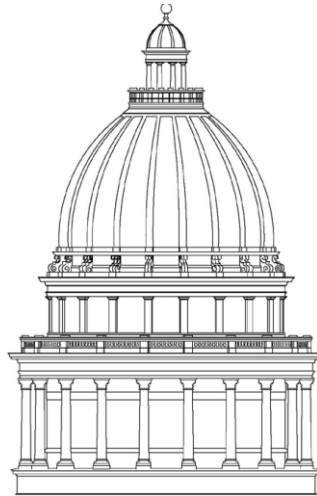


REPORT TO THE  
**UTAH LEGISLATURE**

Number ILR 2016-F



**UCA Improving Controls  
After Fraud Discovered**

August 2016

Office of the  
**LEGISLATIVE AUDITOR GENERAL**  
State of Utah





STATE OF UTAH

# Office of the Legislative Auditor General

315 HOUSE BUILDING • PO BOX 145315 • SALT LAKE CITY, UT 84114-5315  
(801) 538-1033 • FAX (801) 538-1063

## Audit Subcommittee of the Legislative Management Committee

President Wayne L. Niederhauser, Co-Chair • Speaker Gregory H. Hughes, Co-Chair  
Senator Gene Davis • Senator Ralph Okerlund • Representative Brian S. King • Representative James A. Dunnigan

JOHN M. SCHAFF, CIA  
AUDITOR GENERAL

August, 2016

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, **UCA Improving Controls After Fraud Discovered** (Report #ILR 2016-F). 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,

John M. Schaff, CIA  
Auditor General

JMS/lm



# REPORT TO THE UTAH LEGISLATURE

Report No. ILR 2016-F

## **UCA Improving Controls After Fraud Discovered**

August 2016

Audit Performed By:

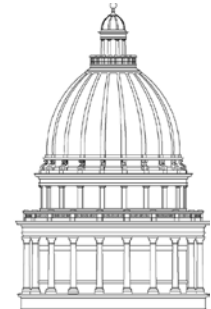
Audit Manager	Tim Osterstock
Audit Supervisor	Leah Blevins
Audit Staff	Lane Farr



Office of  
LEGISLATIVE AUDITOR GENERAL  
State of Utah

**Report Number ILR 2016-F  
August 2, 2016**

## **UCA Improving Controls After Fraud Discovered**



The Utah Communications Authority (UCA) and the Utah Communications Authority Board (board) have implemented controls in response to an internal theft of approximately \$800,000 that occurred over at least 10 years. In 2010, the Utah Office of the State Auditor (OSA) discovered that some credit card transactions were missing receipts and could not be verified in the course of their annual financial statement audit. OSA appropriately conducted the financial statement audit portion of their review, but this type of audit is frequently insufficient to detect fraud. Because of the State Auditor's broader responsibility beyond financial statement audits, a more in depth review should have been conducted on the missing credit card receipts, both the year they were discovered and the following year. Despite this, UCA management is responsible for preventing and detecting fraud. OSA has recently emphasized standards that could assist in detection of similar fraud. Once the fraud was detected, UCA's board reacted quickly and is now taking steps to fix the problems and prevent future occurrences.

### **Background and Audit Scope**

In April of 2016, UCA disclosed that a former administrative assistant had stolen at least \$800,000 from UCA over the course of at least 10 years. This fraud was accomplished through misuse of company credit cards and subsequent doctoring of credit card statements to mask personal purchases. The former employee has pled guilty to this fraud and has entered into a repayment agreement with UCA. Multiple entities, including both the performance and financial

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**Over at least 10 years,  
an employee stole at  
least \$800,000 by  
abusing credit cards.**

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sections of OSA, have since audited or are auditing UCA to determine how all of this occurred, and whether there are additional control deficiencies.<sup>1</sup>

The Utah State Constitution charges that the State Auditor “shall perform financial post audits of public accounts...” as well as performing other duties provided in specific statutes. Financial post audits are not limited to financial statement audits, but include any financial audits and reviews into the use of public funds.<sup>2</sup> One additional statute lists the functions and duties of the State Auditor, and in addition to financial statement audits, requires that as the auditor determines necessary, “conduct the audits to determine:

- Honesty and integrity in fiscal affairs
- Accuracy and reliability of financial statements
- Effectiveness and adequacy of financial controls
- Compliance with the law”<sup>3</sup>

OSA is also required by statute to ensure an audit is conducted of “the books and accounts” of UCA. In conducting its audits, OSA follows applicable financial audit standards.<sup>4</sup> UCA, formerly known as the Utah Communications Agency Network (UCAN), is an auditable agency; consequently, the State Auditor has overseen audits of UCA/UCAN since its inception in 1997. In 2012 a new State Auditor was elected and took office, and in 2013, OSA contracted with an outside firm to perform these yearly financial statement audits.

