

AUDIT SUBCOMMITTEE
OF THE
LEGISLATIVE MANAGEMENT COMMITTEE

The Audit Subcommittee of the Legislative Management Committee met in Room 250, State Capitol Building, Salt Lake City, Utah, Tuesday, August 2, 2016 from 3:30 p.m. to 6:15 p.m.

Committee Members Present: President Wayne Niederhauser, Co-Chairman
Speaker Gregory Hughes, Co-Chairman
Senator Gene Davis
Senator Ralph Okerlund
Representative Brian King

Excused Representative James Dunnigan

Legislative Audit Staff: John Schaff, Auditor General
Darin Underwood, Deputy Auditor General
Tim Osterstock, Audit Manager
Kade Minchey, Audit Manager
Brian Dean, Audit Manager
Lynda Maynard, Recording Secretary
Lauri Felt, Reference Reviewer
Matthew Harvey, Legis Lead Auditor
August Lehman, Legis Lead Auditor
Leah Blevins, Audit Supervisor
James Behunin, Audit Supervisor
Deanna Herring, Audit Supervisor
Michael Allred, Sr Perf Auditor
Zack King, Sr. Perf Auditor
Lane Farr, Performance Auditor
Matthew Taylor, Performance Auditor
Nicole Luscher, Intern Auditor

Other Interested Parties: G Edward Leary, Comm., Dept of Financial
Institutions

Institutions Paul Allred, Deputy Comm, Financial
Darryle Rude, Chief Examiner, Financial

Institutions Paul Cline, Super., Money Services, Financial
Inst. Carlos Braceras, Exec. Director, UDOT
Shane Marshall, Deputy Director, UDOT
Becky Bradshaw, Comptroller, UDOT
John Dougall, Utah State Auditor
Tina Mathieu, UCA Board Chair
Quinton Stephens, Ballard Spahr, LLP
Michael Styler, Director, Dept of Natural

Resources Rep Jacob Anderegg, House of Representatives

Rep Jack Draxler, House of Representatives
Tani Downing, Director, Division of Risk Mgmt
Suzette Alles, Governor's Office
Alene Schwei, UPEA
And Others as Listed

1. Call to Order

Speaker Hughes called the meeting to order at 3:30 p.m.

2. Approval of Minutes

Motion: President Niederhauser made a motion that the minutes from May 11, 2016 Audit Subcommittee meeting be approved. The motion passed unanimously.

3a. **A Performance Audit of the Department of Financial Institution's Regulation of the Payday Loan Industry (Report #2016-04)**

Presented by: James Behunin, Audit Supervisor

Discussion following Presentation

G. Edward Leary, Commissioner, Department of Financial Institutions (DFI), responded to the audit by telling the Audit Subcommittee that

- In the last 16 years, Pay Day lender laws have been amended nine times.
- The Consumer Financial Protection Bureau (CFPB) has proposed a rule to establish limitations in the area of short term credit, which would include Pay Day lenders, auto title lenders and installment lenders.
- In order for the DFI to put more focus on chronic users, the Legislature needs to make changes to Utah's law by amending the current law which would give DFI the ability to implement the changes that may be needed.
- A state-wide database could limit overuse and aid the DFI in their regulation.

Mr. Leary concluded by saying that DFI will act on the recommendation in the audit to the best of their ability.

Motion: President Niederhauser made a motion that the **Performance Audit of the Department of Financial Institution's Regulation of the Payday Loan Industry (Report #2016-04)** be referred to the Business and Labor Interim Committee as the Lead committee. The motion passed unanimously.

3b. An In-depth Budget Review of the Utah Department of Transportation (UDOT)
(Report #2016-05)

Presented by: August Lehman, Lead Auditor

Discussion following Presentation

Carlos Braceras, Executive Director, Utah Department Of Transportation (UDOT) acknowledged the professionalism and relationship between UDOT and the Auditor General's staff and said that UDOT will improve because of the work of the auditors and UDOT's commitment to implement the recommendations given in the Budget Review.

Mr. Braceras said that it is his responsibility to make sure every UDOT employee is fully engaged every day of the year to maintain the highest level of cost efficiency and UDOT is developing guidelines for the different activities and functions to be able to do a better analysis. UDOT is trying to deliver the best performance for the citizens of the State of Utah.

Motion: President Niederhauser made a motion that the **In-depth Budget Review of the Utah Department of Transportation (UDOT)** (Report #2016-05) be referred to the Infrastructure and General Government Appropriations Subcommittee as the Lead committee and the Transportation Interim Committee as the review committee. The motion passed unanimously.

