examined HCD's functions and activities regarding the development of low-income housing. One such activity, the purchase of property in South Salt Lake, appears to have been within HCD's authority but lacked guidance from internal policies. Another function, the use of Neighborhood Stabilization Program funds, appears to have been performed appropriately and efficiently. Bridges Out of Poverty, a training program, cost the state negligible amounts.

**Results of Follow-Up:** One recommendation was made, which is in process.

#### **2012-05 An In-Depth Follow-up Audit of PEHP's Business Practices**

This follow-up audit found PEHP has made improvements. First, we found that a new purchasing agent has established procurement practices that help foster competition when procuring vendors. However, PEHP still has three contracts that are perpetual. Second, PEHP has reduced medical reserve deficits by \$4.1 million over the past year. Current deficits that need to be eliminated total \$4.3 million. Also, excess

reserves of \$46 million need to be refunded to the state. Third, PEHP's pharmacy and therapeutics committee has adopted new policies and procedures to ensure members' needs are fairly addressed. Finally, PEHP has restructured its appeals process to include more clinical expertise.

**Results of Follow-Up:** Eight recommendations were made; all have been implemented.

#### **2012-04 A Performance Audit of DABC Oversight of Package Agencies**

This report addresses the management of package agencies by DABC and is an extension of an audit released in May, 2011 regarding a \$300,000 loss from a closed package agency in Eden, Utah. We found that the problems associated with the Eden Package Agency were not isolated, but DABC has strengthened controls over package agencies since the Eden audit. DABC can further improve the oversight of package agencies by formalizing its new practices into written procedures and considering other changes. Because of the risks associated with DABC operations, we recommend an internal audit division be established at the department.

**Results of Follow-Up:** Three recommendations were made; two have been implemented; one is in process.

#### **Audit 2012-02 A Review of School Community Council (SCC) Election Practices**

As required by statute, this report reviews SCC election practices. We reviewed to see if schools were holding SCC elections, providing proper notice of elections, and fulfilling other statutory requirements. We found that, due to elections being uncontested, most SCCs are not required to hold elections. However, most sampled schools are not fully complying with election notification requirements. Utah law also prohibits a licensed educator from serving as a parent/guardian SCC member within the district of employment. We recommend the Legislature reexamine this law to ensure it fulfills the desired intent.

**Results of Follow-Up:** Six recommendations were made; three have been implemented, three are in process.

#### **Audit 2012-01 A Performance Audit of the Utah Transit Authority**

UTA is in the midst of a \$2.3 billion expansion of its rail system. Unlike earlier rail projects, this expansion is mostly being paid through local funds. It remains uncertain whether UTA will have the revenue to satisfactorily operate the costly systems that it is building. UTA's revenue projections are optimistic, while expense projections may be understated. In addition, we found that in recent years, UTA's cost-effectiveness has declined because costs grew while ridership remained level. UTA faces challenges as it seeks to implement a new fare structure and attempts to reduce subsidy levels while maintaining and increasing ridership. It is important for UTA to openly communicate to the public the ongoing operating costs of proposed infrastructure expansions, or taxpayers may face an unexpected tax increase.

**Results of Follow-Up:** Nine recommendations were made; all were implemented.

#### **Audit 2011-15 A Performance Audit of Higher Education Graduation Rates and Excess Hours**

The U of U's graduation rate is comparatively low and needs to improve. Although SUU and WSU compare favorably to peer groups, improvement could be desirable for both institutions. USU compares favorably. Further, State Board of Regents' (SBR) policy to discourage students from taking excess credit hours (hours in excess of graduation needs) by assessing an excess credit hour surcharge appears ineffective; little has been collected. Excess credit hours contribute to the time it takes to graduate. The longer the enrollment span, the less likely graduation is.

**Results of Follow-Up:** Ten recommendations were made, six to the SBR and four to specific institutions. The SBR has implemented five of the six

recommendations. The sixth recommendation is in process; it will be implemented in the future as it involves an analysis of student behavior changes. Of the four recommendations to specific institutions, two have been implemented and two are in process.