In 2010, OSA’s annual financial statement audit of UCAN reported that 13 of 36 reviewed credit card purchases (36 percent) on a randomly sampled monthly statement lacked receipts. UCAN responded that the credit card policy would be given to all employees to be sure they understand the need for receipts. The following year, OSA reviewed the controls over credit card usage, which included

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**In 2010 OSA discovered 36 percent of sampled credit card purchases were missing receipts.**

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<sup>1</sup> The OSA performance audit began in January before the fraud issue was discovered, and was released in May.

<sup>2</sup> Utah State Constitution, Article VII, Section 15

<sup>3</sup> *Utah State Code* 67-3-1(3)(iii)

<sup>4</sup> Standards include Generally Accepted Auditing Standards (GAAS), as set by the Auditing Standards Board (ASB), a division of the American Institute of Certified Public Accountants (AICPA); and Generally Accepted Government Auditing Standards (GAGAS), as set by the United States Government Accountability Office (GAO).



reviewing one transaction. Because a receipt was provided, the issue was closed.

Because multiple reviews have already identified missing controls and management neglect that enabled fraud to take place at UCA, this review will not further examine what went wrong. Instead, this review examines the following questions:

1. Was the OSA's financial statement audit in 2010 appropriately conducted according to government and financial auditing standards?
2. Are financial statement audits sufficient to detect fraud?
3. Did OSA adequately review missing credit card statements in compliance with broader responsibilities of the State Auditor and government auditing?
4. Since the discovery of the fraud, have UCA and the UCA board acted in an appropriate and timely manner?
5. Have UCA and the UCA board implemented appropriate financial controls as listed in the OSA's performance audit, *A Performance Audit of Utah Communications Authority Financial Management and Transparency*?<sup>5</sup>

## **OSA Appropriately Conducted the Financial Statement Audit**

OSA conducted the 2010 financial statement portion of their audit according to applicable standards. These standards and financial statement audits in general are not always sufficient to detect fraud which is also demonstrated by the fact that external auditors who contracted with OSA to do the financial statement audits also did not identify the fraud that was occurring. The scope and materiality threshold of financial statement audits can limit their ability to detect fraud.

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<sup>5</sup> Performance Audit No. 16-01

## **Financial Statement Audit Was Conducted According to Standards**

It appears that OSA followed applicable standards when conducting UCA's financial statement audit in 2010. The purpose of the financial statement audit is "the expression of an opinion as to whether UCAN's basic financial statements are fairly presented, in all material respects." This means the auditor expresses an opinion on the truth and fairness of financial statements, and that they are reported in a way that allows them to be compared with similar entities. It is neither an assessment of an organization's economic well-being, nor is it intended to uncover all instances of fraud. From our limited review, it appears OSA conducted the 2010 financial statement audit in accordance with standards and reported it accordingly.

**Contracted Auditors Also Did Not Discover Fraud.** The auditors OSA contracted with to perform UCA's annual financial statement audit did not uncover the credit card fraud in their reviews from 2013 to 2015. These audits contained statements, similar to those in the 2010 audit, limiting their scope, and were conducted in essentially the same fashion as OSA's financial statement audits.

## **Financial Statement Audits Are Frequently Insufficient in Detecting Fraud**

The scope of financial statement audits is so controlled as to be ineffective at detecting fraud. OSA's 2010 audit of UCA, which detected missing credit card receipts, exemplifies this problem. The definition of materiality of findings is also fairly restrictive and can minimize the audit's ability to detect fraud indicators.

