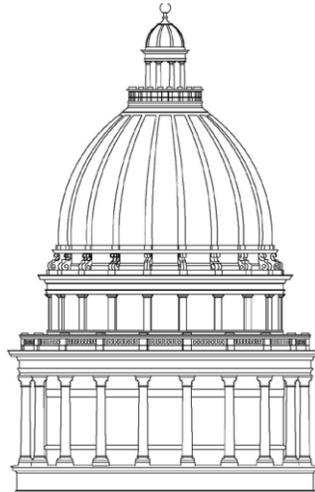


REPORT TO THE  
**UTAH LEGISLATURE**

Number 2018-04



**A Review of Best Practices for Internal Control of Nonprofits  
Associated with Government**

May 2018

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 • Senator Ralph Okerlund • Representative Brian S. King • Representative Brad R. Wilson

JOHN M. SCHAFF, CIA  
AUDITOR GENERAL

May 15, 2018

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, **A Review of Best Practices for Internal Control of Nonprofits Associated with Government** (Report #2018-04). 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" with a stylized flourish at the end.

John M. Schaff, CIA  
Auditor General

JMS/lm



# Digest of A Review of Best Practices for Internal Control of Nonprofits Associated with Government

Nonprofit entities perform important functions in the economy, often serving public purposes and filling needs that private companies do not. Governmental entities rely on nonprofit organizations for many activities and fund these entities to provide homeless services, domestic violence shelters, education, and other activities. House Bill 55 in the 2017 Legislative General Session created the Governmental Nonprofit Corporations Act and defined governmental nonprofits. We found there is a limited number of governmental nonprofits, however we found over 1,000 nonprofits that are potentially related to government through contracts, utilization of government employees and resources, or the procurement of services.

## Chapter II Some Nonprofits Affiliated with Government Lack Internal Controls

**Survey of Nonprofits Shows Internal Control Concerns.** During our audit we visited 35 nonprofit entities to survey them regarding best practices. The boards typically had taken responsibility to set guidance and budgets for the organizations, set meeting agendas, hired the outside audit function, and reviewed disbursements. However, a high percentage of nonprofits were missing financial controls and/or key policies. To properly safeguard assets, accounting duties should be separated so that no one person can perpetrate fraud without someone becoming aware of it. Almost half of nonprofits visited did not maintain proper segregation of duties. In addition to properly safeguarding assets, good policies can strengthen the control environment by establishing a strong tone at the top. While 33 of the 35 nonprofits reported they had implemented policies, 11 did not have a conflict of interest or ethics policy in place and 14 did not have a procurement policy.

**Government Entities Should Ensure Their Associated Nonprofits have Proper Controls.** Governmental entities have sufficient influence to ensure that nonprofits they associate with have adequate financial controls and board governance. We reviewed 35 nonprofits associated with government and found that the governmental entities they associate with use a number of direct and indirect methods to exert differing levels of control over them. Some of these methods are through:

- Appointing board members
- Contracts, and
- Memorandums of Understanding

Since some associated nonprofits lacked sufficient financial controls this suggests that governmental entities may not be exercising their influence. Government entities should use their influence over associated nonprofits to persuade these nonprofits to institute best practices for financial controls and board governance. Also, entities with oversight responsibilities such as the State Auditor, Division of Finance, Board of Education and Board of Regents, should train those under their purview of the need and methods to influence associated nonprofits to institute best practices for financial controls and board governance.

**Fraud Has Existed in Some Nonprofits.** A weak control environment such as was seen at some nonprofits we visited raises the risk of fraud, waste, and abuse occurring. Fraud has occurred at Utah nonprofits affiliated with government and is a problem nationwide. Because many nonprofits are utilizing government resources, using similar names as government, and receiving government funding, it is important that oversight of nonprofits be strong.

### **Chapter III**

## **Government Control and Financial Support of Nonprofit Entities Vary**

**Some Nonprofit Entities Are Considered Part of Government.** The range of governmental control over nonprofits in the State of Utah varies greatly. Statute states that a nonprofit completely controlled by government that receives financial support from government is considered part of government. In addition, the statute states that a nonprofit entity receiving controlling interest and either a majority of funding from government or taxing authority is also part of government. Consequently, the level of control exercised by government in conjunction with the degree of financial support are the two key factors qualifying a nonprofit entity to be considered governmental.

**No Clear Lines Exist for Financial Support and Governmental Control.** The line separating governmental nonprofits and private nonprofits is not always apparent. House Bill 55, passed in the 2017 Legislative General Session and codified in Utah Code 11-13a, defined a governmental nonprofit in order to bring clarity to the State Auditor in determining which entities are subject to the additional requirements of government. While this bill did help clarify the status of many entities, there is still ambiguity about what is meant by financial support and government control.

## **Chapter IV**

### **Exemptions from Some Requirements of Open Meetings May be Justified**

The creation of the governmental nonprofit category has raised concerns, especially among university research foundations that are now required to hold open board meetings under the Open and Public Meetings Act (OPMA). These concerns appear to be justified for nonprofit corporations that may end up disclosing trade secrets, proprietary business methods and strategies, as well as private information in open meetings. Unlike Utah, five of the six states we reviewed allow for closed meetings to discuss information like trade secrets that is not otherwise disclosable as a record. The Legislature might want to consider allowing governmental nonprofits to hold closed board meetings to discuss information, such as trade secrets and proprietary data, not currently disclosable under the Government Records Access and Management Act (GRAMA).

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# REPORT TO THE UTAH LEGISLATURE

Report No. 2018-04

## **A Review of Best Practices for Internal Control of Nonprofits Associated with Government**

May 2018

Audit Performed By:

Audit Manager	Kade Minchey, CIA, CFE
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# Chapter I

## Introduction

Nonprofit entities perform important functions in the economy, often serving public purposes and filling needs that private companies do not. Governmental entities rely on nonprofit organizations for many activities and fund these entities to provide homeless services, domestic violence shelters, education, and other activities. House Bill 55 in the 2017 Legislative General Session created the Governmental Nonprofit Corporations Act and defined governmental nonprofits. We found there is a limited number of governmental nonprofits, however we found over 1,000 nonprofits that are potentially related to government through contracts, utilization of government employees and resources, or the procurement of services.

### Working with Nonprofits Provides Advantages for Government

There are many reasons why governmental entities have associations with nonprofits, ranging from full ownership of the nonprofit like a university research foundation to a mere fee-for-service contractual relationship with a charity like a women and children's shelter. Nonprofits can often better perform functions outside of traditional government services. Advantages that nonprofits may provide over traditional government activities include:

- Fundraising
- Volunteering
- Privacy for donors and participants
- More local participation and control
- Research

Also, by working with nonprofits, government limits the number of employees on its payroll to accomplish desired tasks. The almost unlimited variation in ways that governmental entities work with and exert influence over nonprofits allows for more flexibility in providing services and meeting goals.

Nonprofits can be created and controlled by government, then be spun off as completely independent of government, while some

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**Government relies on and funds nonprofit organizations for many activities.**

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**Government affiliates with nonprofit entities who can often better perform functions outside of traditional government services.**

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independent nonprofits have been brought more under control of government entities. One city we visited fully incorporated its independent nonprofit local arts council into city government. Another city we interviewed spun off their arts council as a completely independent nonprofit. One university we interviewed brought a fundraising foundation fully under its control while another was seeking greater control over an affiliated but independent nonprofit foundation.

