State of Utah
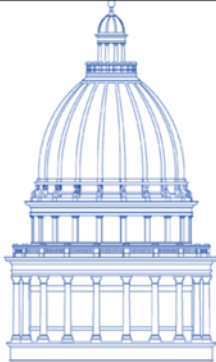Office of the Legislative Auditor General

# Fortieth Annual Report
# to the
# Utah State Legislature

**Sixty-First Legislature**
**2015 Session**

**The Utah State Legislature created the Office of the Legislative Auditor General (OLAG) in 1975. OLAG has constitutional 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 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 requested audit. While a letter of request can originate from 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."

## ■ How Can I Obtain Audit Reports?

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

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

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

**Speaker Greg Hughes, Co-Chair**
Speaker of the House
R–Salt Lake County

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

**Representative Brian King**
House 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?

| | |
|---|---|
| **Auditor General** | John M. Schaff, CIA |
| **Deputy Auditor General** | Richard D. Coleman, CIA, CPA |
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| | Christopher McClelland, CIA |
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| | Candace Ware |
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| **Quality Control/ Report Editor** | Leslie Marks, CFE |
| **Administrative Assistant** | Lynda Maynard |
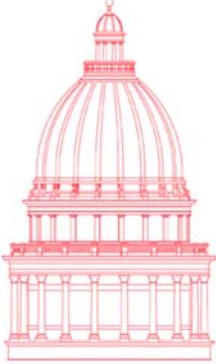
**Based on issues addressed and recommendations made in our 2014 audits and the actions taken on 2013 audit recommendations, we believe the Legislature should consider the following items during the 2015 General Session. Whether the Legislature chooses to act on the following items depends on legislative policy decisions that are outside the audit arena.**

## ■ 2014-10: A Performance Audit of the Division of Services for People with Disabilities

In our audit of DSPD, we raised issues that may require legislative involvement. Specifically, we discussed Senate Bill 259 which was passed in the 2013 General Session. The bill enabled some individuals with less critical needs to be served before others with more critical needs. Further, the bill attempted to provide limited respite services to a targeted group, which is not permitted through Utah's federal waiver.

*Action Needed:* The Legislature should consider the following: (1) ensuring that the current law targets the desired DSPD population(s) for ongoing, respite-only appropriations; (2) assessing if the effect of SB259—allowing individuals with less critical needs to receive services before those with more critical needs—satisfies the desired outcome; (3) considering a state pilot program as a possible approach to providing a targeted service; and (4) considering the use of limited support waiver(s) if the Legislature desires to deliver groups of services to targeted populations.

## ■ 2013-05: A Performance Audit of Higher Education's Competition with the Private Sector

The University of Utah has three off-campus retail stores that compete with the private sector in violation of University of Utah and Board of Regents policy. However, those policies have not been enforced, and there is no statutory guidance concerning higher education competition with the private sector. Additionally, the tax code may be interpreted that is it permissible for campus bookstores to sell most items tax free to their students, faculty, and employees.

*Action Needed:* The Legislature should consider providing statutory policy guidance that addresses higher education competition with the private sector. Additionally, the Legislature should consider clarifying sales tax policy related to sales by higher education institutions.

## ■ 2014-08: A Performance Audit of the Utah Fund of Funds

Among the issues we found at the Utah Fund of Funds (UFOF) was the need for improved board oversight in areas such as the development of comprehensive policies and procedures, and documenting and justifying significant bonuses paid. The Legislature could play a role in one specific recommendation regarding terms of the board chair.

*Action Needed:* The Legislature should consider amending *Utah Code* 63M-1-1209(4)(d) to clearly allow the UCIC board chair to serve terms in succession.

## ■ 2014-07: A Performance Audit of Interlocal Entities

We reviewed interlocal entities' policies and procedures, board oversight, and oversight by the Lieutenant Governor's Office. While the entities reviewed were in compliance with statutory requirements, the Lieutenant Governor can improve communications to interlocal entities and the information sent to the Automated Geographic Reference Center (AGRC).

*Action Needed.* The Legislature should consider requiring interlocal entities to submit surveyor files (CAD files) with their initial documentation to the Lieutenant Governor's Office and reconsider legislated response times to recognize the need for plat verifications.

### ■ 2014-04: A Performance Audit of the Bureau of Emergency Medical Services and Preparedness

Bureau regulation of licensed ambulance providers can be more effective through improved monitoring activities. Specifically, provider goals pertaining to cost, quality, and access (CQA) for ambulance services need to be established and monitored. The Legislature could play a role in requiring these CQA goals be established by local governments.

*Action Needed:* The Legislature should consider amending *Utah Code* 26-8a-408(7) to make the establishment of cost, quality, and access goals mandatory for all local governments.

### ■ 2014-09: An In-Depth Budget Review of the Department of Human Services

Some Utah State Hospital forensic patients placed by court order are held longer than allowed by state statute. *Utah Code* 77-15-6 delineates the maximum time a court-placed patient can be held for competency restoration. Patients who are held beyond the statutory limit may be held as a result of waiting for court processing, community placement, or civil commitment proceedings.

*Action Needed:* The Legislature should consider reviewing *Utah Code* 77-15-6 and monitoring compliance of maximum lengths of stay by all relevant entities, including the courts and the Utah State Hospital (USH).

### ■ ILR2014-E: A Follow-Up of Selected Legislative Recommendations for Higher Education O&M

This report follows up on the implementation of recommendations made in Audit Report 2011-08: *A Performance Audit of Higher Education Operation and Maintenance Funding*. That report reviewed legislatively appointed operation and maintenance (O&M) funding of higher education facilities. This report addresses the status of three of the legislative recommendations that have not yet been fully implemented.