**Financial Statement Audit Scope Is Narrowly Defined.** Each financial statement audit released by OSA or their independent, contracted auditors has a statement restricting the scope of the audit. The 2010 audit in question included the following statement:

In planning and performing our audit, we considered UCAN's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, *but not for the purpose of expressing an opinion on the effectiveness of UCAN's internal control over financial reporting.* Accordingly, we do not express an opinion on the

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**In the three years they have conducted the audits, contracted financial statement auditors also did not detect fraud.**

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**Financial statement audits narrowly define scope, which can allow indicators of fraud to slip through.**

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effectiveness of UCAN’s internal control over financial reporting.<sup>6</sup>

Similar language controls the scope of identifying deficiencies by saying “consideration of internal control ... was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.” OSA’s audits use similar language about their review of compliance with laws, regulations, contracts, and grant agreements. According to GAGAS, similar language should be included in all financial statement audits.

The problem with this limited scope is that the entity being audited does not always understand what the audit does not do. In fact, UCA board members expressed that very concern, that relatively clean audits led them to believe their finances were effectively controlled.

**Materiality of Findings Can Be Narrowly Defined.** Financial statement audits have some leeway in defining levels of concern in deficiencies. The primary consideration in these definitions is the materiality of the amount in question in relation to the overall financial activity of the organization. Discussions with OSA auditors indicated that the relatively small amount in question was not a material amount, and is the reason the missing credit card receipts were not defined as a more pressing issue.

According to the GAGAS, a deficiency “exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.” This principle also requires that the auditor determine the severity of the deficiency, which relies on “the magnitude of the potential misstatement resulting from the deficiency” and “whether there is a reasonable possibility that the entity’s controls will fail to prevent, or detect and correct, a misstatement of an account balance or disclosure.” Figure 1 explains two specific types of deficiencies.

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**UCA board members reported not understanding the limited scope of a financial statement audit.**

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**In determining materiality, the amount of the finding in relation to the agency’s overall financial activity is the primary question.**

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<sup>6</sup> Emphasis added.

**Figure 1. Deficiencies in Control Exist When Employees Cannot Detect Misstatements on a Timely Basis.** The two main types of deficiencies are “significant deficiencies” and “material weaknesses.”

Definition of Internal Control Weaknesses	
Significant deficiency	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.
Material weakness	A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis.

*Source: Generally Accepted Auditing Standards*

The missing credit card statements in 2010 were classified as neither a significant deficiency nor a material weakness, but as an “additional matter.” This lesser classification led to reduced auditor concerns. When asked why, state auditors responded that the amount was not a material amount, based on a formula set forth by financial statement audit standards.

We believe that the narrowness of the scope, the high materiality determination threshold, and the fact that the contracted auditors also failed to identify the fraud, demonstrate the weakness of financial statement audits in adequately detecting fraud.

### **OSA Should Have Conducted a More Thorough Review**

OSA’s responsibilities beyond financial statement audits were not adequately fulfilled by the 2010 and 2011 audits. Exercising greater professional skepticism by recognizing its broader responsibility, accepting only original documentation, recognizing aggravating risk factors, and conducting a more thorough follow-up of the issue in 2011 could have detected the fraud five years earlier and prevented further occurrence of the same fraud.<sup>7</sup> Despite these missteps, UCA management was and is the primary entity responsible for detecting and preventing fraud. In 2013 OSA started emphasizing that their charge is beyond financial statement audits and recently began

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<sup>7</sup> OSA’s audit test involved selecting one month from the year and reviewing a sample of transactions from that month’s statement.

requiring standards which will help prevent similar oversights in the future.

In 2010, OSA's annual financial audit of UCAN reported that 13 of 36 credit card purchases (36 percent) on a randomly sampled monthly statement lacked receipts. Without receipts or greater probing, the auditors could not validate the purchases. When the auditor questioned UCAN staff about the missing receipts, the staff member replied that sometimes staff misfiles or loses receipts.