### **Governmental Nonprofits Were Defined in Statute in 2017**

In the 2017 General Session of the Legislature, House Bill 55 was passed and defined a governmental nonprofit. The bill codified the Governmental Nonprofit Corporations Act in *Utah Code* 11-13a-102, and, as will be discussed in Chapter III, states that any nonprofit that is completely controlled by government and receives operating funding or financial support from government is a governmental nonprofit. Additionally, those nonprofits with a majority controlling interest by government entities that exercise taxing authority, impose a mandatory fee, or receive most of their funding from government are also governmental.

**The Legislature Can Subject Entities to Higher Standards Through Separate Legislation.** Although the scope of entities that were included in the governmental nonprofit definition is relatively small, the Legislature took an alternative approach with the Utah High School Activities Association (UHSAA). Most UHSAA board members represent governmental entities, but the majority of the association's funding comes from the tournaments they run and are not public funds. Therefore, UHSAA does not meet the definition of a governmental nonprofit. However, the Legislature ensured oversight and accountability was in place for UHSAA.

House Bill 413 in the 2017 Legislative General Session required UHSAA to hold open and public meetings, be subject to GRAMA, and publicly adopt a budget. While this bill stated that it did not change the association's public or private status, and UHSAA is a private nonprofit, it is subject to essentially the same requirements that are in place for governmental nonprofits. Similar legislation is an option for other nonprofits affiliated with government that may

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**House Bill 55 in the 2017 General Session of the Legislature defined Government Nonprofits.**

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**Although they are a private nonprofit, the Legislature imposed additional requirements on UHSAA.**

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require additional oversight, but would not have the unintended consequences that could occur if the governmental nonprofit definition were to be expanded.

## **Over 1,000 Nonprofits Are Potentially Related to Government**

There is not a comprehensive list of nonprofits affiliated with government. To identify entities to sample, we pulled a list of nonprofit organizations incorporated with the Division of Corporations and Commercial Code. We compared this list to organizations receiving state retirement benefits from Utah Retirement Systems (URS), those located at the same location as a governmental entity, and those who received payments in the state accounting system. Additionally, nonprofits are required to report to the State Auditor if they receive over \$25,000 in public funds. Some entities appeared on multiple searches we performed, but the total number of unique entities identified was over 1,000. A partial list of nonprofits identified includes:

- 32 nonprofits that are URS participants
- 53 nonprofits at school districts
- 80 nonprofits at State of Utah locations
- 101 nonprofits at public and charter schools
- 270 nonprofits that have reported to the state auditor
- 313 nonprofits collocated with a URS entity
- 677 nonprofits at locations that received over \$25,000 in state payments in fiscal year 2017

As will be discussed in Chapter III, nonprofits that receive payment for goods and services are not required to report to the State Auditor, even if they receive over \$25,000. We examined some of the 677 entities that either received or were collocated with an entity that received state payments and found that some payments would likely qualify as payments for goods or services. If that is the extent of the nonprofit's relationship with government, we did not include them in our audit. We instead focused on those entities more closely affiliated with government.

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**Over 1,000 nonprofits are collocated with government, receive government funds, or are otherwise affiliated with government.**

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**Nonprofits only affiliated with government through the receipt of payments for goods and services were not included in our audit.**

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**Nonprofits affiliated with government may not have been identified if they work only with municipalities or do not have an active business license.**

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We believe there are many more nonprofits affiliated with government that we did not identify, especially those working with local governments. We only identified nonprofits that received over \$25,000 from the State of Utah, so nonprofits working only with municipalities were not included.

Other nonprofits that do not receive public funds and are not collocated with government were not captured. We also only considered those entities that have an active business license with the state. Our searches did not capture an entity operating as a nonprofit that had not registered with the state or whose registration had expired.

We also identified many entities registered with the State of Utah as nonprofits that are not operating like a traditional nonprofit. For example, we identified over 100 municipal building authorities that incorporated as a nonprofit under *Utah Code* 17D-2, Local Building Authority Act. However, these entities are typically run by municipalities or school boards as part of government.

Charter schools in Utah are also typically registered as nonprofits. Because they have separate reporting requirements and frequent oversight from the State Auditor, we did not survey these schools or other nonprofits that are run as part of government, and instead focused on more traditional nonprofit entities.

## **Audit Scope and Objectives**

- Examine a sample of government nonprofit entities and private nonprofit entities that are sponsored by a public agency, have a significant percentage of its budget coming from public funds, or have a governing board comprised mainly of public officials.
- Examine the effectiveness of oversight given by respective boards, the quality of internal controls, and the compliance with applicable state laws.

## **Chapter II**

# **Some Nonprofits Affiliated with Government Lack Internal Controls**

Some nonprofits we visited were missing internal controls and policies that would help mitigate the risk of fraud, waste, and abuse. For example, of the 35 nonprofits we visited, 16 did not properly segregate financial duties, 11 did not have a conflict of interest policy, and 14 did not have a procurement policy. Government entities exert influence over the nonprofits they affiliate with and should use this influence to ensure adequate financial controls and board governance are in place. Specifically, government entities should ensure that the best practices found in Appendix A are implemented.

Although fraud in nonprofits may not currently be as visible as fraud in other entities, the risk for diversion of assets is present in many nonprofits. Nonprofits may wish to keep fraud, waste, and abuse private so future contributions are not jeopardized and such instances may not be publicly known or covered in the same way governmental fraud is. We identified three Utah nonprofits receiving public funding that had a self-reported diversion of assets. Altogether, these Utah nonprofits reported that over \$850,000 of funds were discovered to have been diverted between 2007 and 2011. Since 2011, over 1,100 nonprofits nationwide have indicated to the IRS that they experienced a significant diversion of assets.

### **Survey of Nonprofits Shows Internal Control Concerns**

During our audit we visited 35 nonprofit entities to survey them regarding best practices. The boards typically had taken responsibility to set guidance and budgets for the organizations, set meeting agendas, hire the outside audit function, and review disbursements. However a high percentage of nonprofits were missing financial controls and/or key policies.

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**Nonprofits we visited lacked sufficient internal controls to mitigate the risk of fraud, waste and abuse.**

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**We identified three Utah nonprofits that receive public funding that altogether reported diversion of assets of over \$850,000.**

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To properly safeguard assets, accounting duties should be separated so that no one person can perpetuate fraud without anyone else becoming aware of it.

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## Many Nonprofits Visited Do Not Properly Segregate Accounting Duties

To properly safeguard assets, accounting duties should be separated so that no one person can perpetrate fraud without someone becoming aware of it. This typically involves separating the custody, authorization, and reconciliation functions. For example, one person should not be able to authorize a vendor payment, have custody of the checks and issue the check, and reconcile the accounts at month's end. In one nonprofit we visited the same person writes and signs checks and performs the monthly bank reconciliation. In another, the board's treasurer had access to all deposits and bank accounts and did the reconciliation. Ideally these tasks should be completed by three separate people. As shown in Figure 2.1 below, almost half of nonprofits visited did not maintain proper segregation of duties.