*Action Needed:* We recommend the Legislature consider the following actions. First, require all higher education buildings to have an O&M funding plan in place before construction. The funding plan should show at least the amount and source of funds to be added to the institution's O&M budget. Second, direct the State Board of Regents to maintain a record of all on-campus buildings that specifies whether the O&M funding source is the state or another entity. If the funding does not come from the state, the record should specify the source of the O&M funding. Implementation of an appropriation unit to track O&M could be accomplished through the Legislative Fiscal Analyst's Office or through statute. Third, instruct the Legislative Fiscal Analyst's Office to track O&M as an appropriation unit within the Education and General Fund line item.

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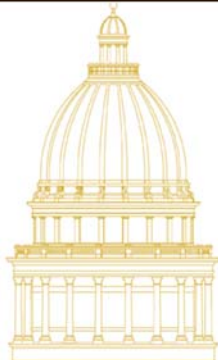
**In 2014, the Office of the Legislative Auditor General (OLAG) completed 19 audits (12 in-depth audits, 2 budget and appropriation audits, and 5 special projects). OLAG's 2014 audits are listed in the table below, and the 2014 audit follow-ups are listed on the next page. The remainder of the section summarizes each audit and its follow-up results. Full reports can be found on the legislative website located at: www.le.utah.gov/audit/olag.htm.**

| Audit Name | Audit Number | Agency Recommendations | Legislative Recommendations | Release Date |
|---|---|---|---|---|
| **2014 Completed Audits** | | | | |
| Follow-Up of USTAR | 2014-14 | 2 | 0 | December |
| Div. of Drinking Water's Minimum Source Sizing Requirements | 2014-13 | 6 | 0 | December |
| Dept. of Technology Serv. Rates, Customer Service and Staffing | 2014-12 | 9 | 0 | December |
| Utah's Purchasing Interaction with WSCA-NASPO | 2014-11 | 1 | 0 | December |
| Utah Fund of Funds (UFOF) | 2014-08 | 17 | 1 | August |
| Interlocal Entities | 2014-07 | 2 | 1 | August |
| Utah Transit Authority | 2014-06 | 14 | 0 | August |
| Allegations Concerning the Math Textbook Procurement | 2014-05 | 0 | 0 | June |
| Bureau of Emergency Medical Services and Preparedness | 2014-04 | 14 | 1 | June |
| Governance of Conservation Districts | 2014-03 | 9 | 0 | June |
| Best Practices in Utah School Districts | 2014-02 | 16 | 0 | February |
| Utah High School Activities Association (UHSAA) | 2014-01 | 11 | 0 | February |
| **2014 Completed Budget and Appropriation Audits** | | | | |
| *Utah Code* 36-12-15.1 provides for special audits that focus on the extent to which the entity has efficiently and effectively used its appropriation; whether the entity's size and operation are commensurate with its spending history; and whether the entity is diligent in its stewardship of state resources. For 2014, the Audit Subcommittee prioritized these budget and appropriation audits: | | | | |
| Division of Services for People with Disabilities | 2014-10 | 6 | 4 | October |
| In-Depth Budget Review of the Dept. of Human Services | 2014-09 | 12 | 1 | October |
| **2014 Completed Special Projects** | | | | |
| Follow-Up of Selected Legislative Rec. for Higher Ed. O & M | ILR2014-E | 0 | 3* | December |
| Risk Survey of the Office of the Attorney General | ILR2014-D | 0 | 1 | December |
| Follow-Up of the Utah Fund of Funds (UFOF) | ILR2014-C | 0 | 0 | November |
| DABC Warehouse and Retail Operations | ILR2014-B | 4 | 0 | March |
| Utah State Fairpark's Financial Oversight and Controls | ILR2014-A | 4 | 1 | February |

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*Recommendations repeated from Audit Report 2011-08

For this annual report, we completed follow-up inquiries on 15 audits (5 audits from 2014 and 10 audits from 2013 shown below). The 15 audits with follow-ups contained 112 recommendations to audited agencies, only 3 of which (3 percent) were not implemented. There were also 6 legislative recommendations, of which 4 have yet to be implemented. (See also "Legislative Action" on page 3.)

## Audit Follow-Ups

| Audit Name | Number | Recommendations | | Follow-Up Status | |
|---|---|---|---|---|---|
| | | Agency | Legislature | Agency | Legislature |
| Utah Fund of Funds (UFOF) | 2014-08 | 17 | 1 | 13 Implemented; 4 In Process | 1 In Process* |
| Best Practices in Utah's School Districts | 2014-02 | 0 | 0 | Note: School districts were encouraged to weigh the benefits of adopting a best practice and determine how it might be adapted to their unique set of conditions. | |
| Utah High School Activities Association | 2014-01 | 11 | 0 | 10 Implemented; 1 Partially Implemented | _____ |
| DABC Warehouse and Retail Operations | ILR2014-B | 4 | 0 | 4 Implemented | _____ |
| St. Fairpark's Financial Oversight/Controls | ILR2014-A | 4 | 1 | 4 Implemented | 1 Implemented |
| Department of Workforce Services | 2013-13 | 14† | 0 | 12 Implemented; 1 In Process 1 Partially Implemented | _____ |
| Utah Science Tech. & Research (USTAR) | 2013-12 | 15 | 0 | 7 Implemented; 8 In Process | _____ |
| Appropriated Wolf Management Funds | 2013-11 | 2 | 0 | 2 In Process | _____ |
| Health Insur. Contracting in Higher Ed. | 2013-10 | 2 | 1 | 2 In Process | 1 Not Yet Implemented* |
| In-Depth Budget Review of the Utah Department of Corrections | 2013-09 | 12 | 0 | 5 Implemented; 6 In Process; 1 Partially Implemented | _____ |
| Division of Adult Probation and Parole | 2013-08 | 12‡ | 1 | 6 Implemented; 6 In Process | 1 Not Yet Implemented* |
| Utah Insurance Department | 2013-07 | 10 | 0 | 10 Implemented | _____ |
| Fugitives and Inmates Inappropriately Receiving Public Assistance | 2013-06 | 3 | 0 | 3 Implemented | _____ |
| Higher Ed. Competition w/ Private Sector | 2013-05 | 3 | 2 | 2 Implemented; 1 In Process | 2 Not Yet Implemented* |
| Sand/Gravel Air Qual. Permit/Compliance | 2013-04 | 3 | 0 | 3 Implemented | _____ |
| **118 Total Recommendations:** | | **112** | **6** | | |