### **OSA Responsibilities Are Not Limited To Financial Statement Audits**

While performing the financial statement audit appropriately, OSA failed to appropriately meet the broader responsibilities given the State Auditor. As discussed briefly above, the statutory duties and responsibilities of the State Auditor are not limited to financial statement audits. OSA is also required to, "as the auditor determines is necessary, conduct the audits to determine:

- Honesty and integrity in fiscal affairs
- Accuracy and reliability of financial statements
- Effectiveness and adequacy of financial controls
- Compliance with the law"<sup>8</sup>

This requirement indicates a broader responsibility than the strict definition of issuing an opinion on the accuracy of financial statements. Audit standards also indicate the requirement for increased vigilance by governmental auditors. The GAAS state the following:

The auditor of governmental entities ... may have additional responsibilities relating to fraud ...  
Consequently, the responsibilities of the auditor of governmental entities ... may not be limited to consideration of risks of material misstatement of the financial statements, but may also include a broader responsibility to consider risks of fraud.

Reviewing credit card purchases in the 2010 audit was part of these additional responsibilities, performed outside the scope of the financial statement audit, as part of the broader responsibilities listed

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<sup>8</sup> *Utah State Code* 67-3-1(3)(iii)

above. It was performed because OSA recognized the increased risk inherent in credit card usage.

### **Professional Skepticism Was Not Adequately Exercised**

It appears that state auditors were singularly focused on the financial statement audit, to the exclusion of their broader responsibility. This contributed to insufficient professional skepticism when reviewing UCA's credit card statement in 2010 and the follow up in 2011. According to the GAAS, professional skepticism includes "being alert to information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence." By accepting limited credit card information, failing to recognize aggravating risk factors, and conducting an inadequate follow up the year following the discovery of the issue, we do not believe OSA employed sufficient professional skepticism in this instance.

**Acceptance of Limited Credit Card Information and Explanation Was Questionable.** Government standards allow some leeway in accepting documentation. According to the GAAS,

...unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic ... the auditor should investigate further.

For financial statement audits, auditors are advised to be cautious when accepting types of documentation that may bring authenticity into question. Photocopies and facsimiles are examples of potentially inauthentic documentation. In this case, the auditor was provided a photocopied statement that was actually a document created by the individual committing the fraud. Obtaining the original statement or the e-mail containing documentation from the credit card company is advisable. In UCA's case, requiring original documentation likely would have identified the fraud. Following this directive is simple and allows greater insight and audit control.

Lack of documentation is also listed in standards as one of the following risk factors for fraud:

- Missing documents

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**Auditors accepted a photocopy of a credit card statement rather than the original document.**

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**Requiring original documentation likely would have identified the fraud.**

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- Unavailability of non-photocopied or electronically transmitted documents when documents in original form are expected to exist
- Inconsistent, vague, or implausible responses from management or employees arising from inquiries or analytical procedures

If the missing credit card receipts were the only concerning part of the controls over credit card use, the documentation leeway OSA exercised may be mitigated in this situation. Unfortunately, there were other concerns.

**Aggravating Risk Factors Should Have Been Considered.** The missing credit card documentation noted by OSA in the 2010 audit were not the only fraud red flag. Figure 2 lists these risk factors with the corresponding condition at UCA.

**Figure 2. UCA Showed Aggravating Risk Factors, as Identified by GAGAS and GAAS.** The risk factor is listed on the left, and the condition of the agency as identified by the 2010 and 2016 audits is on the right.

Risk Factor	Condition
Nature of transactions	“Credit card purchases allow for efficiency, ease, and convenience, but also are high risk transactions.”
Susceptibility of the asset to loss or fraud	Credit cards “are high risk transactions because purchases are not pre-approved and are often made at the sole discretion of a single individual.”
Weakness of controls/separation of duties	“Because pre-approval and purchase decisions are often made by a single individual the subsequent review of purchase is an important control” The employee committing fraud was the only one with access to the credit card statements, and was also the individual reviewing the cards for reasonable purchases.
Possible future consequences	Credit card purchases represented an estimated \$180,000 financial exposure per year. The future consequences resulted in at least \$800,000 stolen over at least 10 years.

*Source: GAGAS and GAAS standards and OSA audits in 2010 and 2016*

As Figure 2 shows, risk factors such as the nature of credit card transactions, a lack of separation of duties, and high possible future consequences all existed at UCA.

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**The individual who perpetrated the fraud was the only individual who could access all credit card accounts.**

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As OSA explained in their recent performance audit of UCA<sup>9</sup>, the individual who perpetrated the fraud “was the only individual authorized to access the UCA credit card account, and received all credit card statements.” This condition violates separation of duties standards and should also disallow automatic acceptance of documentation.