#### **2011-14 A Performance Audit of the Utah Division of Wildlife Resources (DWR)**

DWR can improve inefficiencies in its Aquatics Section. These inefficiencies stemmed largely from an inadequate system for tracking hatchery cost data that has led to wasteful levels of egg and fish production. The audit also identified other opportunities for the state hatchery system to reduce costs. Regarding the Wildlife Section, our limited review of conservation permits concluded that public hunting opportunities were not significantly impacted by the practice of allocating permits to conservation groups. Still, we recommend DWR review whether the program is fully equitable to public hunters.

**Results of Follow-Up:** Eight recommendations were made; two have been implemented, four are in process, and two are partially implemented.

#### **2011-13 A Review of Allegations Regarding the Management of the DABC**

We believe the DABC has been incompetently managed. For years, the DABC has been rigging bids, falsifying reports, and artificially splitting invoices. The DABC has also done substantial business with Flexpak, a company owned by the former director's son, without competitive bidding or proper contracting procedures. DABC management also failed to provide oversight of the department's financial affairs. Because of this demonstrated pattern of poor management, the Legislature may want to consider revising the current oversight structure of the department.

**Results of Follow-Up:** Two recommendations were made; one has been implemented and one is in process.

#### **2011-12 A Performance Audit of Mandatory Student Fees at the University of Utah (U of U)**

The U of U needs increased transparency and accountability for its mandatory student fee process. Policies are needed for defining the approval process, including the level of student involvement. Requirements should include justification of the fee amount and appropriate use of revenues. Monitoring should be required to ensure fee revenues are used for the intended purpose. The Legislature and State Board of Regents (SBR) should also provide more guidance.

**Results of Follow-Up:** Three recommendations were made to the U of U and SBR; all were implemented.

#### **Audit 2011-11 A Performance Audit of the Operating Efficiency of the State Court System**

While the courts' electronic records project is progressing, an enhanced focus on timeliness and objectives, addressing judges' technical concerns, and mandating electronic filing is needed. Further, the courts should implement case processing time standards to promote better case management. The courts have worked to improve custody evaluations, but oversight of evaluators can be improved. Finally, statewide traffic citation trends have remained level despite the recession. However, the quality of traffic schools is unregulated and at least one municipality has used invitations to traffic school in lieu of issuing tickets, which circumvents the revenue-sharing process.

**Results of Follow-Up:** Five recommendations were made; four have been implemented; one is in process.

#### **Audit 2011-10 A Performance Audit of IT Security at Universities and Quasi-Government Agencies**

Higher education proactively monitors IT security and their assessments seem comprehensive. Some quasi-government agencies, however, were lacking key IT security features such as policies, IT continuity plans, and IT security awareness training. These agencies should adopt basic IT security features.

**Results of Follow-Up:** Five recommendations were made; one was implemented and four were partially implemented.

**Audit 2011-09 A Performance Audit of Higher Education Institutions' Residency Determination**

While most surveyed institutions adequately documented student residency, two institutions, Dixie State College and the College of Eastern Utah (CEU), displayed weak documentation of initial residency determination. CEU also showed inadequate documentation in granting residency for students challenging an initial nonresident classification.

**Results of Follow-Up:** Five recommendations were made; all were implemented.

**Audit 2011-08 A Performance Audit of Higher Education Operating and Maintenance Funding**

This audit reviewed legislatively appropriated operation and maintenance (O&M) funding of facilities within Utah's system of higher education. The transparency and accountability of O&M funding is weak. There is not a comprehensive record of how much funding is provided for O&M, nor a sufficient record of which buildings have been funded. Also, we identified some instances where institutions may be adding buildings to campuses without an identified O&M funding source. This practice can dilute resources available for facilities with legislatively approved funding. Lastly, we identified other potential sources of O&M funding available to the institutions that should be reviewed and considered, including reimbursed overhead funds and revenue-generating activities.

**Results of Follow-Up:** Six recommendations were made; one has been implemented, three are in process, and two have not been implemented. The Board of Regents has yet to adequately address its policy on reimbursed overhead or revenue-generating buildings.

**Audit 2011-07 A Survey of School Districts' Health Insurance**

Health care costs and benefits vary for each school district. Of the ten school districts surveyed, the average annual family premium was \$14,097; the highest premium was \$16,716 and the lowest premium was \$10,078. One factor affecting high premiums is the variation in the districts' procurement practices. Four of the ten school districts have not bid their health insurance in more than five years. Some school districts offer significantly more medical benefits, which further affects premiums.