*Most recommendations to the Legislature which are not yet implemented are addressed in the "Legislative Action" section on page 3.
†Corrected number: the 2014 Annual Report erroneously listed this number as 13.
‡Recommendation total was increased by one from last year's count to reflect distinct tasks identified during follow-up.

## ■ Completed Audits

### Audit 2014-14: A Follow-Up Review of the Utah Science Technology and Research Initiative (USTAR)

We found that USTAR continues to work to implement all recommendations from our October 2013 audit. However, we found some issues with USTAR's key performance metrics, including:

unavailable or changing data, inaccurate or inconsistent information, and a lack of clarity as to what should be included in metric reports. We believe the cause of the issues with USTAR's metrics is the lack of a rigorous data collection process. USTAR can improve the accuracy of its data by: clearly defining metric definitions and count methodologies, implementing required reporting forms and formats, enacting required reporting timeframes, and requiring its partners to provide access to source documentation.

**Audit 2014-13: A Performance Review of the Division of Drinking Water's (DDW) Minimum Source Sizing Requirements**

We reviewed DDW's minimum source sizing requirements, which are designed to ensure safe and reliable public drinking water systems. Individuals from the residential development community have criticized the source sizing as excessive, resulting in unnecessary water-related costs. Although we found that the indoor requirements appear too high, the state's outdoor requirements appear too low. We also found steps for receiving a reduction to the source sizing requirements need additional clarification. Also, a formal review/update to the state source sizing requirements is needed to ensure that water systems are able to optimize resources as well as the adequacy of their water supply.

**Audit 2014-12: A Performance Audit of Concerns Regarding the Department of Technology Services' Rates, Customer Service, and Staffing**

We found that DTS can improve management of rates by (1) adopting new goals once prior ones are achieved, (2) ensuring each rate complies with statute by reflecting the full cost of each service, and (3) implementing an equitable rate structure for application development that accounts for staff experience and cost. Customers also raised concerns about the untimely deployment of computers and accuracy of DTS invoices. DTS has initiated projects to address these issues. Lastly, DTS' staffing practices have generated savings relative to other state agencies. In addition to DTS staff, contactors and IT-knowledgeable staff in state agencies have supplemented rather than replaced staff lost as DTS became more efficient.

**Audit 2014-11: A Review of Allegations Concerning Utah's Purchasing Interaction with WSCA-NASPO**

Our review found that Utah Purchasing benefits from its participation with the WSCA-NASPO Cooperative Purchasing Organization and its use of WSCA-NASPO cooperative contracts. In addition, we found the creation of WSCA-NASPO as a nonprofit organization was done appropriately and that WSCA-NASPO is appropriately dealing with its high fund balances. We also have no evidence that the director of the Utah Division of Purchasing and General Services financially benefited from his position as the WSCA-NASPO management board chair. Finally, complaints about harm done to local vendors as a result of WSCA-NASPO participation appear to be unfounded as Utah facilitates appropriate participation by all vendors.

**Audit 2014-10: A Performance Audit of the Division of Services for People with Disabilities**

DSPD spends in excess of $200 million of state and federal funds each year to address its clients' needs for ongoing and additional services. Services are intended to address actual client need, yet the division lacks the policies and standardized process necessary to appropriately address both actual need and allocation of funds to meet those needs. As a result, some individuals may go without their needs being addressed while others may be budgeted for more than they need. Additionally, in 2013, the passage of SB259 assigned funding to clients with less severe needs who desired respite care. This action does not follow the required need prioritization and conflicts with Utah's federal waiver agreement. The Legislature may find it desirable to address this conflict by targeting this group of clients with a limited supports waiver that works within the federal system.

**Audit 2014-09: An In-Depth Budget Review of the Department of Human Services (DHS)**

DHS can better control costs and increase effectiveness with the use of baseline metrics that can be compared over time and with other states. Specifically, we reviewed the Juvenile Justice Services (JJS) and found the recidivism rate is much higher—currently at 53 percent—when compared to other states and that programming used to positively affect youth behavior requires stronger monitoring from JJS. We also show that, if the recidivism rate is reduced to 34 percent, JJS can save up to $6 million over time. Finally, the Utah State Hospital can reduce per-client costs and implement controls that would help manage risk. Some

forensic patients are held for competency restoration longer than allowed by state statute. In addition, procedures for securing and documenting off-site medical care for patients require additional controls.

**Audit 2014-08: A Performance Audit of the Utah Fund of Funds** (See "Complete Audits with Follow-Up" section)

**Audit 2014-07: A Performance Audit of Interlocal Entities**

We reviewed interlocal entities' policies and procedures, board oversight, and oversight by the Lieutenant Governor's Office. While the entities reviewed were in compliance with statutory requirements, the Lieutenant Governor's process could be improved by: (1) using a generic email address for sending and receiving interlocal entity information in order to maintain a history, and (2) sending interlocal entity information to the Automated Geographic Reference Center (AGRC) before a certificate is created. In addition, the Legislature should consider requiring interlocal entities to submit surveyor files (CAD files) with their initial documentation to the Lieutenant Governor's Office.