This lack of separation of duties should raise red flags for auditors. According to the GAAS, standards require that

[t]he auditor should evaluate whether the information obtained from the risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present. Although fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances in which frauds have occurred and, therefore, may indicate risks of material misstatement due to fraud.

In this situation, these observed risk factors were indeed fraud indicators.

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**Surface level review in 2011 was not sufficient given the finding in 2010.**

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**2011 Follow-up Was Inadequate.** After discovering the missing credit card receipts during the 2010 financial statement audit, OSA informed management of the problem in their report. The following year, instead of duplicating the test to determine whether the issue had been appropriately addressed, OSA did a general review of the controls over credit card transactions, which was limited to reviewing a single credit card transaction. Given the severity of the missing receipts the year before, and the aggravating factors discussed above, the review in 2011 was insufficient. The broader responsibilities of the State Auditor required additional testing in 2011 that was not performed. Had the review been more in depth, it is likely the fraud could have been identified at that point.

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<sup>9</sup> OSA began this performance audit in January 2016, before the discovery of the fraud, and released the audit in May 2016 after the fraud was discovered and the civil case against the fraudster settled.



## **UCA Management Should Have Been the Primary Control**

Although OSA performs financial statement audits, and has additional responsibilities to review risk areas, UCA management and board had the primary responsibility to prevent and detect the fraud. As the day-to-day oversight of UCA, management was in a much better position to see and respond to risk factors for fraud.

The GAAS require that “the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.” In fact, during every audit, including the audit in 2010, management signs what is referred to as a “management representation letter” which list the responsibilities of management in relation to the audit. The 2010 letter is signed by the executive director and contracted auditor. Two of the responsibilities management acknowledges are

- Responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- Responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable.

Ultimately, the responsibility for detection of this fraud rests and rested with UCA.

## **OSA Has Recently Emphasized Standards To Prevent a Repeat Occurrence**

Since the current State Auditor took office in 2012, OSA has emphasized the importance of original documentation and separation of duties controls. OSA has emphasized the importance of these standards in their annual training provided to Certified Public Accountants who audit local governments and local government entities. OSA also reports that the importance of these issues has been emphasized in internal trainings to their own staff. This emphasis is important to prevent future reoccurrences of similar types of fraud in Utah government entities.

In addition, OSA reports having discussions with the Division of Finance regarding how to improve controls over credit and p-card purchases. Finance made these improvements, and communicated

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**UCA management acknowledged their responsibility over fraud in 2010.**

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**OSA has begun training auditors to be more vigilant about original documentation and separation of duties.**

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these changes to government budget and accounting officers in May 2016.

## **UCA Board's Reaction to Fraud Appears Reasonable**

In response to the discovery of fraud, the UCA board has taken quick action to resolve the civil issue, implement controls to prevent further fraud, and resolve remaining personnel issues at UCA.

### **Board Acted Quickly to Resolve Civil Issue**

This fraud was initially discovered on January 7, 2016, and the judgment on the civil suit was reached on April 9, a total of 93 days later. This appears to be a reasonable time frame.

On January 7, an employee found a credit card statement on a shared printer and told the accountant she should review the charges. On January 21, UCA notified West Valley Police about the possible fraud, and an on-going criminal investigation was instigated. Following a hearing at the board meeting, UCA terminated the employee on February 22. On March 4, UCA's attorney filed a complaint against the employee, and on March 25, the court reached a judgment by confession.<sup>10</sup>

When the West Valley Police were notified of the potential fraud, they advised the board that due to the criminal investigation, it would be wise not to talk about the case publicly. Because of this advice, UCA's complaint was filed as private, essentially forbidding UCA to discuss the matter with anyone, including the Legislature. On March 25, the judge ruled the case would not be private because the public had a valid interest in the case.

### **UCA Implemented Controls to Help Prevent Further Fraud**

In their 2016 performance audit, released after the announcement of the fraud, OSA made 13 recommendations to improve the financial controls and oversight of UCA. These recommendations include appropriate separation of duties, closer oversight and controls of credit

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**In 93 days, UCA reached a settlement with the individual who committed fraud.**

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**West Valley Police advised the UCA board not to talk about the case publically.**

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<sup>10</sup> For a more detailed timeline of events, see Appendix A.

cards, audit committee oversight, and formal adoption of policies and procedures.<sup>11</sup> We have been able to document that UCA has implemented, or is in the process of implementing, all of the State Auditor's recommendations.