3c. A Performance Audit of the Utah Department of Transportation (UDOT) (Report #2016-06)

Presented by: Matthew Harvey, Lead Auditor

Discussion following Presentation

Carlos Braceras, Executive Director, Utah Department Of Transportation (UDOT) said that UDOT appreciate the opportunity to have their employees share knowledge and observations with the audit team during the audit process.

Mr. Braceras told the Audit Subcommittee that UDOT has been doing performance audits, listing them on their web site, implementing the elements of these audits and reporting them to the Legislative Appropriations Committee every year. Also, UDOT has an internal audit function but its' function is primarily to meet federal requirements for auditing their consultants, utility companies, and railroad companies that bill UDOT for their projects.

Mr. Braceras concluded by saying that UDOT agrees with the recommendation to appoint and confirm at least two independent performance auditors as per Statute and UDOT is moving forward to implement this recommendation.

Motion: President Niederhauser made a motion that the **Performance Audit of the Utah Department of Transportation (UDOT)** (Report #2016-06) be referred to the Transportation Interim Committee as the Lead committee and the Infrastructure and General Government Appropriations Subcommittee as the review committee. The motion passed unanimously.

- 3d. UCA Improving Controls after Fraud Discovered** (Report #ILR2016-F)
Presented by: Leah Blevins, Audit Supervisor

Discussion following Presentation

John Dougall, State Auditor, said that the UCA audit has been beneficial and has helped his office realize their focus on financial issues resulted in insufficient attention to broader oversight issues at UCA.

Tina Matthieu, UCA Board Chair, responded to questions concerning the placement of an audit committee, which UCA now has in place, and the committee is actively looking into credit cards and reviewing UCAs' records. UCA is also in the process of hiring an independent auditor to come in on a quarterly basis to make sure there are no other issues and that there is a separation of duties to correct previous problems.

Ms. Matthieu said that UCA has moved to the State purchasing card and they have made changes to their credit card policy and UCA is being aggressive in making the necessary changes.

Motion: President Niederhauser made a motion that the audit, **UCA Improving Controls after Fraud Discovered** (Report #ILR2016-F) be referred to the Government Operations Interim Committee as the Lead committee and the Public Utilities, Energy and Technology Interim Committee as the review committee. The motion passed unanimously.

- 3e. A Limited Review of the Division of Risk Management** (Report #ILR2016-E)
Staffed by: Deanna Herring, Audit Supervisor
Note: Not presented but report was made available.

Motion: President Niederhauser made a motion that the **Limited Review of the Division of Risk Management** (Report #ILR2016-E) be referred to the Executive Appropriations Committee as the Lead committee and the Infrastructure and General Government Appropriations Subcommittee as the review committee. The motion passed unanimously.

4. Statutory Audits

Darin Underwood, Deputy Auditor General, explained that statute UCA 62A-4A-118(4) requires the Auditor General's Office to conduct an audit of DCFS every three years. However, Mr. Underwood recommended that the Office of the Legislative Auditor General be kept as part of the Statute but change the "shall" to "may" and not make the audits mandatory every three years.

Motion: President Niederhauser made a motion to authorize legislation be drafted to clarify Statute UCA 62A-4A-118(4) addressing the DCFS audits, that they "may" be conducted, not "shall" be conducted and by adding the following language "subject to the prioritization of the Audit Subcommittee". The motion passed unanimously.

5. Prioritization of Audit Requests

President Niederhauser addressed the new audit requests and explained that they had discussed the list of audits and the need to include an In-depth Budget Review plus add performance audits with these reviews, made the following motion.

Motion: President Niederhauser made a motion that the following audits be approved:

- An In-Depth Budget Review of the Utah State Office of Education;
- Impact of Other Programs Funded Thru Public Education;
- Federal Funds and Mandates in Public Education and;
- Quasi and Independent Agencies. The motion passed unanimously.

6. Other Business

Representative Jack Draxler addressed the Audit Subcommittee, asking for an audit of the of the Division of Wildlife Resources and their handling of the yearly Sportsman's Expo. Representative Draxler expressed his concern with the awarding of the contract to conduct the Expo, the process and if it is working the way it should work.

Representative Jacob Anderegg, spoke to his request for an audit of the Utah State University's Archaeological Department, their procurement practices and potential problems with these procurement practices.

7. Adjourn

Speaker Hughes adjourned the meeting at 6:15 pm.