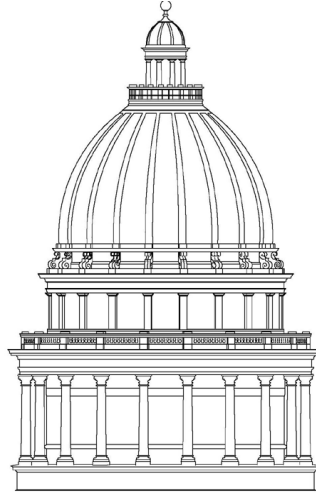


REPORT TO THE
UTAH LEGISLATURE

Number 2014-03



**A Performance Audit of the
Governance of Conservation Districts**

June 2014

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah



STATE OF UTAH

Office of the Legislative Auditor General

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Senator Gene Davis • Representative Jennifer M. Seelig

JOHN M. SCHAFF, CIA
AUDITOR GENERAL

June 2014

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, **A Performance Audit of the Governance of Conservation Districts** (Report #2014-03). A digest is found on the blue pages located at the front of the report. The objectives and scope of the audit are explained in the Introduction.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

A handwritten signature in black ink that reads "John M. Schaff". The signature is stylized and written in a cursive-like font.

John M. Schaff, CIA
Auditor General

JMS/lm

Digest of a Performance Audit of the Governance of Conservation Districts

Each year the Legislature appropriates funding for resource conservation to the Utah Department of Agriculture and Food (UDAF). The department distributes this funding for the delivery of conservation efforts to the Utah Association of Conservation Districts (UACD), a private organization; the Utah Conservation Commission (UCC) that is within UDAF, and the state's 38 conservation districts (CDs). Figure 1.1 shows how the appropriation of \$1.6 million for administration of resource conservation was allocated for fiscal year 2013.

Figure 1.1 Fiscal Year 2013 Distribution of the Resource Conservation Appropriation. UACD receives a majority of the appropriation.

Entity	Amount	Percent
Association of Conservation Districts	\$ 899,000	55%
Conservation Districts	317,000	19
Conservation Commission	241,000	15
Department of Agriculture and Food	186,000	11
Total Resource Conservation Appropriation	\$ 1,643,000	

Resource conservation management system in Utah involves many organizations and people.

All 38 CDs receive base operational funding, and the elected board members are reimbursed for meetings and travel.

Chapter II State Contract with UACD Is Not Cost Effective

UACD Could Have Done More to Develop CDs' Conservation Capacity. While UACD has other revenue sources, this one contract with UDAF has provided 41 percent of UACD's total revenue. UACD's financial reserves have increased 61 percent over the last 10 years because it retained some state and federal funding rather than using it to support conservation programs. UACD cannot effectively help districts, which generally have limited funding, develop capacity if it retains funds intended for conservation.

UDAF's Contract with UACD Raises a Number of Concerns. The main concern with the contract between UDAF and UACD is whether the state funding UACD receives is used cost effectively to promote conservation. With the current contracting arrangement, we

UACD's financial reserves are \$1.6 million, an increase of 61 percent over the last 10 years.

UACD should not be receiving state funds intended for the delivery of conservation efforts.

UCC needs to use its statutory authority to direct policy and funding for state conservation measures.

The CDs' financial reports contained inconsistencies and omission of income and expenses.

believe that the UCC has lost some of its ability to oversee the direction of conservation in the state; further, there is not clear accountability of state funds, and there are concerns that UACD's administrative costs are too high. Based on our audit work, we believe that the contract should be amended so that the UACD does not receive state funds intended for the delivery of conservation efforts.

Chapter III

Change in Conservation Funding Will Improve Function of CDs

UCC, CDs, and UACD Have Different Responsibilities. UCC is the state-level policy maker. To fulfill statutory responsibilities, a greater emphasis should be placed on the UCC's role in conservation policy and managing the funding. CDs facilitate and coordinate local conservation initiatives. UACD is a private organization that represents the CDs' interests to the Legislature. UACD should not be managing state funding, but be limited to a support role for CDs.

UCC Should Directly Award Conservation Resources to CDs. We believe conservation resources should be awarded from UDAF through the UCC to CDs for their proposed projects. Implementing a UCC resource pooling model would improve efficiency by increasing funding to local CDs for on-the-ground work. Statutory language and practices of commissions in other states support this change.

Chapter IV

UCC Needs to Provide Stronger Oversight

CD Reports Need to Be Scrutinized for Accuracy. The UCC needs to improve its oversight of CDs' accountability reports. The UCC should ensure that the CDs' financial reports are accurate, CDs complete independent audits as required by statute, and their annual plans of work have standardized formats that are useful to both the UCC and CDs.

Some CDs Need to Better Comply with UCC Policies. The UCC has established policies to help CDs minimize risk, and most CDs are generally following established financial controls. In addition, the UCC needs to ensure that CDs annually review their personnel policies and comply with state purchasing policies.

REPORT TO THE UTAH LEGISLATURE

Report No. 2014-03

A Performance Audit of the Governance of Conservation Districts

June 2014

Audit Performed By:

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Chapter I Introduction

Resource conservation management involves developing and implementing strategies to protect and maintain high quality soils, clean water, healthy plant and animal communities, clean air, and an adequate energy supply. Resource conservation management in Utah is a complicated system that involves many organizations and people, including federal, state, and local governments, private organizations, community groups, and landowners.

State Conservation Funding Goes to Multiple Entities

Each year the Legislature appropriates funding for resource conservation to the Utah Department of Agriculture and Food (UDAF). The department distributes this funding for the delivery of conservation efforts to the Utah Association of Conservation Districts (UACD), the Utah Conservation Commission (UCC) that is within UDAF, and the state’s 38 conservation districts (CDs). (A map of CD boundaries is shown in Appendix A.) Figure 1.1 shows how the appropriation of \$1.6 million for administration of resource conservation was allocated for fiscal year 2013. The money from this appropriation pays people to implement conservation activities.

UDAF distributes funding for the delivery of conservation efforts to Utah Association of Conservation Districts (UACD), Utah Conservation Commission (UCC), and the 38 conservation districts (CDs).

Figure 1.1 Fiscal Year 2013 Distribution of the Resource Conservation Appropriation. UACD receives a majority of the appropriation.

Entity	Amount	Percent
Association of Conservation Districts	\$ 899,000	55%
Conservation Districts	317,000	19
Conservation Commission	241,000	15
Department of Agriculture and Food	186,000	11
Total Resource Conservation Appropriation	\$ 1,643,000	

- **UACD Received a Majority of the Conservation Funding.** The UDAF contracts with UACD “to deliver effective conservation and development services, programs, and projects to UCC, CDs and farmers/ranchers who will improve, protect, and sustain Utah’s

UACD receives 55 percent, a majority of the conservation funding.

All 38 CDs receive base operational funding, and the elected board members are reimbursed for meetings and travel.

soil, water, and related natural resources.” The contract amount for fiscal year 2013 was \$899,000.

- **CDs Receive Base Funding and District Supervisor Reimbursements.** The CDs receive \$161,000 for base operational funding. In addition, district supervisors, the elected CD board members, are reimbursed for meetings and travel. In fiscal year 2013, 190 district supervisors (5 elected officials for each of the 38 CD boards) were reimbursed \$156,005 for meeting time and travel (including mileage, meals, and lodging). The base operations funding and the supervisor reimbursements that totaled \$317,000 for fiscal year 2013 are both administered by UCC.
- **UCC Received Funding for Administration.** Figure 1.1 shows that UCC spent \$241,000 of the total resource conservation appropriation in fiscal year 2013 for UCC staff and administrative purposes. This amount includes \$15,000 for reimbursing board members for meetings and travel. The UCC oversees state resource conservation and the conservation districts.
- **UDAF Utilized Some Funding for Its Pilot Program.** UDAF implemented a pilot program in which three district managers help provide administrative support for six CDs. The program, which was implemented mid-year, cost \$128,000. Also, because UDAF did not utilize the entire appropriation, some of the remaining \$58,000 lapsed and some was carried forward.

Local Conservation Districts Coordinate Conservation Efforts

The state’s 38 conservation districts coordinate conservation efforts among landowners, organizations, and governments to help protect natural resources and maintain resource productivity. The CDs’ roles are defined in statute, but many CDs lack the funding to address conservation needs in their areas.

The state’s 38 CDs coordinate conservation efforts among landowners, organizations, and governments.

Conservation Districts' Roles Are Defined in Statute

A CD is a limited-purpose local government entity and a political subdivision of the State of Utah as defined in *Utah Code* 17D-3-102,103. Conservation districts' fundamental powers are to:

- Survey, investigate, and research soil erosion, flood water, nonpoint source water pollution, flood control, water pollution, sediment damage, and watershed development
- Make recommendations governing land use within the conservation district
- Devise and implement on state or private land a measure to prevent soil erosion, floodwater or sediment damage, nonpoint source water pollution, or other degradation of a watershed or property affecting a watershed
- Devise and implement a measure to conserve, develop, utilize, or dispose of water on state or private land

A board of five elected residents called district supervisors governs the conservation district. The role of conservation boards is to survey local conservation needs, make recommendations governing land, and devise and implement plans to meet identified needs. However, with limited funds to carry out their responsibilities, CDs have to make choices how best to use their limited funding.