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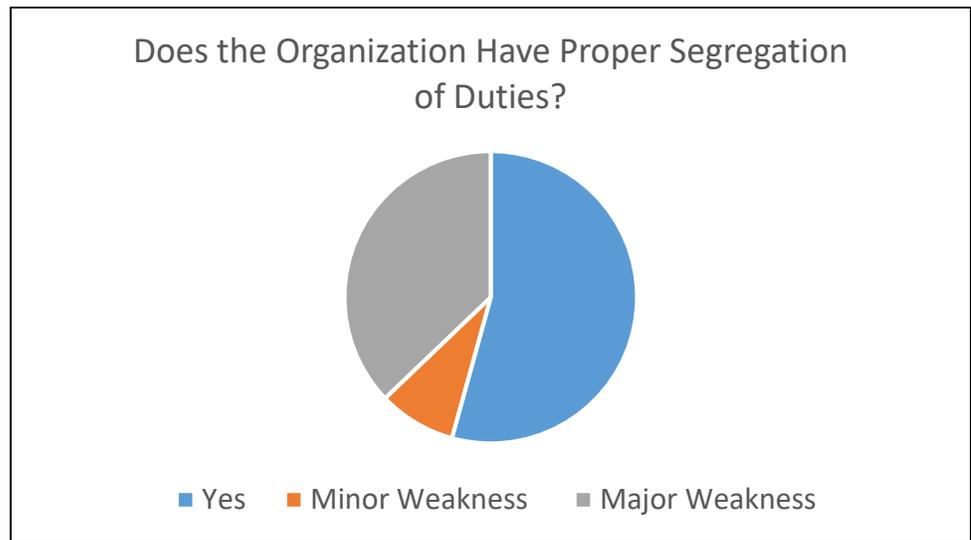
**Figure 2.1 Nonprofits Often Do Not Have Adequate Segregation of Duties** Sixteen of 35 nonprofits visited did not properly segregate financial duties. Thirteen were considered to have a major weakness as they did not have any compensating controls in place, while three had a minor weakness because, while duties were not separated completely, a third person did review the reconciliation.

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Almost half of nonprofits visited did not maintain proper segregation of duties.

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Source: Auditor Generated

Three organizations had the same person filling custody and reconciliation duties, but the reconciliation was approved by a third party. These have been identified as a minor weakness as there is some

compensating control, however the best practice would be to completely separate these functions.

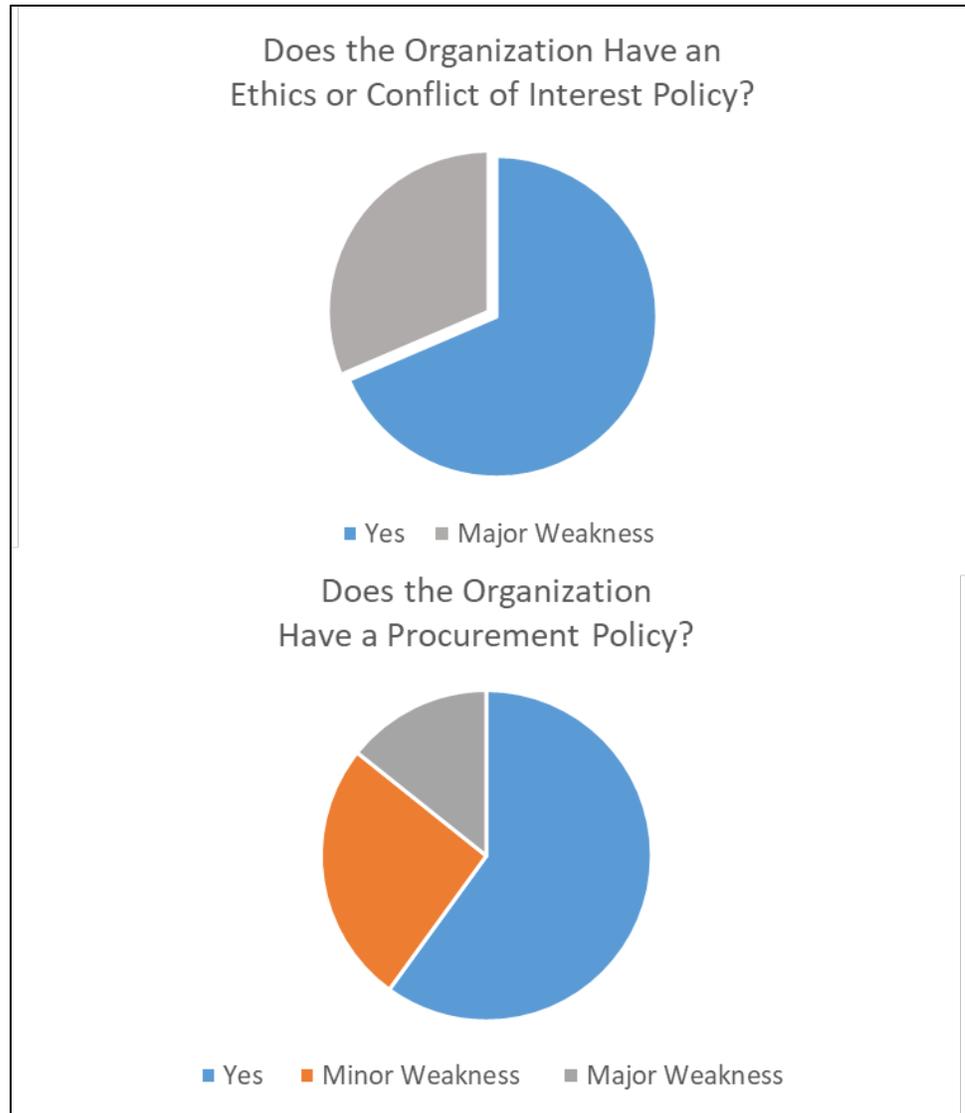
In addition to properly safeguarding assets, good policies can strengthen the control environment by establishing a strong tone at the top. While 33 of the 35 nonprofits reported they had implemented policies, as shown in Figure 2.2, 11 did not have a conflict of interest or ethics policy in place and 14 did not have a procurement policy. Most of the entities that did not have a procurement policy indicated that little purchasing was done or informal purchasing rules were followed. These have been identified as a minor weakness in the chart and we recommend official policies be implemented.

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**Of the 35 nonprofits we visited, 11 did not have a conflict of interest or ethics policy in place and 14 did not have a procurement policy.**

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**Figure 2.2 Nonprofits Are Missing Key Policies.** Our review of 35 nonprofits found 11 did not have a conflict of interest policy and 14 did not have a procurement policy. Nine of those 14 have a minor weakness because they either had informal purchasing practices or reported few or no purchases.



Source: Auditor Analysis

We have provided the Checklist of Best Practices for Board Members of Government-Affiliated Nonprofits in Appendix A of this report. Nonprofits affiliated with government should review the checklist and ensure these best practices are followed.

## **Government Entities Should Ensure That Nonprofits Have Proper Internal Controls**

Governmental entities have sufficient influence to ensure that affiliated nonprofits have adequate financial controls and board governance in place. We found that the governmental entities have several direct and indirect methods available to exert differing levels of control over associated nonprofits. Some of these methods are through:

- Appointing board members
- Contracts, and
- Memorandums of Understanding.

However, because some associated nonprofits lacked sufficient internal controls, governmental entities may not be exercising sufficient influence. Government entities that work with associated nonprofits should use their influence to ensure that the nonprofits institute best practices for financial controls and board governance. Also, entities with oversight responsibilities, such as the Office of the State Auditor, Division of Finance, Board of Education, and Board of Regents, should train those government entities under their purview on the need for best practices and methods to influence associated nonprofits to institute such best practices.