**Results of Follow-Up:** One recommendation was made and not implemented because not all school districts are using competitive bidding for health insurance every three to five years.

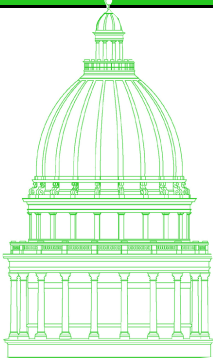
**ILR 2012-A A Survey of Salt Lake Community College (SLCC) Personnel Practices**

A survey of hiring, termination, and grievance practices at SLCC identified no serious concerns. Employees are hired based on a competitive hiring process and termination policies are followed. More formal grievances are filed at SLCC than at a comparably sized institution because of more liberal practices.

**Results of Follow-Up:** Two recommendations were made; both have been implemented.







**It is the mission of the Office of the Legislative Auditor General to serve the citizens of Utah by providing objective information, in-depth analyses, and useful recommendations that help legislators and other decision makers:**

- **Improve Programs**
- **Reduce Costs**
- **Promote Accountability**

**To achieve this mission, the office completes in-depth audits and special projects requested by the Legislature. Listed below are examples of recent audit contributions to each mission objective.**

## ■ Improving Programs

We identify changes in statute or agency policies and practices that can help programs more effectively achieve their purposes. For example:

- We found that DABC had been relying on flawed and inaccurate reports to account for its inventory. Based on our recommendations, DABC implemented a number of inventory controls that had been lacking in both warehouse and store operations. Other recommendations helped the department ensure oversight of contracts and safeguard state assets and inventory.
- The State Board of Regents' (SBR) excess credit hour surcharge policy was comparatively lenient and enforcement was relatively lax. Following our recommendations, the SBR has strengthened its excess credit hour surcharge policies. By taking this action, students are more likely to graduate sooner with fewer credit hours. With fewer students amassing unnecessary excess credit hours, strain on the taxpayers' capital should be reduced.
- We found the Division of Occupational and Professional Licensing (DOPL) was in need of improved policies and management oversight. Policies concerning the timeliness of investigations and fine amounts on issued citations were not being enforced. DOPL staff needed more guidance on when violations to probation and diversion agreements warranted sanctions and what those

sanctions should be and how probation should be managed. Finally, DOPL was not following diversion policies on program entrance and case management. DOPL agreed that improvements are needed and has begun implementing our recommendations.

## ■ Reducing Costs

We find savings for Utah taxpayers by identifying ways to run programs more efficiently or collect revenues that agencies are failing to collect. For example:

- The 2012 audit of Medicaid Eligibility found that Utah is the only state in its region that provides a monthly, eligibility identification paper card to their Medicaid recipients. The other regional states have provided a one-time eligibility identification card to their recipients for about the past 10 years. Utah could save about \$1 million annually by issuing a one-time eligibility identification card to Medicaid recipients.
- The 2011 audit of PEHP found that the state's medical reserves consisted of \$61 million. The Legislature then asked us to oversee an actuarial study of the state's contingency reserves. The actuarial study showed that PEHP should maintain at least a 50-day reserve. Using the 50-day benchmark, \$26 million of the state's reserves could be refunded to employers and employees. The in-depth follow-up audit of PEHP completed in January 2012 showed that the state's medical



reserves have increased to \$85 million. As a result, the possible refund amount has now increased to about \$46 million.