Majority of CDs Operate With Limited Funding

It can be difficult for many CDs to develop plans and implement conservation projects because they do not have the funding to meet their needs. Financing levels vary among Utah's 38 CDs depending on needs in their areas, fundraising activities, and the leadership of the CD boards.

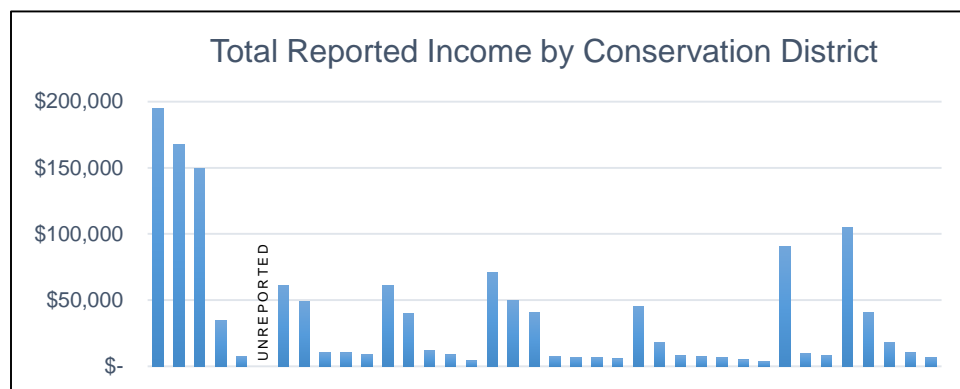
All CDs received a total of \$161,000 (\$4,237 per CD) in base funding for operations from the conservation resource appropriation. This funding is typically used to pay for convention registrations and membership dues, to hire part-time clerical staff, and to pay for current expenses such as mail, phones, and office supplies.

A CD is a limited-purpose local government entity and a political subdivision of the State of Utah.

A CD governing board consists of five elected residents called district supervisors.

However, some CDs obtain more financial support to address specific needs. For example, in northern Utah, there are a lot of animal feeding operations and CDs have obtained financing to assist animal feeding operations. In other regions of the state, there is a greater need to control salinity, so CDs have obtained or received relevant financial assistance. CDs obtain financial support from the federal, state, and local governments through agreements and grants, and by fundraising events. (A summary of CDs' financing for fiscal year 2013 is listed in Appendix B.) Figure 1.2 below shows all reported funding by CDs, which would include federal, state, and local funding.

Figure 1.2 Fiscal Year 2013 Income as Reported by CDs.
Twenty CDs operate with little more than the base funding.



Note: We found some errors in the financial data that will be discussed later in Chapter IV. Regardless of the errors, this figure still meets the purpose to show the different financing levels among CDs.

The figure shows the variation in funding. More than half of CDs (20) operated with less than \$5,000 above base funding, seven of those with less than \$1,000. Those seven CDs' base funding was used for expenses such as educational programs, UACD dues, and a district secretary, but little or no funding went toward project expenses that fiscal year.

On the other hand, one of the three CDs with the highest income raised money in a variety of ways, including holding a tree sale, renting equipment, and receiving a state weed grant. This CD raised \$159,629 beyond UCC's base funding allocation. The extra funds helped the CD address resource concerns in their area.

Some CDs Hire Employees. Because some CDs have higher financing levels, receive funding from federal or local governments,

Financing levels vary among the 38 CDs depending on needs in their areas, fundraising activities, and the leadership of the CD boards.

and/or grants, they have hired employees. There are 14 CDs with employees to help accomplish their responsibilities. The 14 CDs employ a total of 21 employees (18 full-time equivalent employees), not including clerks. The CDs have 10 planners, 7 watershed coordinators, and 4 technicians. These employees not only work for the CDs that hired them, but also help neighboring CDs with their work as needed. Their salaries are paid by a combination of sources. The seven watershed coordinators' salaries are paid by the Division of Water Quality. The planners' and technicians' salaries are paid by the CDs, Natural Resources Conservation Service (NRCS), two county governments, UACD, and grants. Generally, the CDs with employees use UACD for payroll services and some human resource functions.

UCC Has Oversight Responsibilities

The Utah Conservation Commission (UCC) is an agency of state government with statutory authority for the policy making and oversight of the CDs. Housed within the Department of Agriculture and Food, the UCC oversees state resource conservation. UCC's main responsibilities are:

- Facilitate the development and implementation of the strategies and programs necessary to protect, conserve, utilize, and develop the soil, air, and water resources of the state
- Supervise the formation, reorganization, or dissolution of districts
- Prescribe uniform accounting and recordkeeping procedures for districts and require each district to submit annually an audit of its funds to the commission
- Seek to coordinate soil and water protection, conservation, and development activities and programs of state agencies, local governmental units, other states, special interest groups, and federal agencies
- Plan watershed and flood control projects in cooperation with appropriate local, state, and federal authorities, and coordinate flood control projects in the state

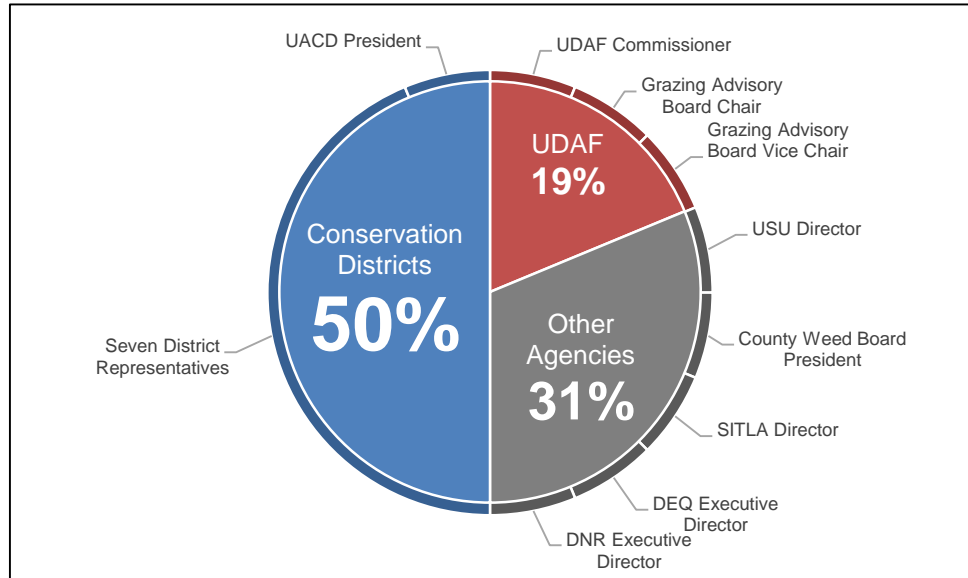
The UCC also administers the Agriculture Resource Development Loan (ARDL) program. Sixteen members make up the UCC as shown in Figure 1.5.

Fourteen CDs have hired employees to help them accomplish their responsibilities.

UCC is an agency of state government with statutory authority for the policy making and oversight of the CDs.

UCC is responsible to develop and implement strategies and programs to protect, conserve, utilize, and develop Utah's resources.

Figure 1.3 Conservation Commission Board Members. Half the commission is made up of local CD supervisors.



Three members represent the Utah Department of Agriculture and Food (UDAF), five represent other agencies, and eight represent CDs.

Conservation Districts Are Supported by Other Entities

CDs and conservation efforts in Utah are supported by other entities that help deliver and fund conservation needs. The following two entities play important roles in resource conservation:

- The Utah Association of Conservation Districts (UACD) is a private non-profit entity that represents the CDs and their interests with state and federal governments.
- The Natural Resources Conservation Service (NRCS) is the federal agency that provides most of the funding for conservation planning and project implementation. NRCS contracts with UACD and seven CDs to offer planning support.

UACD is a private non-profit entity that represents the CDs.

NRCS is the federal agency that provides most of the funding for conservation planning and project implementation.

UACD Supports District Operations

The UACD was created in 1948 and is the state voice for Utah's conservation districts, representing their interests and initiatives with state and federal agencies, the Utah Legislature, and the U.S. Congress. UACD is a nongovernmental, nonprofit corporation with IRS 501(c)(3) status.

Its principal purpose is to educate and support the work of the conservation districts and their staff. The State of Utah contracts with UACD to provide staff support to conservation districts, including zone coordinators (UACD has grouped the 38 CDs of the state into seven zones), the CDs, secretarial support, conservation planners, an engineer, and an education specialist. UACD provides payroll and human resource services for the conservation districts.

NRCS Is the Largest Funding Source for Conservation Efforts

The Natural Resources Conservation Service (NRCS) is the federal agency within the U.S. Department of Agriculture that provides assistance to land users and the state in planning and implementing conservation systems. NRCS provides significant funding through grants for conservation projects and conservation districts' technical staff, as well as covering its own technical assistance, office space, and equipment.

NRCS Helps Fund Planners Salaries for CDs and UACD.

NRCS has agreements with eight CDs (Beaver, Duchesne, Millard, Morgan, Northern Utah, Price, Sanpete and San Rafael) to pay a portion of their planners' salaries. For fiscal year 2013, NRCS paid \$248,828 toward 11 planners' salaries.

NRCS also has an agreement with UACD to pay a portion of its planners' salaries. For fiscal year 2013, NRCS paid \$246,810 toward five planner's salaries and an engineer involved with planning activities. The funding is intended for planning conservation projects and related activities. NRCS is willing to enter into these agreements because it furthers the mission of NRCS to preserve natural resources.