### **Government Entities Have Sufficient Influence to Ensure Associated Nonprofits Implement Adequate Financial Controls**

Our review of nonprofits shows that the governmental entities they work with have sufficient influence to ensure nonprofits' compliance with financial controls and board governance. Government entities such as counties, cities, school districts, state agencies, limited purpose entities, and higher education institutions work closely with nonprofits to help perform tasks the government entity sees as important to its goals. For example, nonprofits conduct fundraising and charity work and provide training, education, and other services.

Government entities use a combination of methods to exercise some level of control or oversight over nonprofits, ensure compliance, and avoid misappropriations of assets at nonprofits, including the following:

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**Since some associated nonprofits lacked sufficient financial controls this suggests that governmental entities may not be exercising their influence.**

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**State entities with oversight responsibilities should train those under their purview of the need and methods to influence associated nonprofits to institute best practices.**

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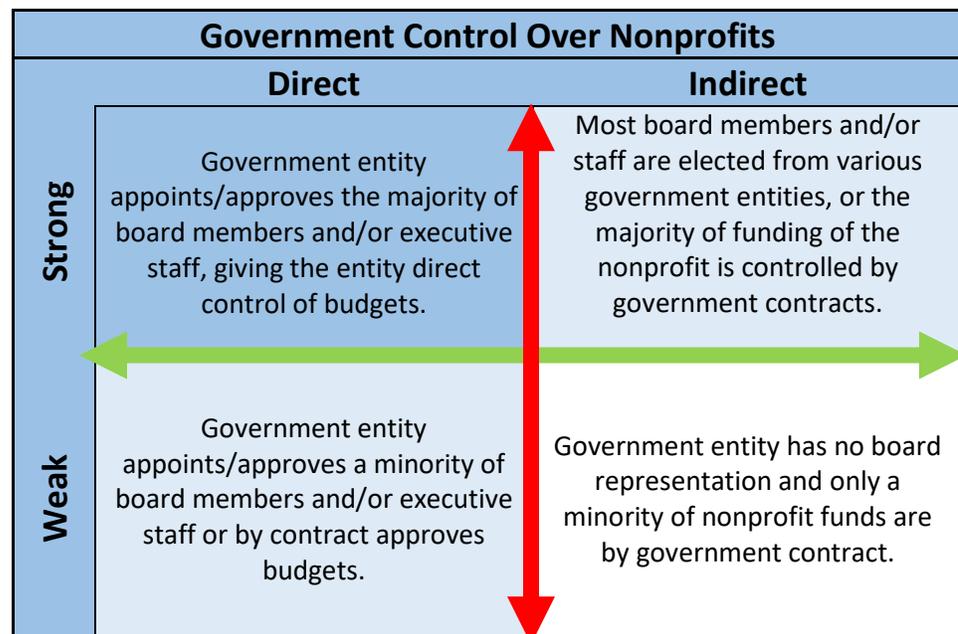
**Government entities use a combination of methods to ensure compliance and avoid misappropriations of assets at nonprofits.**

- Appointing or approving nonprofit board members
- Monitoring grants and contracts
- Using cost reimbursement contracts
- Requiring that internal controls be in place to receive government resources or support
- Requiring independent or government agency audits
- Having the nonprofit executive team be paid employees of the government entity
- Having the nonprofit use the government entity’s accounting services
- Having memorandums of understanding in place
- Requiring that donations be directed only through the government entity’s tightly controlled nonprofit

Government entities’ influence over associated nonprofits can be categorized on a spectrum from direct to indirect methods and strong to weak as Figure 2.3 shows.

**Figure 2.3 Government Control of Affiliated Nonprofits Can Be Categorized as Direct or Indirect.** It is helpful to view levels of control that government entities exert on nonprofits on a spectrum from direct to indirect and from weak to strong.

**Government entities that appoint or approve the majority of a nonprofit’s board members and/or executive staff are categorized as having strong direct control over that nonprofit.**



Source: Auditor Generated

Though the government control over a nonprofit can range widely, we will highlight four examples of nonprofits that fit squarely in each quadrant:

- Strong direct control – Weber State University Research Foundation
- Weak direct control – Discovery Gateway Children’s Museum
- Strong indirect control – Red Rock Center for Independence
- Weak indirect control - Loveland Living Planet Aquarium

A form of strong direct control is when the bylaws of the nonprofit allow an associated government entity to appoint, approve, or elect its board members or executive staff. This form of control allows board members and executive staff to influence the operation of the nonprofit directly and continuously. As shown in Figure 2.4, Weber State University, a government entity, has strong direct control over the Weber State University Research Foundation because the university president and other university employees are the foundation’s board members.

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**Having the ability to appoint, approve or elect board members allows a government entity to directly and continuously influence the operations of the nonprofit.**

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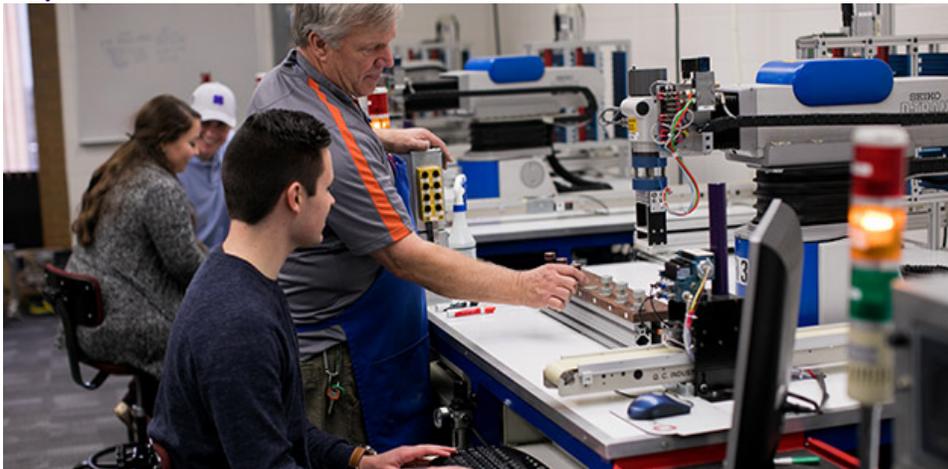
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**Figure 2.4 Weber State University Research Foundation.** Weber State University has strong direct control over this wholly owned nonprofit, which provides technology transfer services, intellectual property commercialization, and enterprise creation support to the university.

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**WEBER STATE UNIVERSITY**



Source: Weber State University Website

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**Weber State University exercises strong direct control over its wholly owned and operated research foundation.**

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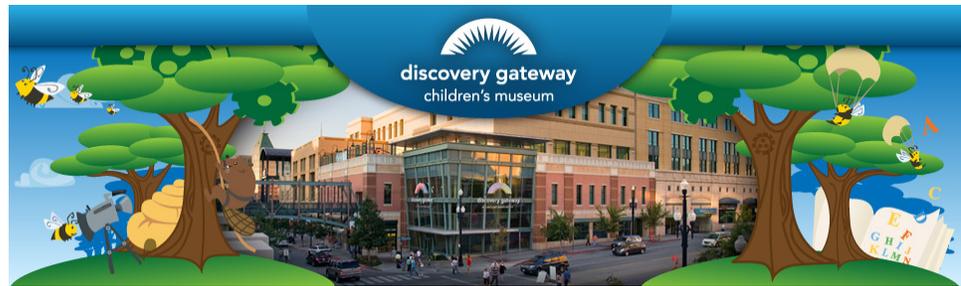
This nonprofit foundation is wholly owned and operated by the university. Operated as an arm of the university, all support services for the foundation are provided by the university, so the foundation has internal controls in place.