**Audit 2014-06: A Performance Audit of the Utah Transit Authority**

We reviewed two UTA development projects and found questionable decisions and the need for improved processes. First, against policy, UTA paid a developer $10 million for a future parking structure before designs were in place, and then had difficulty recouping the funds. On a second project (with the same developer), UTA agreed to an operating agreement that an independent law firm said was "tipped significantly in favor" of the developer. We also found that UTA currently does not benchmark total compensation, leaving bonuses and special benefits unmeasured. UTA also did not report portions of employee compensation to the transparent.utah.gov website. Further, financial constraints at UTA affect asset upkeep, bus service, and new projects. For example, UTA has only budgeted a portion of a projected $2.9 billion future upkeep expense. Lastly, subsidies vary widely by passenger type

and mode, which raises questions of fare equity. UTA needs to improve aspects of its passenger data and better track customer feedback.

**Audit 2014-05: A Review of Allegations Concerning the Math Textbook Procurement**

Based on our review, the Utah Division of Purchasing and General Services (UDP or Purchasing) and the Utah Office of the Attorney General (AG) properly followed policies and procedures in responding to math textbook procurement process allegations. Our review confirms their findings that these allegations do not appear to have merit and there is no credible evidence of wrongdoing. We also believe amendments made to procurement statute by the 2014 Utah State Legislature may help prevent similar protests and improve the procurement process in the future.

**Audit 2014-04: A Performance Audit of the Bureau of Emergency Medical Services and Preparedness (BEMSP)**

Bureau regulation of licensed ambulance providers can be more effective through improved monitoring activities: (1) provider goals pertaining to cost, quality, and access for ambulance services need to be established and monitored, (2) more effective financial monitoring is needed, and (3) equipment reviews need to verify that all minimum standards established in rule are met. In addition, the bureau's complaint process lacks adequate documentation and clear expectations for ambulance providers and needs to improve. Finally, the bureau also defines provider responsibilities, which need to be clarified. Specifically, the bureau has been slow to alleviate provider overlaps, which creates confusion and conflicts among ambulance providers. The bureau can improve by enforcing statutory requirements and providing service area maps.

**Audit 2014-03: A Performance Audit of the Governance of Conservation Districts**

Each year the Utah Department of Agriculture and Food (UDAF) distributes funding for administration of resource conservation. We found that the Utah

Association of Conservation Districts (UACD) could have done more to develop conservation districts' (CD) capacity with funding UACD received from UDAF. UACD has increased its financial reserves by 61 percent over the last 10 years rather than using state and federal funding to support conservation programs. To fulfill statutory responsibilities, a greater emphasis should be placed on the Utah Conservation Commission's (UCC) role in managing the state conservation funding. Conservation resources should be awarded from UDAF through the UCC to CDs for their proposed projects. The UCC also needs to improve its oversight of CDs' accountability reports.

**Audit 2014-02: A Review of Best Practices in Utah School Districts &**
**Audit 2014-01: A Performance Audit of Utah High School Activities Association** (See entry in "Complete Audits with Follow-Up" section for these two audits.)

**ILR 2014-E: A Follow-Up of Selected Legislative Recommendations for Higher Education O&M**

This report follows up on the implementation of recommendations made in Audit 2011-08: *A Performance Audit of Higher Education Operation and Maintenance Funding*. That report reviewed legislatively appointed operation and maintenance (O&M) funding of higher education facilities and found that inadequate funding information and weak record keeping limited transparency and accountability of O&M funds. This report addresses the status of three of the legislative recommendations that have not yet been fully implemented. Implementation of the recommendations would bolter oversight of O&M funds.

**ILR 2014-D: A Risk Survey of the Office of the Attorney General**

The Legislative Audit Subcommittee authorized our office to conduct a risk survey of the Attorney General's Office and report back our recommendation whether or not to continue with a performance audit. Our survey work has resulted in our office recommending a full performance audit of the Attorney General's Office.

**ILR 2014-C: A Follow-Up of the Performance Audit of the Utah Fund of Funds** (See "Results of Follow-up" for the 2014-08 Fund of Funds in the Completed Audits with Follow-Up section.)

**ILR 2014-B: A Limited Review of Questions Regarding DABC Warehouse and Retail Operations &**
**ILR 2014-A: A Limited Review of the Utah State Fairpark's Financial Oversight and Controls** (See entry in "Complete Audits with Follow-Up" section for these two audits.)

### ■ Completed Audits with Follow-Up

**Audit 2014-08: A Performance Audit of the Utah Fund of Funds**

We found that the Utah Fund of Funds' (UFOF) reported economic impact has been overstated and inconsistent. The UFOF lacks a methodology for tracking and reporting economic development data. While the venture capital market in Utah is improving, the impact of the UFOF is unclear because of this insufficient tracking and reporting. We also found that the UFOF's financing costs have negated all investment gains. But, despite the atypical financing of the UFOF, returns are approaching the breakeven point. Additionally, while the UFOF has not adequately reported investment performance, it has made positive changes to its portfolio in response to the 2008 recession. Finally, the oversight of the UFOF can continue to improve in areas such as the development of comprehensive policies and procedures and documenting and justifying significant bonuses paid.

*Results of Follow-Up:* Eighteen recommendations were made; 13 have been implemented and 5 are in process. One of the in-process recommendations was made to the Legislature, but the UFOF reports that they are working to help facilitate implementation.