NRCS has 21 offices in the state. NRCS allows UACD staff as well as CD staff to occupy office space in its buildings. CD staff can

UACD principal purpose is to educate and support the work of the conservation districts.

NRCS has agreements with seven CDs and UACD to pay a portion of their planners' salaries.

NRCS has 21 offices in the state, and they allow UACD and CD staff to occupy space in its buildings.

use NRCS computers, NRCS vehicles, and other equipment. UACD staff can also occupy NRCS office space and use the computers.

NRCS Provides Funding for Landowners. Congress passed the Conservation Title of the 2014 Farm Bill in February 2014. The Farm Bill will continue to provide significant funding for conservation efforts in Utah. The NRCS estimates that Utah will receive a total of \$42 million for conservation efforts.

In addition to the contacts mentioned above, NRCS provides significant funding to individual landowners on a voluntary and competitive basis for conservation needs. NRCS has different funding pools for conservation needs. A significant federal Farm Bill program is the Environmental Quality Incentives Program (EQIP). EQIP offers financial and technical assistance to help implement conservation practices. For the last five years, NRCS has provided \$72.5 million through the EQIP program for 12,933 conservation projects for individual producers in Utah. In addition to EQIP, NRCS also utilizes other Farm Bill programs to help with conservation efforts.

Audit Scope and Objectives

This audit was requested by two legislators to review the governance and financing of conservation districts. The scope includes reviewing the statutory authority of those entities that have roles with regard to conservation in Utah and dealings with the conservation districts. These entities include the Utah Department of Agriculture and Food (UDAF), the Utah Conservation Commission (UCC), and the Utah Association of Conservation Districts (UACD). We examined the following:

- The administrative governance and funding for conservation districts
- The development and management of conservation projects
- The oversight and accountability of the conservation districts

To complete this audit, we contacted other states to determine how conservation districts and the associated conservation entities function. Throughout the audit, we met with district supervisors, district staff, UACD staff, department staff, commission staff, and

NRCS provides significant funding to individual landowners on a voluntary and competitive basis for conservation needs.

This audit was requested by two legislators to review the governance and financing of conservation districts.

NRCS staff to understand their perspectives on the governance of conservation practices.

To learn about conservation challenges, practices, and projects, we attended local workgroup meetings, zone meetings, conservation district meetings, UACD board meetings, and commission meetings. We reviewed the individual conservation districts, work plans, progress reports, budgets, and financial statements.

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Chapter II

State Contract with UACD Is Not Cost Effective

A majority of the state-level resource conservation funding is contracted by the Utah Department of Agriculture and Food (UDAF) to the Utah Association of Conservation Districts (UACD) to provide conservation services. We found that UACD could have done more to develop the conservation districts' (CDs) capacity with the contract funding. This contracting arrangement is also concerning because the Utah Conservation Commission (UCC) has lost some of its ability to oversee the direction of conservation in the state, accountability for state funds is inadequate, and administrative charges have not been clearly defined.

UACD Could Have Done More to Develop CDs' Capacity

Of fiscal year 2013's \$1.6 million state appropriation for resource conservation, the Utah Department of Agriculture and Food (UDAF) contracted \$899,000 (55 percent) to UACD. This funding was used mostly to pay UACD employees for administrative services. While UACD has other revenue sources, this one contract provided 41 percent of UACD's total revenue. In addition, UACD's financial reserves have increased 61 percent over the last 10 years as it has retained some state and federal funding rather than use it to support conservation programs.

UACD Has a Contractual Obligation To Develop Conservation Districts

As noted, UDAF contracts about \$899,000 with UACD to fulfill some of UCC's statutory duties and provide an administrative function for CDs. The principal purposes of the contract are "to deliver effective conservation and development services, programs, and projects to UCC, CDs and farmers/ranchers who will improve, protect, and sustain Utah's soil, water, and related natural resources." Contract objectives include:

**UACD received over
half of the state
appropriation for
resource conservation.**

UACD had nearly \$1.6 million in unrestricted reserves at the end of fiscal year 2013.

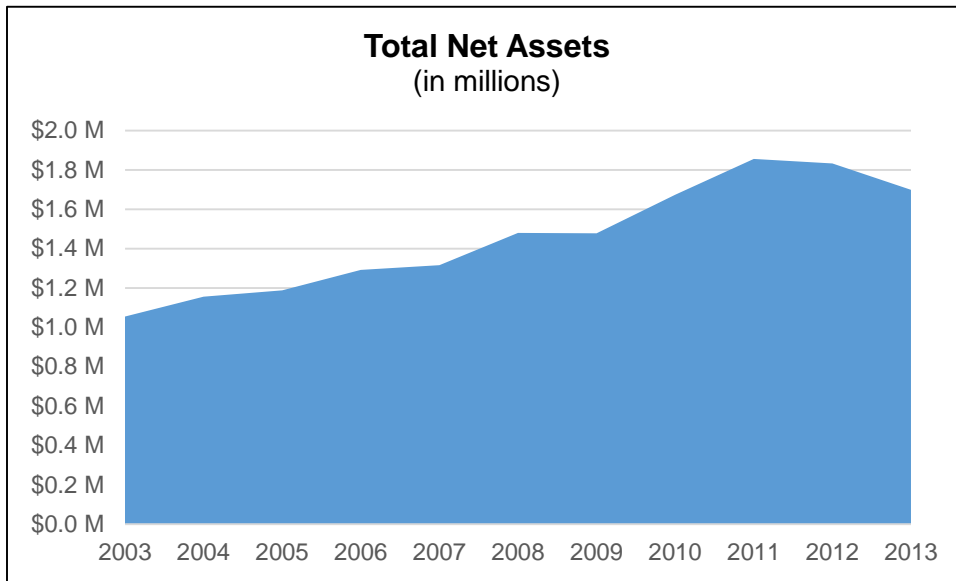
- Helping districts promote and implement the Agriculture Resource Development Loan (ARDL) program
- Developing CDs' capacity to accomplish their statutory purposes and goals
- Assisting UCC's implementation of the Agriculture Certificate of Environmental Stewardship (ACES) program
- Providing staff support to district boards and a licensed engineer for oversight of technical personnel
- Encouraging district supervisors to obtain training
- Disseminating conservation-related information

UACD has sought to achieve many of these objectives, such as helping to implement ARDL projects, and providing staff support to help CDs to prepare to implement conservation projects by preparing conservation plans, and helping to find cost-share programs that benefit Utah's land and water resources. However, UACD has also focused efforts on building its own reserves and could have done more to support CDs. UACD has received nearly \$10 million for conservation through UDAF over the last five years, \$6.4 million from the state and \$3.2 from federal funds. Over time, UACD has accumulated some state and federal funds and had nearly \$1.6 million in unrestricted reserves at the end of fiscal year 2013.

UACD's Net Assets Have Been Increasing

UACD's annual financial reports include statements of net assets as an indicator of UACD's financial position. UACD's funding sources, including state funds, have helped build its financial position. In Figure 2.1, we summarize UACD's year-end net asset position over the last 10 years.

Figure 2.1 Change in UACD's Financial Position. UACD's net assets steadily increased until 2011.



Source: UACD

This summary of UACD's past financial statements shows that its net assets steadily increased from under \$1.1 million to over \$1.8 million (76 percent) from fiscal years 2003 through 2011. In response to concerns about these asset increases, UACD has spent down nearly \$140,000 of its unrestricted assets. NRCS also changed how they provide funding to UACD because of the growth of its net assets.

At the end of fiscal year 2013, UACD records listed about \$121,000 in equity restricted by grantors or contributors. The remaining \$1.6 million were unrestricted reserves, meaning they can be used at the discretion of UACD's board. While we are unsure how much of this \$1.6 million is state funds, we estimate that over 40 percent (around \$700,000) came from ARDL fees remitted to UACD. UACD reports it is saving these funds to maintain staffing levels during down years, finance projects without a line of credit until they can be invoiced, and rewarding employee performance. One UACD board member said the savings were intended to construct a building with rentable office space where UACD could be headquartered.

We are concerned that UACD has amassed state conservation funding. UACD cannot effectively help districts develop capacity if it

UACD's reserves increased by 76 percent from 2003 to 2011.

UACD cannot effectively help districts develop CDs capacity if it retaining a lot of funding.

We believe the CDs have become increasingly reliant on UACD.

is retaining funds intended for conservation. We believe CDs have become increasingly reliant on UACD as it has reserved funds for itself. These funds are being used to staff the UACD and build its reserves rather than support conservation and CDs, which generally have limited funding, as discussed in Chapter I. We believe this funding should be going to districts, where it can be used more effectively. The Governor’s Office of Management and Budget (GOMB) also made a similar observation. In the *Department of Agriculture and Food In-Depth Budget Review* (December 2012), GOMB reported, “we believe that placing the funds in savings has reduced the effectiveness of those funds as they are not being expended towards projects on the ground.”

UACD Has Multiple Revenue Sources. Fiscal year 2013 accounting records show that UACD received revenues from state, local, and federal governments, conservation districts, and other sources. Figure 2.2 summarizes UACD revenues for fiscal year 2013.

Figure 2.2 UACD Revenue Sources. UACD received \$2.2 million in revenue in fiscal year 2013.