The ability to approve a nonprofit's budget can be a direct but weak method of control, as is the case with the Discovery Gateway Children's Museum.

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**Figure 2.5 Discovery Gateway Children's Museum.** Salt Lake County's written agreement with the museum allows the county to exert weak but direct control by allowing the county to approve the museum's yearly budget.

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Source: *Discovery Gateway Children's Museum Website*

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**By approving yearly operation plans, Salt Lake County exerts direct but weak control over the Children's Museum.**

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Salt Lake County bonded for and owns the museum's building. By written agreement with the museum, the county must approve the museum's yearly operations plan. This agreement requires the museum to maintain appropriate internal controls and management oversight of all areas of operations. This would be a direct method of exerting control, but weak because of less frequent interaction.

Some government entities exercise control or influence over nonprofits through indirect methods like contracts and grants. The Red Rock Center for Independence in St. George is an example of a nonprofit with the majority of its funds controlled by contracts with government. The contracts give the contracting government agency strong indirect control over the nonprofit's revenues and expenses.

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**Figure 2.6 The Red Rock Center for Independence.** Most of the center’s revenues come through cost reimbursement contracts with the Utah Department of Workforce Services, giving the department strong indirect influence over the nonprofit.

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*Source: Red Rock Center for Independence*

Through these contracts’ terms and conditions, the Department of Workforce Services exercises strong indirect control by monitoring the contracts, requiring independent audits, and ensuring efficient use of government resources.

The Loveland Living Planet Aquarium is an example of weak indirect government control. The aquarium receives around \$1 million, or 15 percent, of its revenues from government sources and has no government representation on its board.

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**Figure 2.7 The Loveland Living Planet Aquarium.** Government has weak indirect control over the aquarium because only a small portion of its budget comes from government grants and all board members are from the private sector.

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*Source: Loveland Living Aquarium website*

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**Contracts and grants allow a government entity the ability to exercise indirect control over a nonprofit.**

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**Even when grants may only represent a small portion of a nonprofit's finances, government entities can include requirements in the grants to ensure that adequate financial controls and board governance are practiced.**

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Even when grants may only represent a small portion of a nonprofit's finances, government entities can include requirements in the grants to ensure that adequate financial controls and board governance are practiced. Some nonprofits' lack of adequate financial controls suggests that some government entities have not been ensuring their associated nonprofits have adequate controls in place. To decrease the risks of misappropriation of assets at associated nonprofits, government entities should ensure that associated nonprofits have adequate financial controls and effective board governance.

### **Governmental Entities Should Inform Associated Nonprofits About Financial Controls and Reporting Requirements**

Government entities that work with associated nonprofits should use their influence over nonprofits through contracts, board member appointments, and other means to persuade associated nonprofits to institute best practices for financial controls and board governance (see Appendix A). Furthermore, those government entities with financial oversight responsibilities over other subdivisions should train those under their purview on the need for best practices and methods to influence associated nonprofits to institute these best practices. These include entities such as the following:

- Utah State Auditor (political subdivisions)
- Division of Finance (state agencies)
- Utah Board of Education (state's public education system)
- Utah State Board of Regents (higher education)

**Some Nonprofits Were Unaware of State Auditor Reporting Requirements and Their Status as Governmental Nonprofits.** This fact further suggests the need for training by government oversight entities. For example:

- *Utah Code* 51-2a-201.5 requires that any nonprofit receiving more than \$25,000 in funds from a government entity must file a report that year with the state auditor. However, several of the nonprofits we interviewed were unaware that they needed to file with the state auditor if they received more than \$25,000 in government funding.
- Also, *Utah Code* 11-13a defines which nonprofits qualify as a governmental nonprofit. We found that several nonprofits or

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**Several nonprofits we interviewed were unaware that they needed to file with the State Auditor if they received more than \$25,000 in government funding.**

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their government sponsors were unaware that they might qualify as governmental nonprofits and were subject to open meetings laws, GRAMA, and financial reporting requirements.

As part of their financial training procedures, state oversight entities such as the Utah State Auditor, Division of Finance, Utah Board of Education, and Utah State Board of Regents should include training for governmental entities under their purview about state auditor reporting requirements and the qualifications of governmental nonprofits. All government entities should also inform associated nonprofits of state auditor reporting requirements and whether the entities qualify as governmental nonprofits.

### **Some Private Nonprofits May Appear to Be Governmental**

Some nonprofits do not meet the statutory definition to be considered a governmental nonprofit, but may appear to the general population to be part of a governmental entity. For example, many school districts have foundations collocated with the district offices. The foundations' purpose ranges from providing clothing and health care for students in need, to providing after-school and summer programs, to running all fundraising done by schools within the district.

We identified a number of school district foundations using the district's name. Those we visited were run by district personnel. Because the foundations' boards were typically self-selected rather than chosen by the district, the foundations do not meet the definition of a governmental nonprofit despite the financial support received. However, a donor might not differentiate between donating to the district versus to a foundation using a district's name. As shown in Figure 2.8, it can be difficult to distinguish between a school district and a foundation based on the name. Further misconceptions may arise because information for the foundation is often found on district websites.

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**We found that several nonprofits were unaware that they may qualify as governmental nonprofit.**

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**A donor may not differentiate between donating to the district versus a foundation using a district name.**

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**Figure 2.8 Foundation Names May Not Clearly Differentiate Them from School Districts.** School district foundations often take the name of the school district, making unclear that it is a different entity.

District Name	Foundation Name
Alpine School District	Alpine School District Foundation
Provo School District	Provo School District Foundation
Jordan School District	Jordan Education Foundation
Box Elder School District	Box Elder School District Foundation
Canyons School District	Canyons School District Foundation
Salt Lake School District	Salt Lake Education Foundation

*Source: Auditor Analysis*

Other nonprofits have similarly used a governmental entity's name for their nonprofit. Because of this close association with government, it is important that the governmental entity ensure proper controls are in place, as fraud, waste, or abuse occurring at the nonprofit may also impact perception of the governmental entity.

**Fraud, waste, or abuse occurring at a nonprofit may also impact perception of the associated governmental entity.**

### **Fraud Has Existed in Some Nonprofits**

A weak control environment such as was seen at some nonprofits we visited raises the risk of fraud, waste, and abuse occurring. Fraud has occurred at Utah nonprofits affiliated with government and is a problem nationwide. Because many nonprofits are utilizing government resources, using similar names as government, and receiving government funding, it is important that oversight of nonprofits be strong.

**Because many nonprofits are utilizing government resources, using similar names as government, and receiving government funding, it is important that oversight of nonprofits be strong.**

### **Diversion of Assets Has Occurred With Government-Affiliated Utah Nonprofits**

We identified three nonprofits receiving public funding that had a self-reported diversion of assets. These three nonprofits received payments from the State of Utah of over \$1.4 million in fiscal year 2017. Additional public funds may have been provided by local governments as well. Altogether, the nonprofits reported that over \$850,000 of funds were discovered to have been diverted between 2007 and 2011.