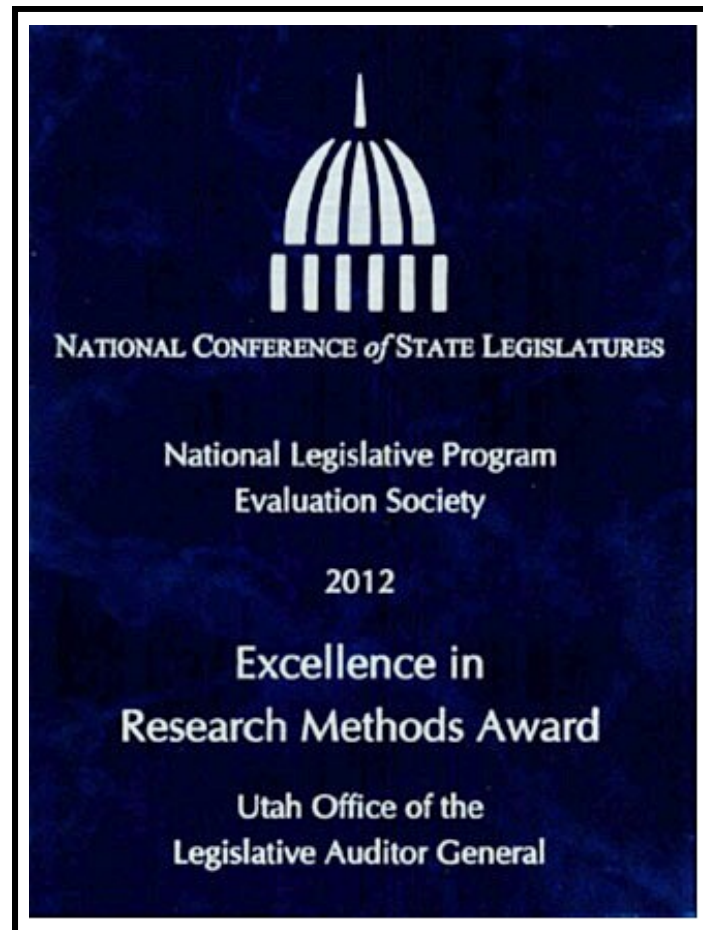
### ■ Promoting Accountability

We provide information that helps decision makers address important issues, including the adequacy of governance structures. For example:

- During our review, UTA was in the midst of a major expansion of its rail system. We found that UTA's revenue projections were optimistic and expense projections were understated. Thus, it is uncertain whether UTA will have the revenue to satisfactorily operate the costly systems being built. Based on our recommendations, UTA will identify reliable revenue sources for future transit projects before construction, will utilize sales tax revenue models from other planning entities to establish sales tax revenue projections, and will reevaluate boarding projections as updated data becomes available.
- We found that the Division of Radiation Control (DRC), as the oversight arm for radioactive waste disposal in Utah, is not exercising sufficient independent controls to detect radioactive waste banned by Utah statute. The DRC is now in the process of implementing our recommendations, which will strengthen oversight and improve accountability to independently ensure that only approved waste is being disposed of at the Clive radioactive waste site.
- We reported significant oversight concerns at the Community Education Channel Agency (CECA), an interlocal agreement in Washington County. For example, the CECA purchased a full-size TV production truck that, over time, was seldom used for local mission-supported broadcasting. Instead the CECA leased the vehicle on the open market, which action reportedly competed with private business. Due to the findings in the audit, Legislators and CECA board members are looking at ways of strengthening oversight and improving accountability through more clearly defined policies and stronger fiscal controls.
- Our audit of UTOPIA suggested several ways the agency might improve its accountability to its board, its 11 member cities and the public. In response, the board has formed three new oversight committees, has approved new performance measures and is about to issue a formal strategic plan. The plan describes the agency's strategy for completing the network. However, the plan also describes the actions the agency may take in the event its revenues do not materialize as planned.
- In response to concerns raised in our audit of mandatory student fees at the University of Utah, the university established a working group of students and administrators to draft a formal policy on mandatory student fees. The resulting Policy 6-407: University General Student Fee Board was formally approved by the Board of Trustees. The Policy establishes a board to review and analyze all mandatory student fees. The board is made up of a student majority and administrative staff. The board is responsible for reviewing current student fee use as well as any request for increases/decreases in current fees or new fees. Administrators of student fees are responsible for providing financial reports and explanations of the use of student fees as outlined in the Student Fee Review Guidelines and Student Fee Form.



## Legislative Auditor's Office Receives National Award



The Utah Office of the Legislative Auditor General (OLAG) received the 2012 Excellence in Research Methods Award from the National Legislative Program Evaluation Society (NLPES), a staff section within the National Conference of State Legislatures (NCSL). This award is a reflection of the strength of the audit environment created by the Utah Legislature combined with the experience and strength of a committed audit staff.