**Audit 2014-02: A Review of Best Practices in Utah School Districts**

Best practices are defined as proven, successful methods that lead to high performance. This report describes a

three-step process school districts can use to identify and apply best practices: (1) identify high-performing peer institutions, (2) identify the practices that contribute most to that peer's high performance, and (3) adapt those practices to one's own school district when appropriate. This report applies the three steps to five operational areas: Food Services, Pupil Transportation, Energy Use, School Security, and Contracted Services. By identifying the best practices and adapting those methods to their own situation, school districts should be able to improve their operations.

*Results of Follow-Up:* In lieu of recommendations, we encouraged school districts to weigh the benefits of adopting a best practice and determine how it might be adapted to their unique set of conditions.

## Audit 2014-01: A Performance Audit of the Utah High School Activities Association (UHSAA)

This audit focused on the Utah High School Activities Association's (UHSAA) policies and procedures concerning the classification and realignment of high school sports with an emphasis on football. UHSAA needs to improve its documentation concerning classifications and realignment of high school sports and activities. The audit also looked at student eligibility application and appeal processes, finding that UHSAA needs to do the following: inform parents of the reasons an eligibility application is denied, maintain a record of all appeal hearings' decisions for future reference, and ensure that student appeal hearings comply with the Family Educational Rights and Privacy Act (FERPA) disclosure requirements.

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

## ILR 2014-B: A Limited Review of Questions Regarding DABC Warehouse and Retail Ops.

Our limited review of questions regarding the Department of Alcoholic Beverage Control (DABC) warehouse and retail operations did not identify any

major concerns. However, the DABC should develop policies and procedures to establish thresholds for scheduling receiving days out and steps to be taken when thresholds are not met. The DABC should also consider policies and procedures for tracking and handling missed delivery times/dates and operating policies for the centralized ordering system. Finally, the DABC should work to improve communications regarding delisted products.

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

## ILR 2014-A: A Limited Review of the Utah State Fairpark's Financial Oversight and Controls

The Fairpark requested an emergency "rainy day" appropriation of $750,000 (in addition to its ongoing $675,000 appropriation) to address budget shortfalls occurring in calendar year 2013. The budget shortfall can be attributed to significant overspending for the September 2013 fair and reduced fair revenues due to bad weather. Without support beyond the current $675,000 state appropriation, projections show that, by the end of calendar year 2014, the fair will be in a negative cash flow position. Management has failed to effectively monitor compliance with the existing policies. Policy deficiencies and poor enforcement have undermined the intent of these oversight mechanisms, which led to unapproved spending of $419,000.

*Results of Follow-Up:* Four recommendations were made to the Fairpark; all have been implemented. One recommendation was made to the Legislature, which was also implemented.

## Audit 2013-13: A Performance Audit of the Department of Workforce Services' (DWS) Work Environment

Changes at DWS have contributed to an atmosphere of frustration and unrest among past and present employees. The lack of program baseline measurements has been detrimental to the design and implementation of programs, including: an incentive program which inappropriately benefits managers and supervisors in

the program; a review process that is inconsistent and at times biased; and additional changes in structure and management.

*Results of Follow-Up:* Fourteen recommendations were made; twelve have been implemented, one is in process, and one was partially implemented.

### Audit 2013-12: A Performance Audit of the Utah Science Tech. and Research Initiative (USTAR)

We found that USTAR's reported return on investment (ROI) was inaccurate and flawed. Over half of the reported revenue was unrealized, invalid, or overreported. Jobs created were also inflated and USTAR's reported ROI was not reflective of an expansion of tax revenue to the state. Also, USTAR has inadequately supervised research team funding, insufficiently overseen its research facilities, and ineffectively managed its outreach programs. Lastly, USTAR needs to improve the administration and governance of its operations. Since fiscal year 2007, public investment of almost $334 million in USTAR to support new university research teams, construct research facilities, and establish technology outreach programs across the state has not been adequately controlled.

*Results of Follow-Up:* Fifteen recommendations were made; seven have been implemented and eight are in process of being implemented. (See also: *A Follow-Up Review of USTAR* in the "Completed Audits" section.)

### Audit 2013-11: A Review of Appropriated Wolf Management Funds

In the last four years, the State of Utah has given $800,000 to private organizations to pursue bringing wolf management authority to the state level. Although there is evidence that the funds were spent appropriately, the contract lacked sufficient safeguards to track and assure they followed state requirements.

*Results of Follow-Up:* Two recommendations were made; both are in process.

### Audit 2013-10: A Performance Audit of Health Insurance Contracting in Higher Education

We were asked to review whether pooling employee health insurance for all institutions of higher education and applied technology colleges as a single entity would lead to cost savings for the state. Our review found that 59 percent of institutions pool their employees' health insurance benefits with other groups' plans. However, most of the larger institutions, which employ the greatest number of staff, create their own separate pools and insurance programs. We believe a full compensation study is needed to truly compare the value of the institutions' health insurance packages, which can then be used to determine if overall savings are possible through pooling. We also found that policies addressing the frequency of conducting an RFP could help institutions comply with a new law concerning contract term limits.

*Results of Follow-Up:* Two recommendations were made to higher education institutions; both are in process. The one legislative recommendation not yet implemented is based on the Legislature's desire to have a full compensation study performed.

### Audit 2013-09: An In-Depth Budget Review of the Utah Department of Corrections (UDC)

UDC can improve efficiency in several budget areas. For example, the Draper prison can save about $1.2 million annually through better food management. Additionally, there are approximately $560,000 in potential annual savings through better contracting, oversight, and claim payment automation in the clinical services area of UDC. We also report the need for a better cost comparison with county jails in the jail contracting program, as well as the need for performance measures at UDC's Utah Correctional Industries. Finally, the report also comments on the need for UDC to be more transparent with the Legislature when presenting budgetary information, specifically regarding recent staff pay increases.