In addition to these three companies, two water companies also had over \$1 million misappropriated by a single individual. While

water companies are not considered to be government nonprofits, they are often controlled by municipalities who are the main customers. Because of the risk of fraud, waste, and abuse occurring it is important that nonprofits have a strong control environment.

### **Diversion of Assets Is Not Uncommon At Nonprofits Nationally**

A January 2018 article in the Boston Globe titled *Employee Theft 'Shockingly Common' at Nonprofits* stated that since 2011 over 1,100 nonprofits self-reported a diversion of assets in excess of \$250,000 or 5 percent of income or expenses. A 2013 article in the Washington Post identified similar levels of asset diversion. While these levels alone are concerning, they are likely understated because they only were able to identify cases at the biggest nonprofits that also electronically filed and willingly self-identified issues.

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**Since 2011 over 1,100 nonprofits nationwide have self-reported a diversion of assets in excess of \$250,000 or five percent of income or expenses.**

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## **Recommendations**

1. We recommend that nonprofits funded by or affiliated with government should review the best practice checklist in Appendix A and determine how to implement each of the best practices.
2. We recommend that oversight entities (such as the Office of the State Auditor, Division of Finance, Board of Education, and Board of Regents) train government entities under their purview, and those government entities should then use their influence over associated nonprofits to ensure best practices for financial controls and board governance are implemented.

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# Chapter III

## Government Control and Financial Support of Nonprofit Entities Vary

The range of governmental control over nonprofits in the State of Utah varies greatly. Statute states that a nonprofit completely controlled by government that receives financial support from government is considered part of government. In addition, the statute states that a nonprofit entity receiving controlling interest and either a majority of funding from government or taxing authority is also part of government. Consequently, the level of control exercised by government in conjunction with the degree of financial support are the two key factors qualifying a nonprofit entity to be considered governmental. However, government control and financial support can be interpreted in different ways and perhaps the statute needs to more clearly define each.

In addition to governmental nonprofits, there are several types of private nonprofits that are affiliated with government through differing levels of government control and financial support. Our audit focused on governmental nonprofits and four other types, but did not consider nonprofits completely unaffiliated with government or those who receive limited public funds.

### Some Nonprofit Entities Are Considered Part of Government

We identified seven categories of nonprofits based on the level of governmental control of and financial support to the nonprofits. One group, governmental nonprofits, is controlled by and considered part of government, as shown in Figure 3.1.

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**Nonprofits may be considered governmental based on the level of government control and degree of financial support from government.**

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**Private nonprofits may also be affiliated with government.**

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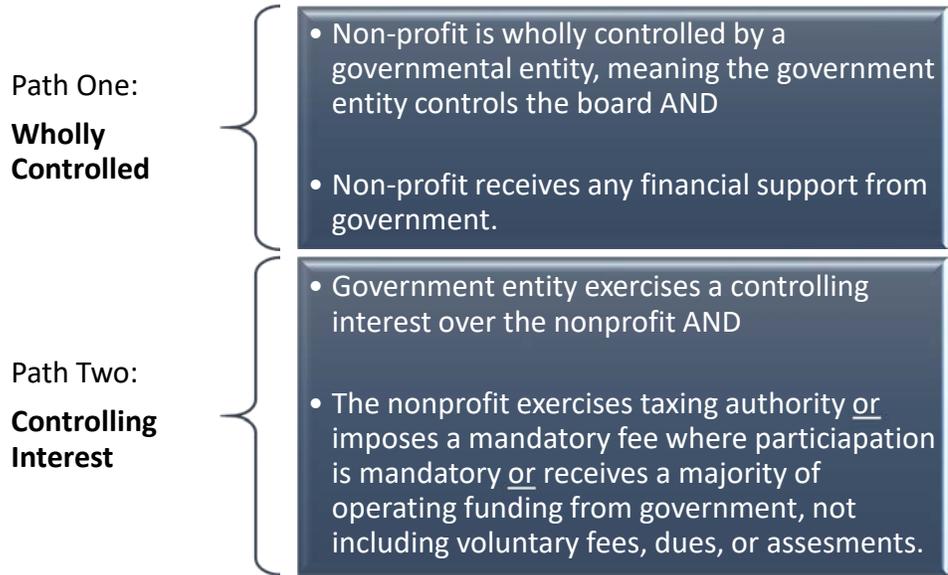
**Figure 3.1 Two Paths to Becoming a Government Nonprofit.**

Nonprofits can be considered governmental if they are wholly controlled by government or if government has a majority control. Financial requirements must also be met, which vary depending on the level of government control.

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**Government has either total control or majority control of governmental nonprofits.**

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These paths require only a small amount of financial support from government if government control is total, but a much higher level of financial support if government has only a controlling interest but not complete control.

We identified a number of governmental nonprofits that fit one of these definitions. A common place for a governmental nonprofit identified was in higher education. Universities in the state have formed nonprofit corporations that are controlled by the university. These entities typically fall into two categories: foundations that raise money for endowments and other purposes, and research foundations that work to privatize technology developed at the university.

All governmental nonprofits are required to do the following:

- Comply with the Open and Public Meetings Act (OPMA)
- Comply with the Government Records Access and Management Act (GRAMA)
- Follow fiscal procedures for interlocal entities

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**Governmental nonprofits are subject to open meetings and open records laws.**

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Some entities have resisted the governmental label, possibly because of these transparency requirements. A number of entities we talked to expressed the belief that they are not governmental, and an examination of the first version of House Bill 55 shows that some entities were excluded from the definition of a governmental nonprofit after the bill was introduced.

### **Nonprofits Range From Governmental to Private**

As shown in Figure 3.2, we classified the nonprofits we identified into seven categories ranging from completely governmental to completely private. All nonprofits that do not qualify as governmental are private but may still be subject to governmental oversight if they receive over \$25,000 in public funds, utilize government resources, or are otherwise closely associated with government.

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**Nonprofits range from completely governmental to completely private.**

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**Figure 3.2 Nonprofits Range from Governmental to Private.** Governmental nonprofits are defined in statute. There are also several types of private nonprofits with varying degrees of government association. This figure provides definitions and examples of these nonprofits.

Nonprofit Type	Definition	Examples Visited
<b>Governmental</b>	Wholly controlled by government with financial support, or majority controlled with majority funded by government.	USU Research Foundation, South Salt Lake Arts Council
<i>Utah Code 11-13a-102 Governmental Nonprofit Corporations Act</i>		
<b>Public Purpose</b>	Created by government, performs government functions, or mostly funded by government.	Utah High School Activities Association, UCAIR
<b>Integrated</b>	Located on-site of government entity and utilizes government staff or facilities.	School District Foundations, Honoring Heroes Foundation
<b>Supporting</b>	Private nonprofit that exists to support government and receives favored status from the entity.	Dixie Foundation, Olympus High School Foundation
<b>Private- Major Government Support</b>	Nonprofit that receives over \$100,000 or more than one-third of revenues from government.	Hogle Zoo, Living Planet Aquarium
<b>Private- Minor Government Support</b>	Nonprofit that receives over \$25,000 but under \$100,000 and less than one-third of revenues from government	N/A
<b>Private</b>	Nonprofit that receives less than \$25,000 from government.	N/A

Source: Auditor Analysis

**Nonprofits receive varying degrees of government oversight and control.**

Typically, those organizations closer to the top of the spectrum are fulfilling functions closer to typical government and have more government oversight and control. Many Public Purpose nonprofits contract with government to provide services to target populations. The Integrated nonprofits were often formed at governmental entities

to fulfill needs unmet by typical government. Supporting nonprofits typically exist only to help a governmental entity while private nonprofits with government support have separate independent boards and employees but receive some government funding.