Each year, NLPES gives the Excellence in Research Methods award to a state's audit or

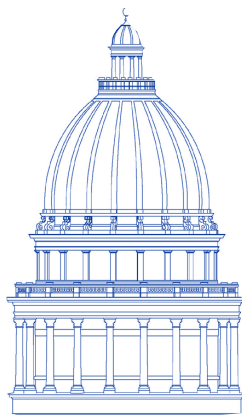
evaluation office which produces a report developed through the use of exemplary research methods. OLAG received the award for *A Performance Audit of PEHP's Business Practices* (Audit 2011-11).

NLPES selects the recipient of this award based on the following criteria: (1) technical difficulty and sophistication, (2) innovative or unusual applications of established methodologies, and (3) exceptional breadth, depth, and scope of fieldwork which takes the evaluation to a more comprehensive level.

# Released Audits and Informal Reports, 2009 - 2011

2011			
2011-15	Higher Education Graduation Rates & Excess Hours	2010-03	Counties' Municipal Services
2011-14	Division of Wildlife Resources	2010-02	Utah Antidiscrimination and Labor Division
2011-13	Allegations Regarding Management of the DABC	2010-01	Utah Medicaid Managed Care
2011-12	Mandatory Student Fees at the University of Utah	ILR2010-F	Fund Balances Maintained in School Districts
2011-11	Operating Efficiency of the Utah State Court System	ILR2010-E	Revenues and Costs of the DABC
2011-10	IT Security at Universities and Quasi-Gov't Agencies	ILR2010-D	UDOT's Controls Over Right-of-Way Property Mgt.
2011-09	Higher Ed. Institutions' Residency Determination	ILR2010-C	Review of HOV Lanes
2011-08	Higher Ed. Operating and Maintenance Funding	ILR2010-B	Effects of DABC Budget Cuts on State Revenue
2011-07	School Districts' Health Insurance	ILR2010-A	Jordan School District's FY 2009 Purchases
2011-06	Actuarial Study of PEHP's Contingency Reserves	2009	
2011-05	Public Education Cosmetology Programs	2009-19	DWS Eligibility Services
2011-04	DABC Actions Regarding a \$300,000 Loss from a Package Agency	2009-18	Eligibility for Public Safety Retirement
2011-03	Division of Parks and Recreation	2009-17	Cost of Benefits for Reemployed Retirees and Part-Time Employees
2011-02	Division of Child and Family Services	2009-16	911 System in Salt Lake County
2011-01	PEHP's Business Practices	2009-15	Career and Technical Education Costs
ILR2011-B	Competitive Business Practices of the Utah Local Government Trust	2009-14	Conversion of Justice Courts to CORIS
—	Information Regarding Disability Law Center Performance Audit Request	2009-13	Department of Technology Services
2010		2009-12	Medicaid Fraud, Waste, and Abuse Controls
2010-17	Conflict of Interest Allegations at the UTA Board	2009-11	Follow-up of Higher Education Personnel Budget
2010-16	Utah Medicaid Provider Cost Controls	2009-10	Office of Services Review (OSR)
2010-15	County and Municipal TDR Use in Utah	2009-09	Insurance Fraud Division
2010-14	Utah Medicaid's Implementation of Audit Recommendations	2009-08	Public Ed. Employees' Criminal Background Checks
2010-13	Charter School Oversight	2009-07	Retirement Systems' Administrative Costs
2010-12	School District Travel Accountability	2009-06	Sale of the CEU President's Home
2010-11	Department of Alcoholic Beverage Control (DABC)	2009-05	Cities' Compliance with Impact Fee Statute
2010-10	Working 4 Utah Initiative	2009-04	Elementary School Class Size
2010-09	State-Funded Business Programs and Initiatives	2009-03	Drug Offender Reform Act (DORA)
2010-08	State's Career Service System	2009-02	School Children's Trust Section
2010-07	Use and Accountability of RAP Tax Funds Statewide	2009-01	Public Lands Policy Coordinating Office
2010-06	Driver License Division	ILR2009-C	Emergency Care in Utah
2010-05	Workload in Second District Court and Fifth District Juvenile Court	ILR2009-B	Association Leave in Utah's School Districts
2010-04	State Agency Regulatory Fees	ILR2009-A	Allegations Made Concerning DSPD

Available online at [www.le.utah.gov/audit/olag.htm](http://www.le.utah.gov/audit/olag.htm)



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