Revenue Source	Amount	Percent
State	\$ 1,133,000	51%
Federal	881,000	40
Local Entities	86,000	4
Other	118,000	5
Total	\$ 2,218,000	100%

Source: UACD

Notes: (1) The federal revenue does not include in-kind services and donations from NRCS. (2) In addition to the UACD revenue sources, UACD manages the funding that CDs receive through agreements from NRCS and DWQ.

The fiscal year 2013 contract between UDAF and UACD amounted to \$899,000 or 41 percent of UACD’s total revenues. In addition to the UDAF contract with UACD, UACD also received \$61,000 from UDAF for assistance with salinity control programs, \$80,000 in ARDL fees, and \$93,000 from the Division of Water Quality (DWQ). In total, 51 percent of UACD’s 2013 funding came from the state.

Federal agencies, including the Environmental Protection Agency (EPA), Natural Resources Conservation Service (NRCS), Bureau of

Over half of UACD’s 2013 revenues came from the State.

Land Management (BLM), and National Park Service (NPS) provided another 40 percent of revenues. UACD collected revenues from local conservation districts for dues and payroll fees, as well as from local counties, cities, and Resource Conservation and Development (RC&D) councils. UACD's remaining revenues came from investment income, interest earned, convention and meeting revenues, and other miscellaneous sources. In fiscal year 2013, UACD employed 23 full-time equivalent employees, including executive staff, a professional engineer, an education specialist, zone coordinators and secretaries, and planners.

UDAF's Contract with UACD Raises a Number of Concerns

The main concern with the contract between UDAF and UACD is whether the state funding UACD receives is used cost effectively to promote conservation. With the current contracting arrangement, we believe that the UCC has lost some of its ability to oversee the direction of conservation in the state; further, there is not clear accountability of state funds, and there are concerns that UACD's administrative costs are too high. These concerns were significant factors that led to this performance audit.

It is highly unusual that a state provides funding via contract to a conservation association for it to provide administrative support for conservation activities. Only one other state, Alaska, has a similar arrangement. Idaho used to contract with their association for a few technical employees, but discontinued the contract in 2011. The Idaho commission felt they had less ability to oversee the direction of conservation in the state when those employees were association employees rather than commission employees.

We reviewed the current and past contracts and held discussions with UDAF, UACD, and the CDs to obtain their perspectives and concerns with the arrangement. We also looked at how other states deliver effective conservation programs. Based on our audit work, we believe that the contract should be amended so that the UACD does not receive state funds for the delivery of conservation efforts; this issue will be discussed in Chapter III.

**As of 2013, UACD
employed 23 FTEs.**

**UCC has lost some of
its ability to oversee
the direction of
conservation in the
state.**

**UDAF's contract with
UACD is unique
compared to other
states.**

The 2013 contract with UACD states: “the accountability for expenditures of funds, fulfillment of contract obligations, and personnel is that of the UACD Board of Directors.” However, in our opinion the UACD board has not fully accounted for the state funding that UACD has received. The rest of this section explains the concerns about this contract between UDAF and UACD.

Contract Gives UACD Funding Allocation And Decision-Making Ability

Elected CD supervisors should be determining the direction that the local conservation boards take to meet conservation needs. However, the contract gives UACD funding authority, which provides UACD the ability to direct funding and oversee some conservation efforts. UACD’s control of funding has led to some complaints from a variety of sources:

- The Legislature appropriated funds to add a second employee for a CD. After the CD hired the second employee, UACD’s executive director moved the funding for the first employee to a different zone without agreement from the CD.
- Another CD expressed frustration because funding for a planner in their zone was given to another CD by UACD’s executive director with no reasonable explanation.
- UACD’s executive director has directed CDs to do work on agricultural land preservation mapping that did not follow the CDs’ prioritized concerns.
- UACD’s executive director also redirected CDs efforts toward a canal-mapping project in hopes of securing funding even when the mapping project did not match the CD’s listed priorities and concerns.

We believe that, because the majority of the resource conservation funding is contracted to UACD, the association is able to make the majority of conservation decisions. A district supervisor told us that the executive vice president of UACD is the “boss” and makes executive decisions for some of the CDs. We believe UCC should be determining the use of conservation funding. GOMB also raised the same concern in the *Department of Agriculture and Food In-Depth*

Elected supervisors should direct local efforts to address conservation needs.

UACD is able to direct conservation efforts because it receives a majority of funding.

Budget Review (December 2012), reporting that “UACD [has] held the purse strings and has grown into a monopoly. UACD has become the only place the districts can go for assistance, and there is a lack of oversight.”

Contract Has Not Required Clear Accountability for the Use of State Funds

The contract with UACD lacks provisions requiring sufficient accountability to UDAF for the use of state funds. Furthermore, we believe that UDAF has not adequately monitored its contract with UACD, with regard to spending state funds. In the *Department of Agriculture and Food In-Depth Budget Review* (December 2012), GOMB reported as well that “UACD has not been held to a high level of accountability for the funds received from the state.” We agree with that statement in the GOMB report.

We worked with UACD in an attempt to better understand how state funds were spent. UACD provided various financial reports that were inconsistent and provided limited detail regarding contract-related expenditures. A few also contained calculation errors. These reports made it difficult to determine how state funding was used to meet contract objectives. After auditors used the provided reports to roughly estimate how state funding was used, UACD provided some documentation that it tracks contract funding separately from other sources. Ultimately, it appears that nearly all of the contract funding contributed toward staffing UACD either directly or through administrative overhead charges.

Contract Lacks Clearly Defined Administrative Charges

The budgets that were provided by UACD for the audit are difficult to read and understand. After reviewing them with UACD several times, we determined that UACD inconsistently charges for contract administration. In a few cases, UACD has charged UDAF for the administration of funds from other sources. For example, NRCS does not pay administrative fees. If UDAF and NRCS each paid \$50,000 for a UACD’s employee’s wages and benefits, UACD would charge UDAF a \$10,000 administrative fee (10 percent of \$100,000) instead of \$5,000 (10 percent of \$50,000). This method effectively

UDAF has not adequately monitored its contract with UACD.

charges UDAF for the administrative fees on its \$50,000 contribution as well as on the NRCS contribution.

Another funding source for UACD is the Division of Water Quality (DWQ). The DWQ contract pays no more than a 7 percent administrative fee. As a result, the UDAF contract funding pays for the remaining three percent. UDAF is aware that UACD charges inconsistent administrative fees, but has not taken action to address this inconsistency in the contract. When questioned about how much UDAF pays for administrative fees, UACD explained that UDAF pays fees on its contributions toward UACD employees and also subsidizes administration fees on contributions from other sources such as DWQ and NRCS.

Contract Funding Helps Pay UACD's Executive Vice President's Salary

Entities and individuals within the conservation arena such as UDAF, UACD staff, CD supervisors, and legislators have raised questions about the executive vice president's salary being high. The underlying concern is how much of the contract funding goes toward the executive vice president's salary.

From UACD administrative hour records, we estimated that over \$120,000 of the contract funding could be going toward the executive vice president's salary, benefits, and travel expenses that total \$156,000. While UDAF's contract with UACD represents only 41 percent of UACD revenues, it appears that a disproportionate 85 percent of the executive vice president's salary has been charged to the contract. We believe those percentages should be closer.

Both UDAF and UACD are aware of these concerns but have not resolved them. UDAF has not managed this contract well and should have included more financial controls in the contract provisions. UDAF has made changes to the contract over the years, with some reductions, but has not significantly reduced or eliminated the contract due to fears of political backlash.

The UACD board has also discussed some of the issues listed in the previous section, but has not been assertive and taken the initiative to resolve them either. As a result, it would be in the best interest of the state to resolve these issues by significantly limiting the contract

UDAF subsidizes administrative costs for other agencies.

UDAF pays a disproportionate share of the UACD executive vice president's salary.

Both UDAF and UACD are aware of concerns described in this chapter, but have not resolved them.

with UACD and restoring UCC's oversight authority for and control of state funding and conservation.

Recommendations

1. We recommend that Utah Department of Agriculture and Food (UDAF) clearly define allowable administrative charges, specify acceptable use of the funding, and require accountability of state funds in any future contracts with Utah Association of Conservation Districts (UACD).
2. We recommend that UDAF monitor contracts with UACD to ensure that state funding is used effectively.

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Chapter III

Change in Conservation Funding Will Improve Function of CDs

The Utah Conservation Commission (UCC), the conservation districts (CDs), and the Utah Association of Conservation Districts (UACD) each has distinct roles. To fulfill statutory responsibilities, a greater emphasis should be placed on the UCC's role in conservation policy and managing the funding. UACD should not be managing state funding, but be limited to a support role for CDs.

We believe conservation resources should be awarded directly from the UCC to CDs for their proposed projects. Implementing a UCC resource pooling model would improve efficiency by increasing direct funding to local CDs for on-the-ground work. Statutory language and practices of commissions in other states support this change.

UCC, CDs, and UACD Have Different Responsibilities

In accordance with the audit request, and given the concerns with the contract outlined in Chapter II, we reviewed the governance of conservation in Utah. The UCC, CDs, and UACD have distinct roles. Both UCC and CDs responsibilities are outlined in statute. UCC is the state-level policy maker. UCC should use its statutory authority to direct policy and funding for state conservation measures. CDs facilitate and coordinate local conservation initiatives. UACD is a private organization that represents the CDs' interests to the Legislature.