*Results of Follow-Up:* Twelve recommendations were made; five were implemented, six are in process, and one is partially implemented.

**Audit 2013-08: A Performance Audit of the Division of Adult Probation and Parole (AP&P)**

A lack of violation response guidelines has resulted in significantly different rates of supervision revocation (sending offenders to prison) among AP&P offices. We also found inconsistent application of evidence-based supervision practices which, if corrected, could lead to better community supervision outcomes and significant cost savings by reducing the prison population. We believe a collaborative approach with other stakeholders is the best path to improve supervision outcomes.

*Results of Follow-Up:* Ten recommendations were made to AP&P with another two to the Utah Commission on Criminal and Juvenile Justice; six have been implemented, six are in process. One recommendation to the Legislature has not yet been implemented.

**Audit 2013-07: A Performance Audit of the Utah Insurance Department (UID)**

Resident producers (agents) responded favorably to a variety of survey questions regarding the department's activities. A second survey sent to individuals who have been investigated by the Market Conduct Division showed that the division could improve its communication with respondents. Our review of division investigation cases found that the investigation files lacked adequate documentation in several areas. In addition, the division needs policies and procedures to guide communication and case management practices.

*Results of Follow-Up:* Ten recommendations were made to UID; all were implemented.

**Audit 2013-06: A Limited Review of Fugitives and Inmates Inappropriately Receiving Public Assistance**

Some fugitives and inmates are inappropriately receiving public assistance benefits. Although our review was limited to a one-month period, we found 414 public assistance benefits were active for 281 fugitives and 209 public assistance benefits were active for 179 inmates. These results represent about 2 percent

of the incarcerated population and 25 percent of the fugitive population supervised or under the jurisdiction of the Utah Department of Corrections (UDC).

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

**Audit 2013-05: A Performance Audit of Higher Education's Competition with the Private Sector**

Our review indicates that higher education business enterprises are increasingly encroaching on the private sector. The University of Utah's off-campus Red Zone stores are in violation of policy by both advertising and providing services to the general public that are not incidental to normal operations. Business enterprises on other Utah campuses also appear to be in violation. In addition, we reviewed a sales tax issue at the Weber State University bookstore. The Tax Commission confirmed that WSU does not need to charge sales tax on computer-related products sold to students. However, the Legislature should consider clarifying state tax policy on sales by universities and colleges.

*Results of Follow-Up:* Three recommendations were made to higher education; two have been implemented, one is in process. Two recommendations to the Legislature have not yet been implemented.

**Audit 2013-04: A Performance Audit of Sand and Gravel Air Quality Permitting and Compliance**

Selective enforcement of air quality permit conditions raises concern. The Minor Source Compliance Section, which oversees sand and gravel compliance, should fully enforce approved permits. In addition, case management within DAQ permitting provides little assurance that permits are handled in a timely fashion. To address the question of timely air quality permits, DAQ's permitting branch needs to improve its case management and improve permit file documentation, then use that documentation to analyze permit timeliness.

*Results of Follow-Up:* Three recommendations were made; all 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:

- State conservation resources should be awarded directly from the Utah Conservation Commission (UCC) to conservation districts (CDs) for their proposed conservation initiatives. Implementing a UCC resource pooling model would improve efficiency by increasing direct funding to local CDs for on-the-ground work.

- We found that the Department of Technology Services' (DTS) internal service fund rates have been benchmarked against those of similar rates charged by peer organizations in a way that does not push DTS toward improvement. For a number of years, DTS regarded an acceptable rating as not being in the lowest performing quartile of the study and has weighted all rates equally rather than risk-basing the results. Recommendations to make the acceptable standard at least the average of its peers and to focus efforts on those rates representing the greatest cost to DTS have been fully accepted by DTS.

- We found that DSPD's Requests for Additional Needs (RAS) processes allocated additional funds for some individual clients well beyond their actual budgeted appropriation. These processes' reliance on non-state case managers, combined with a lack of review and a lack of standardized assessment tools, inhibits the division's ability to appropriately control its budgets. DSPD agreed with the finding and is in the process of altering its processes and systems to better reflect client funding needs.

- Our audit of Adult Probation and Parole (AP&P) has served as a frontrunner to more comprehensive justice reform efforts led by the Utah CCJJ. Analysis and findings from the audit are cited and corroborated in CCJJ's November 2014 Justice Reinvestment Report and the audit's recommendation to create a violation response matrix is directly reaffirmed by CCJJ. In addition, the AP&P director cites the audit as a key element in many significant division reform efforts.

## ■ 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:

- Our most recent audit of the Department of Alcoholic Beverage Control (DABC) resulted in the DABC developing policies and procedures that improved processes and accountability for product ordering and deliveries. As a result, DABC reports an approximate reduction in inventory costs of $2.3 million.

- We reviewed compensation paid to highly compensated employees at the Utah Transit Authority (UTA). We provided three recommendations aimed at improving

compensation comparisons and increasing transparency. In response, UTA's board and management implemented each recommendation, including the adoption of a new bonus policy that significantly reduces bonuses for executives and top-level managers. UTA reports that bonuses will now be kept under $8,000 unless the board specifically approves a higher amount. Previously, the average bonus for top executives was $29,228.

- An in-depth budget review of the Utah Department of Corrections (UDC) found several areas where UDC can improve efficiency and save state funds. For example, the Draper prison facility spends more to feed inmates than the Gunnison facility spends. UDC could save about $1 million annually by improving culinary services at the Draper prison. Annual savings as high as $560,000 in UDC's Division of Clinical Services are possible with better outside medical contract rates, savings on certain prescription drugs, and automation of claims processing.