Although we have identified seven types of nonprofits, specific requirements exist only for two groups: governmental nonprofits and private nonprofits receiving over \$25,000 in government funds. These private nonprofits receiving government funding could come from multiple groups ranging from Public Purpose to Private- Government Support.

**Governmental Nonprofits Are Subject to Increased Oversight.**

Governmental nonprofits have specific requirements imposed by statute. In addition to being subject to GRAMA and OPMA, government nonprofits are required to follow fiscal procedures for interlocal entities, which includes requirements of publicly adopted, balanced budgets.

**Nongovernment Nonprofits That Receive Over \$25,000 Are Required to Report to the Office of the State Auditor Unless the Funding Is Payment for Goods or Services.** Reporting requirements vary depending on the level of support received, but can range from the 990 form filed with the IRS to a full financial statement report for entities receiving over \$1 million. *Utah Code* 51-2a-201.5 exempts those entities that receive public funds as payment for goods and services purchased from the nonprofit. For example, we spoke with a nonprofit executive whose company provides temporary employment services. The company has one of six statewide contracts with the Division of Purchasing to provide these services. If revenues from this contract exceeded \$25,000 it would not subject the nonprofit to reporting requirements because a service was being provided.

Goods and services are not defined in this section of code, and other definitions found elsewhere in statute do not lend clarity to when a nonprofit receiving public funds is providing a service to government that would exempt it from these reporting requirements. Entities that receive a government grant are often required to sign a contract and provide some benefit to government or the public. It is not clear when this qualifies as a service. As was discussed in Chapter II of this report, some nonprofits we visited were not aware of these

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**Governmental nonprofits are subject to GRAMA, OPMA, and fiscal procedures.**

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**Private nonprofits receiving over \$25,000 in government funds are required to report to the state auditor.**

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**Nonprofits utilizing government facilities and personnel but that do not receive government funding are not subject to reporting requirements.**

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reporting requirements, and lack of clarity of when reporting is necessary may add to the confusion for nonprofits.

The nonprofit reporting requirements specified in statute only require reporting if revenues or expenditures of public money exceed \$25,000. We interviewed several integrated nonprofits that receive well over this amount in government support through the use of office space and dedicated employees working for the nonprofit. These entities do not report to the State Auditor because all or most of the money they raise comes through private sources. However, the value of personnel provided to the nonprofit is well in excess of \$25,000. While the statute requiring reporting is clear that reports are only required if revenues or expenditures at the nonprofit are public money, it should be noted that this does not include many nonprofits that count on government support.

### **Court Cases from Other States Help Identify Governmental Nonprofits**

Utah is not the only state in which the question of where government ends and the private sector begins has been addressed. Because so many nonprofits are closely affiliated with government, it is often not clear which entities are subject to open meetings and open records laws. Other state laws and court cases at both the state and the federal levels have typically considered four questions regarding private nonprofits when determining if they are subject to open meetings and records laws:

- Was the entity created by government?
- What percent of funding comes from government?
- Does the entity perform a government function?
- To what extent does government have control over the entity?

While these questions also present a degree of subjectivity in determining which entities qualify as a public body, they seem consistent with the provisions of the Governmental Nonprofit Corporations Act. Those nonprofits in Utah that statute has defined as governmental nonprofits would also likely be deemed a functional equivalent to government through these questions.

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**Nonprofits in other states are subject to open meetings and open records laws if they are functionally equivalent to government.**

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## **No Clear Lines Exist for Financial Support and Governmental Control**

Many nonprofits we visited had characteristics of multiple types of nonprofits and could be placed in more than one category. Even the line separating governmental nonprofits and private nonprofits is not always apparent. House Bill 55, passed in the 2017 Legislative General Session and codified in *Utah Code* 11-13a, defined a governmental nonprofit in order to bring clarity to the State Auditor in determining which entities are subject to the additional requirements of government. As discussed previously, governmental status for a nonprofit depends on the degree of financial support received from government and the level of control by government (see Figure 3.1). While this bill did help clarify the status of many entities, as discussed in this section, there is still ambiguity about what is meant by financial support and government control.

### **Financial Support Is Not Defined In Statute**

The Governmental Nonprofit Corporations Act states that a nonprofit fully controlled by government is also governmental unless the nonprofit receives no financial support from any government entity. Financial support is not defined in the statute and has been left to the entities to interpret.

**ARUP Has Determined That It Does Not Receive Financial Support from Government and Is Therefore Not Governmental.** Without a statutory definition, the definition of financial support has been left up to the interpretation of nonprofits. ARUP Laboratories is a component unit of the University of Utah that is wholly controlled by the university and included in the university's financial statements. However, ARUP pays for the university staff and buildings that it uses and returns a substantial amount of money to the school, so they have determined they do not receive financial support.

Because of the close association ARUP has with the University of Utah, there are many ancillary costs in addition to personnel and lease costs. These could include the university's overhead for their personnel and buildings used by ARUP and time spent by university leadership on ARUP issues. While the amount of money sent to the university

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**Financial support is not defined in the Governmental Nonprofit Corporations Act.**

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**ARUP is wholly controlled by the University of Utah but has determined they are not a governmental nonprofit.**

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**As a wholly controlled component unit of the University of Utah, an argument could be made that ARUP revenues are public funds.**

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from ARUP would cover these costs, it could still be viewed as financial support.

Since ARUP is in many ways part of the university, an argument could be made that all the funds collected are public funds. If this argument was successful, then ARUP would likely be considered governmental. However, as the statute is currently written it is not clear to us if the financial arrangements between ARUP and the university meet the definition of financial support. Since the statute leaves the definition of financial support up to the interpretation of the nonprofit, ARUP is not considered a governmental nonprofit.

**USURF Has Determined It Receives Financial Support From Government and Is a Governmental Nonprofit.** Like ARUP, the Utah State University Research Foundation (USURF) is a university component unit wholly controlled by the university and has millions of dollars in revenues each year. USURF obtains nearly all its revenues through applied-research contracts from federal agencies. USURF must be a subsidiary of Utah State University (USU) to receive these contracts.

Also like ARUP, USURF subsidizes the salary of university employees who perform services for USURF, but also occupies a university-owned building and other USURF-owned buildings on university land at no cost to USURF. ARUP also operates out of buildings built on university land, but the University of Utah reports that it is compensated for this land lease and therefore does not consider this financial support to ARUP. USURF states that they are receiving financial support from USU which qualifies them as a governmental nonprofit, and are in the process of following applicable requirements for governmental nonprofits. USURF has considered the no-cost land and building leases from USU, as well as other ancillary services USURF does not pay for as financial support. These ancillary services include operations and maintenance costs at the USU-owned building which are estimated at approximately \$1 million per year.