We reviewed the *Utah Code* and talked to other states' conservation commissions and associations. We also looked at the governance of conservation programs in 10 states that, like Utah, do not have taxing authority for conservation. Based on Utah's statutes and other states' governance systems, the UCC, CDs, and UACD should have the following individual roles, described in Figure 3.1.

Implementing a UCC resource pooling model would improve efficiency by providing resources directly to CDs.

UCC should use its statutory authority to direct policy and funding for state conservation measures.

Figure 3.1 Conservation Governance in Utah. UCC and CDs are governmental organizations, while UACD is a private organization. Below are their proposed roles based on statute and other states' governance systems.

UCC State-Level Policy Maker

- Serves as the decision-making authority for state-level natural resource conservation directives
- Sets policy for conservation administration
- Administers funding and contracts with local CDs
- Requires accountability of the CDs
- Approves prioritized conservation projects

CDs Local Coordinators

- Serve as decision-making body for local-level directives
- Set local conservation priorities
- Devise and implement conservation measures
- Foster local relationships to address natural resource needs
- Make land-use recommendations to local authorities
- Coordinate projects with federal, state, and local governments and private businesses and producers

UACD CD Supporter

- Represents the CDs to the Legislature
- Supports the CDs through facilitation of CD initiatives
- Provides services for the CDs (as requested)

We believe that UCC, CDs, and UACD should consider the outlined roles to effectively implement conservation measures.

In the past, UACD has received so much state funding, that the association has become a de facto policy maker.

We believe that if UCC, CDs, and UACD comply more fully with the roles outlined in Figure 3.1, conservation policy and practices would be established and implemented more effectively. However, in the past, UACD has received so much state funding without accountability that the association has become a de facto policy maker by its use of those funds. In the future, UCC should more assertively fulfill its statutory responsibilities to set policy and manage funding. Each group's role as depicted in Figure 3.1 is described in more detail below.

UCC Oversees Conservation at the State Level. The UCC is the decision-making body for state-level directives. The Conservation Commission Act (*Utah Code* 4-18-105) charges the Utah Conservation Commission with the responsibility to facilitate the development and implementation of the strategies and programs necessary to protect, conserve, utilize, and develop the soil, air, and water resources of the state. The UCC's role is to fulfill this responsibility by setting policy, maintaining oversight of CDs, coordinating programs at the state level, and administer state conservation funds.

UCC's role is to set policy, maintain oversight, and coordinate programs at the state level.

Statute also charges the UCC to require accountability of state conservation funds. UCC has been working with the Office of the State Auditor to prescribe uniform accounting and recordkeeping procedures for the CDs, and UCC does require each CD to submit annual reports. Concerns with approval of state funds for conservation will be discussed in the next section of this chapter; concerns with reporting requirements will be discussed in Chapter IV.

Conservation Districts Facilitate and Coordinate Local Efforts. The local CDs are the decision-making bodies for local initiatives. The Conservation District Act (*Utah Code* 17D-3) charges Utah's 38 conservation districts to survey and identify local conservation needs and implement conservation strategies and programs to address those needs. CDs fulfill their statutory responsibilities by prioritizing those local conservation needs, fostering local relationships to address those needs, and seeking to coordinate local conservation efforts by working with governments, organizations, and landowners.

CDs are to identify local conservation needs and implement conservation strategies.

UACD Represents Conservation Districts. UACD is a Utah private corporation that should support the 38 CDs. UACD is the voice of the CDs and lobbies the Legislature on their behalf. UACD has stated that a principal purpose of the association is to educate and support the work of the locally elected CD boards and their staff. We agree that this is an important role of the association, and other states that we contacted also believe that support functions are an important role of conservation associations. UACD could continue to offer training and education opportunities for CD supervisors.

UACD is the voice of the CDs and lobbies the Legislature on their behalf.

At the CDs' request, UACD can provide support services such as payroll and human-resource-related functions, including helping CDs develop personnel policies and risk management functions. UACD has not been given these responsibilities in statute but the CDs may continue to request this help from the association. We believe UACD should be limited to a support role and not given state funding that allows UACD to decide how conservation funding should be spent. UACD should not be in a position to oversee CD operations. The CDs have the statutory decision-making authority for local-level directives; UACD should support the CDs in implementing those directives rather than creating its own. In fact, contracting with UACD to deliver conservation services is unique to Utah. Associations in other states that we surveyed have limited staff and their primary function is to represent local CDs to their state representatives.

UCC Should Directly Award Conservation Resources to CDs

In other states, it is common practice for their funding agency (our UCC) to provide funding directly to the CDs, based on prioritization of proposed projects. We think a similar approach would make Utah's resource conservation system more effective. This proposed resource pooling model would strengthen UCC's position by requiring it to manage and allocate resource conservation funding. UCC should also help the CDs build partnerships to complete conservation initiatives.

Under our proposed resource pooling model, UCC would receive most of the funding historically contracted with UACD, then UCC would provide resources (staff and funding) directly to the local CDs to fund their prioritized conservation needs. Dispersing resources based on prioritized projects would be more efficient than awarding funding to UACD, or having the Utah Department of Agriculture and Food (UDAF) distribute funding equally to all CDs, regardless of need.

As a possible alternate conservation funding approach, UDAF has implemented a pilot program using a district manager model. UDAF has hired three district managers for six CDs. However, we believe the district manager model is not as efficient or effective as the UCC pooling model could be. Ultimately, UDAF would like to employ a

Dispersing resources to CDs based on prioritized projects would be more efficient.

We believe that the UDAF's pilot program is not an efficient model.

district manager for every CD, but this is not possible with current resource conservation funding. An equal distribution of funding for 38 district managers would be inefficient, using resources for personnel for every CD, whether or not they need or want a district manager.

Pooling Resources at UCC Would Be More Efficient and Provide More Money to Local CDs

There are several advantages to implementing a model where the funding is pooled at UCC and used to directly fund CDs' prioritized projects. This model would help the conservation program be more effective. Such a model also follows the established roles outlined in statute as shown at the beginning of this chapter.

- **Pooling Model Improves Efficiency.** UCC should maintain efficient project support staff with specific responsibilities; funding would be available for CDs to hire professionals to plan and implement prioritized projects. With streamlined functions, this model creates a process where resources would be directed to CDs and their needs.
- **Pooling Model Promotes Action.** CD supervisors are familiar with their CD's unique needs and have been elected to represent the CD's conservation interests. District supervisors' roles would be enhanced if they had an incentive to develop conservation initiatives.
- **Pooling Model Empowers District Supervisors.** The five-member CD boards could make project recommendations to regional committees. The UCC will need to develop a process to prioritize and award resources. The UCC would then award resources to the CDs that developed the best conservation initiatives.
- **Pooling Model Helps the Commission Fulfill Its Role as Stated in Statute.** The UCC's position as the steering body for conservation in the state will be enhanced with the added ability to select and coordinate conservation initiatives throughout the state. Half of the UCC is made up of district supervisors, so each area of the state is represented on the commission.

District supervisors' roles would be enhanced if they had an incentive to develop conservation initiatives.

The UCC's position would also be enhanced as they select and coordinate conservation initiatives.

- **Pooling Model Promotes Collaboration.** CDs would need to work with the conservation commission to get their proposals prioritized and funded. Also, commission members would need to collaborate to determine which proposed projects provide the best benefit to the state and local communities.

With pooled financial resources, the decision-making authority would reside at the UCC. The CDs would have a voice in funding decisions because seven elected CD supervisors serve on the UCC, as well as the UACD president, who is also a district supervisor. This provides a way for CDs to acquire more funding to implement conservation projects. CDs could also seek funding through grants and by coordinating with federal and state agencies, many of which are represented on the UCC or partner with the UCC.

State Funding Should Be Managed by UCC, So CDs' Prioritized Projects Receive Needed Resources

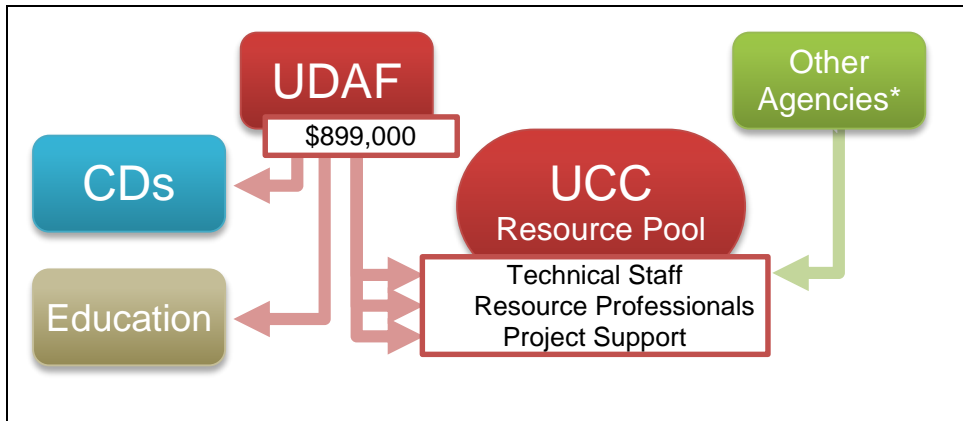
Under the UCC pooling model, CDs would apply for the resources for specific conservation projects. The commission would review and prioritize the conservation project applications, then provide resources directly to CDs for their conservation needs. While the UCC would need to decide how to implement a resource pool, an example illustrates how it could work. Our example only addresses funds that could be freed up from the UACD contract.