## ■ Promoting Accountability

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

- Based on our recommendations, accountability and oversight of the Utah Fund of Funds (UFOF) has improved. The UFOF is working to implement recommendations to improve economic development metrics that show impact without over-reporting. Additionally, the UFOF has implemented all recommendations aimed at improving investment performance reporting, that discloses all costs. Finally, the UFOF is addressing a number of recommendations to facilitate improved oversight and operations, including policies and procedures, employee contracts, and administrative rules.

- During our review of the Utah State Fairpark, we found that its board lacked any state government representation. The Division of Facilities and Construction Management (DFCM) was unaware of several buildings that were in such poor condition that they were forced to condemn them. Had DFCM been able to take a more active role in the administration of the Fairpark, they might have discovered these structural issues earlier. So, in response to our audit recommendation, the Fairpark has improved accountability to its board of directors by adding one member from the Utah Department of Agriculture and Food and one from the Division of Facilities Construction and Management.

- Our audit of the Utah Transit Authority (UTA) identified several ways the agency can bolster its oversight of development projects, including the correction of a significant segregation of duties concern. In response, UTA's board approved new policies that addressed each recommendation dealing with development projects. Of significant note was UTA's implementation of our recommendation to require that all development project agreements be subject to an external independent review.

- After our 2013 audit found that the Utah Science Technology and Research Initiative's (USTAR) reported return on investment numbers were inaccurate and flawed, the 2014 Legislature passed Senate Bill 62, which established detailed annual reporting and audit requirements of USTAR's performance metrics. Our subsequent follow-up review found that USTAR requires more time to establish a reliable reporting process that can ensure the accuracy of its annually reported outcomes. However, USTAR is making progress toward greater accountability.
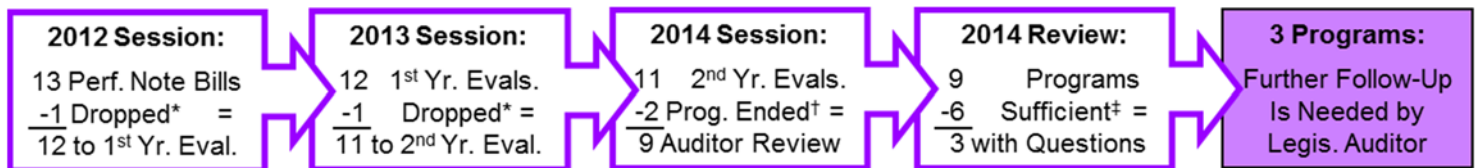
■ ■ ■

The Auditor General has statutory responsibility to review all new government programs (programs that have received a performance note required by legislative rule) and provide the new program (or agency) with information on management best practices. Since 2000, the Auditor General has published *Best Practices for Good Management* (found at www.le.utah.gov/audit/BP_2009.pdf) as a guide for new programs.

In 2011, the Legislature implemented a legislative rule requiring some bills to include performance notes that identify program goals, objectives, outcomes, and performance measures. The Auditor General is charged with reviewing such programs according to program self-evaluations and the performance note contents. The best practices and performance note processes mesh well and are pursued in tandem.

## ■ New Programs with Performance Notes Enter Two-Year Review Process

This is the first report on our review of programs that completed the two-year self-evaluation and performance note follow-up process. Last year's progress report indicated that we were following 12 new 2012 programs. The flow chart below summarizes the steps followed for the 2012 new programs.



| 2012 Session: | 2013 Session: | 2014 Session: | 2014 Review: | 3 Programs: |
|---|---|---|---|---|
| 13 Perf. Note Bills | 12 1st Yr. Evals. | 11 2nd Yr. Evals. | 9 Programs | Further Follow-Up |
| -1 Dropped* = | -1 Dropped* = | -2 Prog. Ended† = | -6 Sufficient‡ = | Is Needed by |
| 12 to 1st Yr. Eval. | 11 to 2nd Yr. Eval. | 9 Auditor Review | 3 with Questions | Legis. Auditor |

*\* Dropped: Not a program or insufficient risk level to merit further work.*
*† Prog. Ended: Program ceased operations without renewed funding.*
*‡ Sufficient: Auditor opinion is there was sufficient program documentation/progress under Best Practices & Performance Note parameters.*

## ■ Three 2012 Programs Need Further Follow-Up

OLAG believes three programs should be monitored for another year before reporting whether limited scope audits should be considered:

- **Senate Bill 97: Grants for Online Testing** were onetime pass-through grants for school districts and charter schools to implement uniform online summative or adaptive test systems as required under U-PASS. The $7.6 million appropriation was awarded to districts and charter schools through an application process during the first year of the Best Practices review process. But, in the 2013 General Session, the Legislature appropriated more funding to administer the testing—the accounting for which has been combined by USOE with the initial grants. This additional funding was part of a budget amendment bill (Senate Bill 2) and not tied to a performance note. The USOE has tracked this program separately from other pass-through programs administered by the USOE; however, the expenditure documentation for both funding sources resides with the local education agencies (LEAs). For these reasons, we need additional time for monitoring and sampling to ensure sufficient accountability exists with these pass-through funds.

- **Senate Bill 290: Utah Futures**, an online system designed to be an education and career planning guide, rolled out in August 2014 as a pilot with some, but not all, features functional. Students can access the site and conduct research on colleges and universities, majors, and careers, as well as create profiles with their individual education and career plans. Site usage data, such as the number of users and program features accessed, is being collected, but the ability to track whether using Utah Futures helps guide individuals to a future pursuit of college and career currently does not exist. This functionality can be incorporated with

appropriate funding as long as it conforms to the Family Educational Rights and Privacy Act (FERPA) requirements protecting student information. Program development is currently on hold because the $500,000 appropriation and other funding were exhausted. Additional funding will be requested in the 2015 Session. If more funding were to be approved, Utah Futures staff indicate that the functionality to measure the system's effectiveness will be developed, to include measuring the number of site users who complete postsecondary training with improved alignment between their educational and occupational goals. In our opinion, should the Legislature approve additional funding, such funding should be tied to developing measures of Utah Futures' effectiveness.