In addition to the controls recommended by OSA, UCA has implemented additional controls. Over the past few months, three members of the board have examined every credit card transaction for at least the last six years to determine which ones were appropriate and which ones were not. In the future, the board's audit committee will examine all transactions.

The board also reports that, once hired, a new finance director will be instructed to carefully categorize and review each expenditure for validity and ease of tracking.

### **Board Is Acting to Resolve Remaining Personnel Issues**

In addition to concerns with the administrative assistant who committed the fraud, there were concerns with the level of oversight provided by both the executive director and the contracted accountant. Both the executive director and the contracted accountant have resigned. A new executive director is expected to be hired in July. This individual will then work to hire two new, full-time finance staff to replace the contract accountant.<sup>12</sup>

The board is not waiting for the new director to take additional action on some additional personnel needs. For example, the board and its counsel has taken the following steps:

- Contracting with an accounting firm to monitor accounts and spending while the full-time finance staff is hired. This accounting firm has also been organizing and reconciling accounts from the past.

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<sup>11</sup> For a detailed list of OSA recommendations and UCA's responses, see Appendix B.

<sup>12</sup> These finance staff are new positions, and are the result of redesigning the agency organizational chart. To see both the current and the new organizational charts, see Appendix C.

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**UCA has implemented, or is in the process of implementing, all of the financial control recommendations made by the OSA performance audit.**

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**The employee who committed fraud, the director and the contracted accountant are no longer employed by UCA.**

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- Hiring a forensic accounting team to investigate the facts and circumstances surrounding the fraud.
- Contracting with both the Division of Finance and the Department of Human Resource Management to help UCA with their purchasing and personnel issues.

We believe these actions and controls will help UCA to prevent further fraud in the future.

### **Recommendation**

1. We recommend that the Office of the State Auditor as well as auditors of other Utah governmental entities consider the limitations of the financial statement audit in their reviews to bolster oversight where controls may be lacking when fulfilling their broader responsibilities.
2. We recommend that the Office of the State Auditor more carefully consider documentation and risk factors when fulfilling their responsibilities beyond the financial statement audit.

## **Appendices**



**Appendix A**  
**Timeline of Actions Taken After Discovery of Fraud**





Date (2016)	Event
Jan. 7	An employee found a credit card statement on the printer, and told the accountant there were some suspicious charges on it.
Jan. 8	The executive director called the credit card company to get a copy of the statement and was told only the administrative assistant had access.
Jan. 11	The administrative assistant admitted it was her card, but there had just been a mistake.
Jan. 15	UCA placed the administrative assistant on administrative leave while the matter was investigated.
Jan. 15	The board was notified about the issue, and asked two board members and the board's attorney to look into the issue.
Jan. 21	West Valley Police were notified about possible fraud, and the investigation began. The detective advised UCA not to speak publically about the case in order to assist with the criminal investigation.
Feb. 11	The attorney wrote a letter after reviewing three months of credit card statements, saying there are larger concerns than this single month.
Feb. 19	A pre-disciplinary hearing was conducted regarding the administrative assistant's employment status.
Feb. 22	The administrative assistant was terminated.
Feb. 23	The board authorized their attorney to file suit against the administrative assistant and file a temporary restraining order that prevented further elimination of assets.
Mar. 4, 10	The complaint and a motion for a temporary restraining order were filed. The complaint is filed as sealed, or private, which prevented the board from discussing the case with anyone.
Mar. 17	The initial hearing was conducted and the motion for a temporary restraining order was granted.
Mar. 25	The judge ruled the case is not sealed due to public interest.
Apr. 4	The administrative assistant signed a confession.
Apr. 9	A judgment by confession was reached, at which point a permanent restraining order was put in place, scheduling payback of stolen amounts.