Example of How the Pooling Model Could Be Implemented.

Figure 3.2 below shows a chart of how the pooling system could work and shows one way the contract funding could be utilized.

CDs would need to apply for resources for specific conservation projects.

Figure 3.2 An Example of the Resource Pooling Model. The resources pool would consist of funding as well as staff to help implement conservation projects.



* Other state and/or federal agencies.

This figure shows how UCC could use the funds (\$899,000) from the UACD contract as a resource pool for prioritized conservation projects. UCC should encourage other agencies to contribute to the funding pool. A local Natural Resource Conservation Service (NRCS) official told us the agency has a budget of about \$500,000 that potentially could be available. Under this model, UCC would use the resources available for selected conservation projects.

- UCC could hire technical staff, planners, to help develop conservation plans. NRCS is willing to pay for half of planners' salaries, but not for administrative staff. The planners would be located in different areas of the state and assigned to help develop plans and implement prioritized conservation projects for local districts.
- UCC could hire resource professionals or specialists. The specialists could help with project support, including grant writing and project coordination.
- UCC should consider reserving some conservation funding to distribute directly to selected conservation projects. This funding could be used to staff project planning and for direct implementation.

The majority of the UACD contract funding could be used to support the UCC resource pool.

UCC could efficiently hire technical staff to help develop plans and implement projects.

UCC should consider distributing some funding directly to the CDs for conservation implementation.

UCC should consider increasing the CDs' base funding to supplement the CD clerks salary.

- UCC should consider increasing the CDs' base funding. Additional funding to supplement the CD clerks could be used for CD reports, required paperwork, and other support duties.
- In addition to project funding, UCC could consider a limited contract or agreement with UACD to support the CD education and training program or CDs could pay UACD for education and training program through their dues.

District Supervisors Should Represent their CDs at Local Community Meetings. We interviewed the UACD zone coordinators about their jobs. While they are dedicated and hard-working staff, there has been inconsistency and inefficiency in their efforts. For example, they spend time attending local meetings for the CDs within their zones. We think district supervisors, the elected officials, should be encouraged to attend local meetings, such as county meetings to represent their individual CDs regarding conservation activities. Similarly, time spent by UACD zone coordinators preparing required reports is more of a clerk task.

Use of Other Resource Conservation Funds Should Continue. Besides the example discussed above, base operational funding would need to continue for CDs and UCC. The fiscal year 2013 resource conservation appropriation was \$1.6 million, with \$899,000 contracted to UACD. Most of the remaining appropriation was allocated to UCC (\$241,000) and the CDs (\$317,000) for base operation funding (see Figure 1.1 in Chapter I). The CDs need base operational funding, but as discussed above, that base funding needs to be increased.

UCC should also continue to receive base operational funding to pay staff to manage the resource pool. However, in fiscal year 2013, \$128,000 from the resource conservation appropriation went to three district managers in the UDAF pilot program. In the future, this funding could be included in the overall pool of project resources; districts could request district managers or additional clerk support from those funds.

UCC Can Help CDs Build Partnerships

The UCC has representatives from conservation-interested state agencies (as shown in Chapter I), including the Utah State Extension

Base operational funding would need to continue for UCC as well as the CDs.

Service, Department of Natural Resources, and Department of Environmental Quality. As a result, this commission should be able to connect CDs with resources and partners throughout the state. According to statute, “The commission shall: facilitate the development and implementation of the strategies and programs necessary to: protect, conserve, utilize, and develop the soil, air, and water resources of the state...”

Statute states that the UCC should be the leader in conservation strategy and implementation. The UCC should make it a priority, as outlined in statute, to facilitate conservation efforts in the state by supporting CDs in funding prioritized conservation needs and help CDs build partnerships with other conservation-minded agencies. Without help from partnerships such as those available through UCC members, many CDs are left with minimal funding to plan and implement projects.

CDs Can Play an Important Role in Coordinating Large-Scale Projects Involving Multiple Partnerships. An example of a CD’s coordinating partnership is seen in the Wasatch CD’s coordination efforts on the Wallsburg Watershed project. This project brought together 13 funding partners and leveraged \$671,000 (to date) to restore water quality to sections of Main Creek and Deer Creek Reservoir in Wasatch County. The project includes building more sustainable stream banks, planting noninvasive and native vegetation, and adding fencing along the waterline to limit livestock access.

Small-Scaled Projects Can Be Implemented with Less Funding. CDs have implemented projects as funding has been obtained. If more project funds were available to CDs from a UCC pool, more small projects, such as those listed below, could be implemented:

- North Cache CD acquired \$27,000 of strategic NRCS funding to treat Russian knapweed in the Trenton/Cornish area.
- Rich CD maintained 22,357 feet of fence for Bureau of Land Management (BLM) water bank enclosures.
- Sanpete CD has assisted farmers with stream bank protection projects using federal and state water quality funds.

The commission should connect CDs with resources and partners.

The Wallsburg Watershed project brought together 13 funding partners and leveraged \$671,000 (to date) for water quality restoration.

- Green River CD helped acquire funding from the US Fish and Wildlife for Green River diversion.

CDs have played an important role in implementing small local projects as well large projects.

Other Governmental Entities Use a Pooling Approach

We surveyed 10 conservation commissions in other states with conservation districts that, like Utah, do not have taxing authority and rely on state funding. Seven states we surveyed use some form of resource pooling at the commission level. In addition, other governmental entities, Utah's Watershed Restoration Initiative (WRI), and NRCS use a similar approach to prioritize and complete natural resource projects.

Commissions in Other States Pool Resources for Prioritized Projects

We surveyed 10 conservation commissions in other states with conservation districts that, like Utah, do not have taxing authority, but rely primarily on state funding. We found that none of these states had an ongoing contract with their conservation district association to deliver conservation services.

In one case, Idaho, the commission had contracted with the Idaho Association of Soil and Water Districts for a few technical employee positions in the past. However, one Idaho official said she would rather the contracted employees were state employees so she could direct their work. The contract was dissolved in 2011, after a legislative committee meeting during which a representative from Idaho's Office of the Attorney General who spoke about constraints in situations that involve a state agency contracting with a private entity for services:

The constraints on the relationship between the Commission and the Association stem from the constitutional requirement that public funds can only be spent for public purposes. ...in order to constitute a valid

Seven states we surveyed use some form of resource pooling at the commission level.

Idaho discontinued the contract with their association in 2011 because they wanted more oversight of state conservation funds.

public purpose, the sole purpose has to be for a public function and the state has to retain enough control over the funded activity so as to be sure that the public function continues to be served.

The majority of states that we surveyed (Arkansas, Idaho, Indiana, Louisiana, South Dakota, Oklahoma, and Wisconsin) use some form of resource pooling. The state conservation agencies manage a pool of resources (funding and employees) at the agency level and award resources to CDs based on set criteria. CD associations in those states did not receive funding from the pool. Of the three other states that do not pool resources, two states provide funding for CD staff and one state only provides base funding to CDs.

Other Governmental Entities in Utah Use a Prioritization Approach

Utah's Watershed Restoration Initiative (WRI) uses a model similar to the one just presented to prioritize and complete restoration projects. Through the WRI process, a group or individual in need of funding for a watershed project develops and submits a proposal. A regional team then evaluates the proposal and works with the applicant to refine the project. The regional team assigns a priority level to each submitted project. All projects from regional teams are sent to a central group that assigns available money.

One example is the Cedar Mountain Fire Rehab Project. This project rehabilitated rangeland destroyed by the Cedar Mountain Fire in 2012. The Division of Wildlife Resources (DWR) led this process and received \$218,393 from WRI and \$8,400 in in-kind donations from a private landowner to complete the project.

The UCC and the CDs can implement a similar system to allocate project support funding to conservation districts. Local districts can propose projects to UCC, which would prioritize and assign funding. UCC could have discussions with WRI to help them implement this model.

NRCS also Prioritizes Projects Based on Criteria and Need. NRCS provides significant funding to individual landowners on a competitive, cost-sharing basis for conservation projects. The landowners complete applications for grant money, then NRCS

WRI uses a prioritization process to complete restoration projects.

NRCS also prioritizes landowner applications and awards grants to selected projects.

prioritizes the applications and awards grant money to the selected projects. NRCS typically provides 75 percent of the project's cost and the technical assistance, such as designing a pumping plan for an irrigation system, while the landowner covers the other 25 percent by doing the work themselves or hiring it out. After projects are completed, NRCS staff certify that they were completed correctly before releasing the grant money to the landowner.

Recommendations

1. We recommend that the Utah Department of Agriculture and Food (UDAF) eliminate or significantly reduce the contract with the Utah Association of Conservation Districts (UACD) and provide those funds to the Utah Conservation Commission (UCC), so UCC can implement a pooling model to fund resource conservation.
2. We recommend that UCC consider the following as the commission develops a resource pooling model:
 - Technical staff needed
 - Resource professionals needed
 - Funding amount to directly distribute to conservation districts (CDs) for selected conservation projects
 - Funding for CDs base operations
 - Funding for district supervisor training programs
3. We recommend that UCC prioritize and fund conservation projects based on CDs' requests for resources.