- **Senate Bill 248: Smart School Technology** created a $3 million pilot program to install one-to-one whole school technology in selected schools to assess whether technology-assisted instruction increases student achievement. The contracted external evaluation could not assess the program's performance because USOE implemented a new student achievement assessment system (SAGE) after baseline student performance data had been gathered under the previous (CRT) system, invalidating the baseline data. We want to assess program performance after more data becomes available under the SAGE assessment system, hopefully providing baseline and student performance data that are not currently available.

## ■ 2013 and 2014 New Programs Now in the Follow-Up and Review Process

In 2013, OLAG's review of the 12 passed bills requiring performance notes found that 3 bills did not appear to create new programs. These bills were dropped from OLAG tracking. In addition, another bill amended a 2012 program that was already in the review process, so we did not send the introductory information a second time. We are following up with two programs that have not yet returned the year one survey.

The 2014 Legislature passed 19 bills with performance notes. Of these, 11 bills created new programs whose administrators received communication about the best practices and performance note review processes in June 2014.

Going forward, we will report on new programs' progress and any programs about which we have concerns.

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# Released Audits and Informal Reports • 2011 - 2013

## ——— 2013 ———

| | |
|---|---|
| 2013-13 | Department of Workforce Services |
| 2013-12 | Utah Science Technology and Research (USTAR) |
| 2013-11 | Appropriated Wolf Management Funds |
| 2013-10 | Health Insurance Contracting in Higher Education |
| 2013-09 | In-Depth Budget Review of Utah Dept. of Corrections |
| 2013-08 | Division of Adult Probation and Parole |
| 2013-07 | Utah Insurance Department |
| 2013-06 | Fugitives and Inmates Inappropriately Receiving Public Assistance |
| 2013-05 | Higher Education's Competition with Private Sector |
| 2013-04 | Sand and Gravel Air Quality Permitting & Compliance |
| 2013-03 | The Labor Commission's Adjudication Division |
| 2013-02 | Utah College of Applied Tech. Programs and Funding |
| 2013-01 | Utah's Child Welfare System |
| ILR2013-F | PEHP's Reinsurance Practices |
| ILR2013-E | Retirement Pensions |
| ILR2013-D | Cemetery Maintenance District Operations |
| ILR2013-C | Electronic High School |
| ILR2013-B | Retirement Pensions of $100,000 or More |
| ILR2013-A | Scholarships Named for Sitting Chairs at the U of U |

## ——— 2012 ———

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|---|---|
| 2012-15 | Division of Occupational and Professional Licensing |
| 2012-14 | DABC Operations |
| 2012-13 | Medicaid Fraud Control Unit |
| 2012-12 | State Printing Costs and Practices |
| 2012-11 | Inmate High School Education |
| 2012-10 | Division of Radiation Control |
| 2012-09 | Utah's Radioactive Waste Facility Tax |
| 2012-08 | Utah Telecommunications Open Infrastructure Agency (UTOPIA) |
| 2012-07 | Medicaid Eligibility |
| 2012-06 | Division of Housing and Community Development |
| 2012-05 | In-Depth Follow-Up of PEHP's Business Practices |
| 2012-04 | DABC Oversight of Package Agencies |
| 2012-03 | In-Depth Follow-Up of Utah Medicaid's Implementation of Audit Recommendations |
| 2012-02 | School Community Council Election Practices |
| 2012-01 | Utah Transit Authority |
| ILR2012-F | Community Education Channel Agency's TV Production Truck |
| ILR2012-E | Revenue Bond Funding Sources |
| ILR2012-D | Informal Poll of the Utah Senate on the U.S. Senate Candidates |
| ILR2012-C | Survey of University of Utah Legal Counsel Staffing |
| ILR2012-B | In-Depth Follow-Up of Div. of Parks and Recreation |
| ILR2012-A | Salt Lake Community College Personnel Practices |

## ——— 2011 ———

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|---|---|
| 2011-15 | Higher Education Graduation Rates & Excess Hours |
| 2011-14 | Division of Wildlife Resources |
| 2011-13 | Allegations Regarding Management of the DABC |
| 2011-12 | Mandatory Student Fees at the University of Utah |
| 2011-11 | Operating Efficiency of the Utah State Court System |
| 2011-10 | IT Security at Universities and Quasi-Gov't Agencies |
| 2011-09 | Higher Ed. Institutions' Residency Determination |
| 2011-08 | Higher Ed. Operating and Maintenance Funding |
| 2011-07 | School Districts' Health Insurance |
| 2011-06 | Actuarial Study of PEHP's Contingency Reserves |
| 2011-05 | Public Education Cosmetology Programs |
| 2011-04 | DABC Actions Regarding a $300,000 Loss from a Package Agency |
| 2011-03 | Division of Parks and Recreation |
| 2011-02 | Division of Child and Family Services |
| 2011-01 | PEHP's Business Practices |
| ILR2011-B | Competitive Business Practices of the Utah Local Government Trust |
| — | Information Regarding Disability Law Center Performance Audit Request |

*Full Reports are available online at www.le.utah.gov/audit/olag.htm*
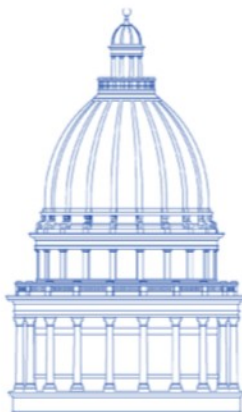
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