**Appendix B**  
**OSA Recommendations and UCA Responses**



OSA Recommendation	UCA Response
We recommend that the UCA Board oversee the implementation of internal controls that includes proper separation of duties, monthly reconciliation of credit card statements to receipts, and regular UCA Board review of UCA finances.	UCA's Board will review those transactions that are generally blocked based on merchant category codes to confirm that such charges serve a legitimate business purpose. UCA has also requested that two of its board members review and revise UCA's credit/purchasing card policies to ensure that they provide the necessary protections against any future abuse and to comply with Utah's Procurement Code which UCA recently became subject to.
We recommend that UCA implement the individual transaction and monthly amount limits on credit card purchases, as required by assumed UCA policy.	UCA agrees with and has implemented (or is in the process of implementing) single purchase credit limits, and monthly credit limits.
We recommend that UCA cancel unassigned credit cards.	UCA eliminated all unassigned credit cards.
We recommend that UCA refrain from issuing unassigned credit cards or purchasing cards.	UCA is in the process of cancelling its credit card account in favor of the State's Purchasing Card System which has embedded in it a number of security measures, as discussed in the Audit.
We recommend that UCA management authorize and approve expenditures, as required by assumed UCA policy, or modify its existing policy.	Employees now required to have receipts for <i>all</i> credit/purchasing card transactions and the proper spending limits have been or are in the process of being applied to each employee's credit/purchasing card. UCA has also requested that two of its board members review and revise UCA's credit/purchasing card policies to ensure that they provide the necessary protections against any future abuse and to comply with Utah's Procurement Code.
We recommend that UCA replace credit cards with purchasing cards.	UCA is in the process of cancelling its credit card account in favor of the State's Purchasing Card System which has embedded in it a number of security measures, as discussed in the Audit.
We recommend that UCA take immediate steps to comply with applicable purchasing policies, including: a. Implementing single purchase credit limits. b. Implementing monthly credit limits. c. Restricting merchant category codes that are inconsistent with the entity mission. d. Retaining itemized monthly logs of purchases for each card. e. Reconciling monthly purchase logs with receipts. f. Paying for only expenditures with original receipts. g. Conducting random, independent audits on card usage.	Though not subject to state purchasing policies, UCA agrees with and has implemented (or is in the process of implementing) policies including: (a) single purchase credit limits; (b) monthly credit limits; (c) restricting certain merchant category codes; (d) retaining itemized monthly purchase logs for each individual credit/purchasing card; (e) reconciling these purchase logs with the applicable receipts; (f) requiring original receipts be provided for all charges; and (g) conducting random audits of card usage.
	See Above (c)
We recommend that UCA block all merchant category codes that do not serve a business function.	The soon to be reconstituted audit committee of UCA's Board will review those transactions that are generally blocked based on merchant category codes to confirm that such charges serve a legitimate business purpose.

<p>We recommend that the audit committee of the UCA Board review transactions made by UCA employees with merchants typically blocked by the Division of Finance to determine if those transactions served legitimate business functions.</p>	<p>Same as Above</p>
<p>We recommend the UCA Board create an audit committee to oversee the entity financial management, as required in its bylaws.</p>	<p>UCA has actively taken steps to reconstitute an audit committee, which: (1) will not include the chair of UCA's Board; (2) will report directly to the UCA Board; and (3) has the authority to request its own legal counsel and/or accountants to assist, as necessary. When reconstituted, this committee will oversee UCA bylaws.</p>
<p>We recommend that the UCA Board treasurer report UCA's financial condition to the Board at least annually, as required by Board bylaws.</p>	<p>UCA's Treasurer, the chair of the UCA audit committee, will report UCA's financial condition to the Board at least annually, if not more frequently.</p>
<p>We recommend that the UCA Board review, update, and formally adopt authority policies and procedures.</p>	<p>UCA has recently <i>formally</i> adopted these policies and is in the process of reviewing and updating each policy, as necessary.</p>
<p>We recommend that the UCA Board regularly follow up to ensure its office and employees follow authority policies and procedures.</p>	<p>UCA is also working with the Utah Department of Administrative Services, Division of Finance to address UCA's financial management and policies going forward.</p>