Chapter IV

UCC Needs to Provide Stronger Oversight

The Utah Conservation Commission (UCC) has statutory authority to provide oversight of conservation activities in the state. Without providing adequate oversight of the conservation districts (CDs), it will be difficult for the UCC to adequately assess their needs to determine how to award resources under the pooling model. We believe that the UCC can improve its oversight role in reviewing accountability reports. We found that financial reports contain errors, independent audit requirements have not always been met, and annual work plans do not meet established criteria. Although the UCC requires accountability reports to be completed by the CDs annually, UCC needs to ensure that those reports are accurate and useful to the commission and the CDs.

In addition, the UCC has established policies to help CDs minimize risk, and some CDs are generally following established financial controls, such as separation of duties. However, financial reporting and independent audit requirements have not always been met. In addition, the UCC needs to ensure that CDs annually review their personnel policies and comply with state purchasing policies. Implementing a pooling resources model will allow the UCC provide stronger oversight.

CD Reports Need to Be Scrutinized for Accuracy

The UCC needs to improve its oversight of CDs' accountability reports. The UCC should ensure that the CDs' financial reports are accurate, CDs complete independent audits as required by statute, and annual plans of work have standardized forms and are useful to the UCC and CDs to help oversee conservation activities and allocate resources if a different funding system is implemented.

The conservation districts are required by UCC policy to submit accountability reports to the UCC once a year. The reports that should be sent to the UCC include:

The UCC should ensure that the CDs' accountability reports are complete and accurate.

The conservation districts are required by UCC policy to submit accountability reports annually.

We reviewed the CD reports submitted to the UCC for the past two years.

- Adopted budget – due within 30 days after adoption (usually in July)
- Financial statements – due within 90 days after fiscal year end
- Previous year’s progress report – due within 90 days after fiscal year end
- Yearly plan of work – due within 90 days after fiscal year end

We reviewed the CD reports submitted to the UCC for the past two years. The following three sections discuss the concerns that we found with the submitted reports.

Financial Reports Contain Errors

Our review of CDs’ fiscal year 2012 budgets and financial statements indicates that the UCC needs to more thoroughly scrutinize the annual budgets and financial statements for accuracy and reliability and require CDs to correct errors. Otherwise, the reports could be less relevant or useful to district supervisors and the UCC in prioritizing the use of conservation resources. Accurate financial reports will help the UCC understand each CD’s financial position and help the commission determine how best to allocate funds.

We reviewed CDs’ fiscal year 2012 budget reports (the most recent budget reports in the CD files) for actual revenues and expenses. We found calculation errors ranging from small dollar amounts to \$120,000 in 18 of the 38 CDs’ reports. Also, some of the reported actual revenues and expenses were not complete: five reports did not have beginning balances and five reports did not have ending balances.

We also reviewed the CDs’ financial reports for fiscal years 2012 and 2013. The statement of cash receipts and disbursements (part I) submitted by the CDs contained a few errors as well. Three 2012 reports contained calculation errors ranging from \$900 to \$10,500. Six CDs’ financial reports did not include the required first part. We also noticed inconsistencies and omissions of income and expenses in some reports, such as:

- A clerk’s wages were listed as project expense rather than operation expense.
- A CD’s livestock sale and an award dinner expenses were not categorized correctly.

Eighteen of the 38 CDs 2012 budget reports contained calculation errors.

The CDs’ financial reports contained inconsistencies and omissions of income and expenses.

- A CD's field day expense was not categorized correctly.

We also compared the fiscal year 2012 actual revenues and expenses stated on the budget report with the same year's statement of cash receipts and disbursements on the financial report. Of the 38 CDs, the financial information on 18 CDs' reports did not match, while 6 CDs did not submit complete financial information. However, the beginning balances, total revenues, total expenses, and ending balances of 14 CDs' budget reports matched the same totals on the statement of cash receipts and disbursements.

For 2013, five CDs' statement of cash receipts and disbursements had calculation errors, four lacked beginning balances, and three lacked ending balances. Again, some income and expenses were not always applied consistently or included on the reports; for example, eleven CDs did not report supervisor's expense reimbursement account (SERA) revenue and expenses.

The UCC has done limited reviews of the CDs' financial reports. However, if the pooling model were to be implemented, UCC will need to assess if centralized staff resources are needed to provide an adequate review of financial reports. UCC has the responsibility to carefully review all financial reports and should ensure that CDs correct calculation errors and record revenues and expenses consistently. Not having reliable and accurate financial reports limits comparability. The long-term financial performance and position can be determined when an entity's accurate, consistent financial reports are compared over time, while comparisons among different CDs can be useful to review performance and determine current needs and future activities.

Independent Audit Engagement Requirements Not Always Met

UCC has not provided adequate oversight to ensure that the CDs meet independent audit engagement requirements. Prior to June 30, 2013, UCC had a policy requiring that independent financial audits be conducted, depending on the level of CD financial activity. For fiscal year 2012, four CDs were required to have an independent compilation (limited scope financial statement preparation). We contacted those four CDs, but they had not had an independent compilation completed. We were told either by the CD supervisors or

We compared the budget reports to the financial reports and found 18 CDs financial information did not match on both reports.

UCC has not provided adequate oversight to ensure that CDs meet independent audit requirements.

In 2012, four CDs did not have an independent review completed.

The passing of S.B. 179 in the 2013 General Session changed reporting requirements for CDs.

UACD staff assigned to those CDs that it is too costly to have an independent compilation completed or they did not realize that an independent compilation needed to be completed—possibly a lack of training.

A compilation is required when total revenues or expenses were between \$100,000 and \$200,000. An independent CPA assists in the preparation of the financial statements that conform to professional reporting standards. However, no assurance that the financial statements are fairly presented is provided. In addition to a compilation, other independent reviews or audits used to be required of CDs, based on their level of financial activity, but as of 2013, independent audit engagements are now required in statute.

Independent Audit Requirements Have Recently Been Changed. With the passing of S.B. 179 in the 2013 General Session, *Utah Code* 51-2a-201 was amended, which changed reporting requirements for local government (including CDs) whose revenues or expenditures of all funds are:

- \$500,000 or more – an audit by an independent certified public accountant is required to obtain reasonable assurance that the financial statements are fairly presented.
- Less than \$500,000 – financial reports must be made in the manner prescribed by the state auditor.

The Office of the Utah State Auditor and UCC have an agreement about the types of reports required from the CDs. For CDs whose revenues or expenditures of all funds is less than \$500,000:

- \$100,000 but less than \$500,000 – an annual agreed-upon procedures report performed by an independent CPA is required for compliance with state laws and a review of internal controls. However, no assurance is required that the financial statements are fairly presented.
- Less than \$100,000 – a financial report may be completed on the forms provided by the UCC.

The amended statute went into effect July 1, 2013. The Office of the Utah State Auditor has begun applying this amended rule for the fiscal year 2013 financial statements.

For fiscal year 2013, five conservation districts had revenue or expenses between \$100,000 and \$500,000 and are therefore required to have an independent CPA complete an annual agreed-upon procedures report. As of February 2014, three CDs were in compliance, having completed the agreed-upon procedures engagement, one CDs told us they are in the process of completing an agreed-upon procedures engagement, and one CDs did not realize they needed to complete the engagement.

UCC Needs to Ensure that CDs Are Compliant with State Laws. UCC requires the conservation districts to submit financial statements each year; UCC staff should closely monitor those financial statements and ensure that all CDs meeting the independent audit engagement criteria have those engagements completed.

The UCC should obtain copies of the completed engagement reports to ascertain whether the CDs met the agreed-upon procedural requirements. These reports will indicate where training is needed or other problems need to be addressed to ensure the CDs comply with statute. All requirements in the agreed-upon procedures are in accordance with state laws, such as the Open and Public Meetings Act and purchasing policies. The UCC may want to encourage all CDs, whether or not they meet the criteria for an agreed-upon procedures engagement, to review all the provisions to assess if they are compliant with state laws.

Annual Work Plans Do Not Meet Established Criteria

Planning is important because it provides the foundation for overall conservation district programs. The annual work plan, as required by UCC policy, is meant to give CDs direction and detail the conservation efforts a CD will be focusing on, providing a guide for the year's conservation activities. The annual plan of work should list prioritized conservation activities, projects, and the steps to complete those activities and projects. In addition, should the resource pooling model be implemented, the work plan would facilitate CDs' application for project funding.

The UCC should obtain copies of the independent audits to ascertain whether CDs met the requirements.

The annual work plan, as required by UCC policy, is meant to give CDs direction.

The annual plan of work is different from a conservation project plan or a coordinated resource management plan (CRMP) project plan because a CRMP explains in technical detail how to implement one specific project. The annual plan of work is also different from resource assessments, which provide an overview of conservation needs within a CD's jurisdiction.

We found that the work plans submitted to the UCC differ in their approach, the type and level of information given, and apparent usefulness to the CDs. An effective work plan should provide useful information to the UCC and CDs that includes prioritized conservation goals and objectives, the CD's progress toward completing those objectives, and the steps required to meet those objectives.

Annual Work Plans Have Not Met Established Criteria.

After reviewing the work plans for each of the seven zones (UACD has separated the 38 CDs in the state into seven areas or zones), we do not believe that any of the work plans met the criteria. The format for the annual work plans is different for each zone. The UACD zone coordinators help format the plans for each CD in their zone. According to the supervisor training material, an annual plan of work should include:

- List of key issues and goals
- Activities to be completed under each goal
- Timelines and responsible people who will complete the work
- Review or evaluation process

The reviewed work plans contain different information, depending on the specific zone's format. All the work plans met the first two criteria above to some degree. Three zones' work plans met the third criteria, and only one zone's work plans met the fourth criteria.

If UCC believes the criteria are essential and relevant, the UCC should require that all work plans contain those four elements, and consider providing a template for the CDs to use. Otherwise, UCC should consider changing the criteria so that the essential and relevant information is required in the work plans. If the pooling resources model is utilized (as discussed in Chapter III), the work plans could be

We found that CD work plans differ in their approach and level of information given.

We do not believe that any of the CDs work plans met the established criteria.

The UCC should review the work plans criteria.

helpful to CDs in prioritizing projects and determining needed resources to apply for from UCC.

The Annual Work Plans Are Not Seen as a Priority or a Useful Tool to CDs or the UCC. We asked zone coordinators if the work plans are useful to the CDs. They said work plans are developed because they are required by UCC, but they are not that useful to the CDs. After reviewing the work plans, it appears that not a lot of effort or detail goes into these reports. For example, we found seven work plans were the same as the previous year's plans, except for changing the date. Nine work plans were the same as the previous year's plans, except for a few changes. One work plan that was submitted to UCC was still dated for the previous fiscal year.

It is important to note that some work plans were well written with specific action items. One zone's work plan's format was changed for 2014, listing both ongoing as well as new action items for six different project areas (invasive weeds, water quantity, rangeland health, recreational impacts, agriculture land preservation, and conservation education). Another zone also changed the format of its annual work plans for fiscal year 2014, to include stated objectives with a plan of action, the time frame for the actions to take place, and evaluation criteria. A third zone does a month-by-month plan.

UCC should design the work plan with a consistent format, such as a standardized template that is useful to the CDs and UCC. The work plan should state the vision of prioritized conservation needs for each CD and focus on specific conservation activities, listing the steps to address specific goals and objectives to fulfill conservation needs within the CD's jurisdiction.

Some work plans are well written with specific action items.

UCC should design the work plan with a consistent format that is useful to the CDs and UCC.

Some CDs Need to Better Comply with UCC Policies

We surveyed 12 CDs in different areas of the state about financial controls, personnel policies, and purchasing policies. The main area of concern is that CDs need to have current purchasing policies in place. We found that:

Our survey of 12 CDs found that they are generally following financial control procedures.

- All twelve sampled CDs are following UCC's established financial controls, except that two CDs are not following one separation of duties procedure.
- Two CDs have not adopted personnel policies. Of the ten CDs that have adopted personnel policies, nine do not review and update them annually.
- Six of twelve sampled CDs do not have purchasing policies in place.

To determine if CDs are aware of and following UCC's financial and other important policies, we reviewed individual CDs in each of the seven UACD zones in the state. We also selected CDs within the zones that had at least one employee, because CDs that hire an employee are required to have a personnel policy in place.

Conservation Districts Follow Established Financial Controls

The UCC financial policy requires that CDs comply with internal controls to ensure the separation of accounting duties and minimize financial risks. Our review of the 12 CDs found that they are generally following the procedures outlined by the UCC.

- Checks require two signatures (usually the chair and treasurer of the board).
- A clerk prepares the check, before signing.
- The conservation board reviews deposits and checks quarterly.

The only procedure that is not closely followed by two CDs is the monthly reconciliation of the checkbook to the bank statement. The monthly reconciliation should be done, or at least reviewed, by a supervisor who does not sign the checks. We found that two CDs permit the same person to sign checks and complete the monthly bank statement reconciliation.

Other Significant Policies Are Not Always Being Followed

We also surveyed the sample of 12 CDs in seven zones to see if they were following UCC's personnel and purchasing policies. We found that those policies are not always being followed.

Some CDs' Personnel Policies Are Not Reviewed as Required.

According to UCC policy, conservation districts with part-time or full-time employees are required to have a personnel policy to ensure they conform to requirements of state and federal law. UACD has a personnel policy model that CDs can adopt. Ten CDs had adopted UACD's personnel policy; two CDs do not have a personnel policy.

According to UCC policy, CD boards need to review the personnel policy annually. Of the ten CDs that knew they had a personnel policy, only three said that they review the personnel policies annually. UCC needs to make sure that CDs have personnel policies in place and review them annually, updating them as needed to conform to state and federal laws.

Purchasing Policy. *Utah Code* 17B-1-618 requires that all purchases by a local district be made according to the purchasing procedures established by each CD. Thus, each CD should have developed and implemented a policy governing purchases. However, only six CDs said that they had a purchasing policy in place, and of those six, two CDs said their purchasing policies were outdated. UCC should make sure that each CD implements a current purchasing policy with an established competitive procurement process.

Any CD with part-time or full-time employees is required to have a personnel policy.

According to UCC policy, CD boards need to review their personnel policy annually; however, only three CDs we surveyed comply.

Only half of the CDs surveyed reported having a purchasing policy in place.

Recommendations

1. We recommend that Utah Conservation Commission (UCC) review all required conservation district (CD) reports for completeness and accuracy, and require CDs to correct their financial reports and budgets when errors occur.
2. We recommend that UCC ensure that CDs meet independent financial review requirements and submit report copies to UCC.
3. We recommend that UCC review annual work plans to ensure that CDs reflect goals and objectives that help them fulfill statutory duties.
4. We recommend that UCC ensure that CDs follow laws and UCC's policies regarding personnel and purchasing.



Appendices

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Appendix A

Utah Conservation Districts



Legend

- Twin M Conservation District Boundary and Name
- RICH County Boundary and Name



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Appendix B

CD FINANCIAL REPORTS: FY13 Actuals

Zone	District	CD Operations	Tech. Asst.	SERA	District Manager	Federal Grant	Weed Grant	DWQ Contract	Other Income	Total Income
1	West Box Elder	\$ 2,000	\$ -	\$ 4,074	\$ -	\$ 179,099	\$ -	\$ -	\$ 9,935	\$ 195,107
1	Blacksmith Fork	2,000	-	5,892	-	-	131,460	-	28,169	167,521
1	Northern Utah	2,000	-	3,803	-	136,691	5,486	-	1,417	149,397
1	North Cache	2,000	11,215	5,005	-	-	-	5,574	10,628	34,421
1	Rich	-	-	-	-	-	-	-	7,631	7,631
2	Grantsville	*NS								
2	Davis	2,000	1,786	5,930	49,100	-	-	-	2,033	60,849
2	Morgan	2,000	1,786	3,550	-	38,665	2,770	-	230	49,000
2	Shambip	2,000	2,285	3,550	-	-	-	-	2,714	10,549
2	Weber	2,000	1,786	4,424	-	-	-	-	-	8,210
2	Salt Lake	2,000	1,786	3,550	-	-	-	-	1,762	9,098
3	Timp-Nebo	-	-	5,632	44,700	-	-	-	10,510	60,842
3	Kamas	-	-	-	-	-	-	-	39,809	39,809
3	Alpine	2,000	2,243	5,650	-	-	-	-	2,172	12,065
3	Wasatch	2,000	2,243	-	-	-	-	-	4,432	8,675
3	Summit	-	-	-	-	-	-	-	4,278	4,278
4	Sanpete	2,000	-	3,550	-	16,000	-	37,241	11,687	70,478
4	Sevier	2,000	9,415	3,550	-	-	-	33,059	1,423	49,447
4	Millard	2,000	1,200	3,550	-	-	-	33,083	705	40,539
4	Juab	2,000	-	3,550	-	-	-	-	2,009	7,559
4	Piute	2,000	-	3,550	-	-	-	-	1,366	6,916
4	Delta	2,000	600	3,550	-	-	-	-	649	6,799
4	Fremont River	2,000	3,550	-	-	-	-	-	50	5,600
5	Upper Sevier	2,000	1,602	3,384	-	-	-	37,720	566	45,272
5	Twin M	2,000	1,552	-	-	-	-	-	14,681	18,233
5	Canyonlands	2,000	1,602	3,550	-	-	-	-	858	8,010
5	Beaver	2,000	1,602	3,550	-	-	-	-	1	7,153
5	E&I	2,000	1,552	-	-	-	-	-	3,252	6,804
5	Dixie	3,602	-	-	-	-	-	-	1,106	4,708
5	Kane	2,000	1,602	-	-	-	-	-	143	3,745
6	Duchesne	2,000	2,100	-	-	20,000	-	-	66,500	90,600
6	Uintah	2,000	3,738	-	-	-	-	-	4,204	9,942
6	Daggett	2,000	3,738	-	-	-	-	-	2,361	8,099
7	San Rafael	2,000	2,243	4,701	-	-	-	50,578	45,337	104,859
7	Price River	2,000	2,243	2,776	-	32,334	-	-	1,297	40,650
7	San Juan	2,000	2,243	7,359	-	-	-	-	6,665	18,267
7	Green River	2,000	2,243	1,125	-	-	-	-	4,730	10,098
7	Grand	2,000	2,243	2,370	-	-	-	-	15	6,628
*Not Submitted		\$ 67,602	\$ 70,198	\$ 101,174	\$ 93,800	\$ 422,789	\$ 139,716	\$ 197,255	\$ 295,323	\$ 1,387,857

SOURCE: UDAF

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Agency Response

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