**Appendix C**  
**UCA Organizational Chart Before and**  
**After Discovery of Fraud**

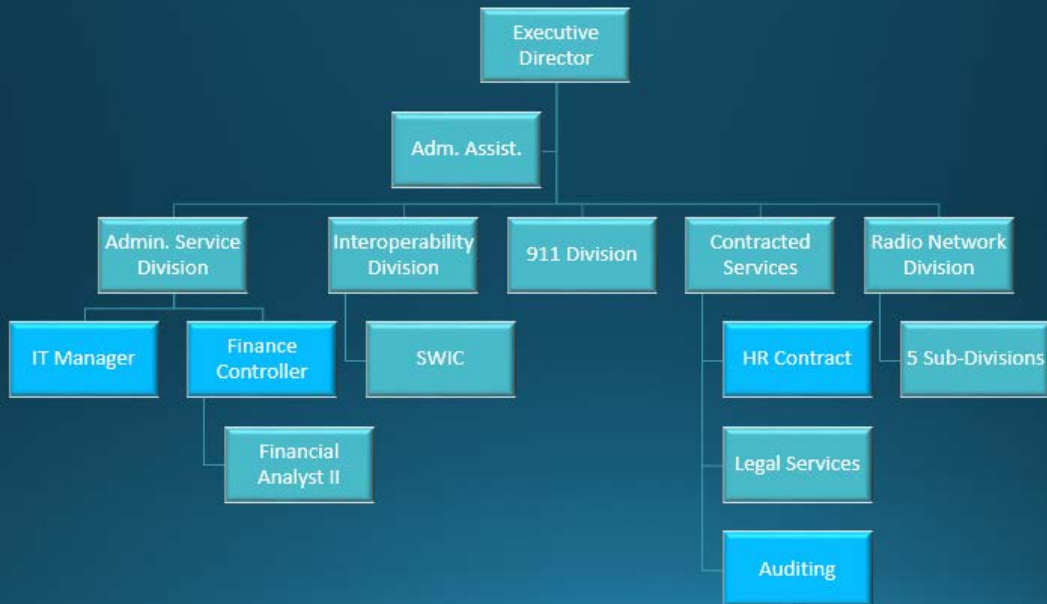




## Current Organizational Chart



## Draft Organizational Chart





## **Agency Responses**





OFFICE OF THE  
UTAH STATE AUDITOR

July 26, 2016

John Schaff, Legislative Auditor General  
State Capitol Complex, Suite W315  
Salt Lake City, UT 84114

Dear Auditor General Schaff:

The Office of the State Auditor (OSA) appreciates the opportunity to respond to this audit presented by the Office of the Legislative Auditor General (OLAG).

The OSA takes seriously our responsibility to perform financial statement audits in accordance with generally accepted and government auditing standards. External peer reviews of our work during the past decade have documented that our financial statement audits, and the quality controls over those audits, have satisfied auditing standards. OLAG's report recognizes that our financial statement audits of Utah Communications Agency Network met those standards.


However, we agree with OLAG's findings and recommendations. Historically, we recognize that our "singular focus" on issuing opinions on financial statements resulted in providing insufficient attention to the State Auditor's broader constitutional and statutory oversight responsibilities. In 2013, we began renewed efforts to strengthen this oversight. We will continue our efforts, both within the OSA as well as within the broader industry that performs audits of other governmental entities in Utah, to improve audit procedures to help detect and mitigate fraud, including stressing the importance of reviewing source documentation. Also, we will continue to strengthen our training of governing boards and management to help them in their financial oversight responsibilities.

As a result of our recent performance audit of the Utah Communications Authority, and prior to OLAG's performance audit, the OSA worked with the State Division of Finance (Finance) regarding procedures and internal controls related to the use of purchase cards. Finance has since issued updated procedures requiring direct independent downloads of purchase card statements to reduce the potential for modifying statements without detection. These updated procedures also reiterate the importance of retaining original receipts with the monthly purchase card reconciliations. In addition, the OSA initiated training for local governments and auditors of local governments to improve the awareness of credit card and purchase card risks as well as other types of fraud.

We concur with OLAG that government administrators and financial managers are ultimately responsible for the internal controls over financial operations and reporting. External financial audits are not a substitute for appropriate internal controls.

We appreciate the cooperation and professionalism of the OLAG staff during this audit. We believe that the focused discussions and review have been beneficial and will help strengthen the financial operations and internal controls of governments throughout Utah.

Sincerely,



John Dougall  
State Auditor