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**USURF has determined that no-cost land and building leases from USU qualify as financial support.**

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Legal counsel from both the University of Utah and USU have made different determinations on the governmental entity status of ARUP and USURF. Due to the different structures and goals of the entities this is not unreasonable. However, because financial support is not defined in the statute, some ambiguity exists in the law. We do not

take a position in this audit on the governmental status of these nonprofits, but we do recommend that the Legislature consider clarifying parts of the statute, including the definition of financial support.

### **Governmental Control Is Not Clearly Defined**

*Utah Code* 11-13a-102 states that a nonprofit corporation that receives financial support from government is a governmental nonprofit if it is wholly controlled by government. When government representatives sit on a board of a nonprofit, it is not clear if government controls that nonprofit.

**USBA Has Determined It Is Not Controlled by Government and Is Not a Governmental Nonprofit.** The Utah School Boards Association represents the 41 school districts and all the members are elected representatives of school district boards except one ex-officio member from the Utah State Board of Education. However, because most board members are elected by the association membership rather than appointed by the local school boards, they do not consider themselves to be controlled by government. Because USBA does receive financial support from government, if it were considered to be wholly controlled by government it would be a governmental nonprofit. The question is the interpretation regarding the definition of control by government, which we recommend the Legislature consider clarifying.

### **Recommendation**

1. We recommend the Legislature consider further clarifying what qualifies as financial support and governmental control for a nonprofit entity.

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**The definition of governmental control could be clarified in the Governmental Nonprofit Corporations Act.**

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# Chapter IV

## Exemptions from Some Requirements of Open Meetings May Be Justified

The creation of the governmental nonprofit category has raised concerns, especially among university research foundations that are now required to hold open board meetings under the Open and Public Meetings Act (OPMA). These concerns appear to be justified for nonprofit corporations that may end up disclosing trade secrets, proprietary business methods and strategies as well as private information in open meetings. Unlike Utah, five of the six states we reviewed allow for closed meetings to discuss information like trade secrets that is not otherwise disclosable as a record. The Legislature might want to consider allowing governmental nonprofits to hold closed board meetings to discuss information, such as trade secrets and proprietary data, not currently disclosable under the Government Records Access and Management Act (GRAMA).

### Governmental Nonprofits Are Now Subject to Open Meetings

Since House Bill (H.B.) 55 passed in the 2017 Legislative General Session, a number of nonprofit entities have been classified as governmental nonprofits and consequently are required to comply with:

- Open and Public Meetings Act (OPMA)
- Government Records Access and Management Act (GRAMA)
- Certain fiscal procedures

OPMA requires board meetings to be open to the public but allows closed meetings for 16 reasons, some of which are the following:

- Collective bargaining
- Pending litigation
- The purchase of real property
- Discussion about the mental health of an individual

Also, in the name of transparency, GRAMA allows every person the right to inspect public records. Like OPMA, GRAMA excludes from

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**Under the Open and Public Meetings Act, nonprofits may end up disclosing trade secrets, proprietary business methods, and strategies.**

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**Since H.B. 55 passed in 2017, nonprofits now classified as governmental nonprofits must comply with the Open and Public Meetings Act.**

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dissemination records classified as private, controlled, or protected, such as:

- Intellectual property rights owned by a government entity
- Personal medical data
- A record restricted pursuant to court rule, another state statute, or federal regulation

Though governmental nonprofits are controlled by government entities and must comply with both OPMA and GRAMA, they still straddle the line between government and the private sector. This uniqueness has highlighted concerns among some nonprofits about the inconsistent protection from disclosure afforded in GRAMA that are not afforded in OPMA.

### **Intellectual Property Rights Protected Under GRAMA, Not Under OPMA**

Intellectual property rights are not currently protected from disclosure under OPMA except within a procurement context. *Utah Code* 52-4-205(1)(n) says that a meeting may be closed for “. . .the purpose of considering information that is designated as a trade secret . . .if the public body’s consideration of the information is necessary in order to properly conduct a procurement. . . .”

However, under GRAMA, intellectual property rights have more protection from disclosure. *Utah Code* 63G-2-201(11) states that:

(a) A governmental entity that owns an intellectual property right and that offers the intellectual property right for sale or license may control by ordinance or policy the duplication and distribution of the material based on terms the governmental entity considers to be in the public interest.

(b) Nothing in this chapter shall be construed to limit or impair the rights or protections granted to the governmental entity under federal copyright or patent law as a result of its ownership of the intellectual property right.

*Utah Code* 63G-2-201(5)(a) further states that “a governmental entity may not disclose a record that is private,

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**Some nonprofits are concerned about the inconsistent protection from disclosure that is afforded in GRAMA but not in OPMA.**

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**Under GRAMA, intellectual property rights have more protection from disclosure.**

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controlled, or protected to any person except as provided in Subsection (5)(b), Subsection (5)(c), Section 63G-2-202, 63G-2-206, or 63G-2-303.” These protections for intellectual property, copyrighted, patented information, or otherwise protected records limit this information from being disclosed in a GRAMA request. The Legislature may want to consider affording the same protections from public disclosure under OPMA that it provides to recorded data under a GRAMA request.

### **Some Governmental Nonprofits Have Expressed Concerns With Open Meetings and Trade Secrets**

Since H.B. 55 passed in 2017, several recently classified governmental nonprofits must comply with open meetings laws they were not subject to previously. This new requirement has caused concern for some nonprofits that need to discuss trade secrets and proprietary data, which might be disclosed in an open meeting. Some governmental nonprofits were also concerned with disclosing business strategies and information about private individuals in an open meeting. For instance:

- One university research foundation felt that it could not discuss the minutia of a trade secret in an open board meeting for fear of giving information that would allow others to reproduce it.
- Another university research foundation felt avoiding discussion of proprietary information to prevent disclosure lessened the effectiveness of their board meetings.
- One nonprofit corporation controlled by a government entity felt that open meetings would disclose their business strategies to competitors.
- One university foundation was concerned that open meetings might require them to discuss potential private donors and their personal information. They understood that, once a donation was made, they would need to release that information.

Governmental nonprofits we talked with say they have open board meetings, but some recognize that holding open meetings for their boards may restrict them from discussing proprietary technologies,

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**The Legislature may want to consider affording the same protections from public disclosure under OPMA that it provides to recorded data under a GRAMA request.**

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**A university research foundation felt avoiding discussion of proprietary information to prevent disclosure lessened the effectiveness of their board meetings.**

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business methods, and strategies in any detail that otherwise would be protected under GRAMA.

**Other States and Utah’s GRAMA Recognize That Trade Secrets Need Protection**

Outside of the procurement context, OPMA does not provide for closed meetings and executive sessions to consider trade secrets. As Figure 4.1 shows, our review of six local states found that five of the six surrounding states allow for closed meetings and executive sessions when trade secrets are discussed or when the information to be discussed at a meeting would be protected from disclosure if it was a record.

**Figure 4.1 Five of Six Western States Make Exceptions to Hold Executive Sessions When Discussing Trade Secrets.** For some nearby states, if the information to be discussed is not subject to GRAMA, it is also not subject to open meetings.

**Outside of the procurement context, OPMA does not allow for closed meetings or executive sessions to consider trade secrets.**

<b>States That Provide Limited Protections for Trade Secrets in Open Meetings Laws</b>	
UT	<i>Utah Code</i> 52-4-205(1)(n) A closed meeting can be held “...considering information that is designated as a trade secret...if the public body’s consideration of the information is necessary in order to properly conduct a procurement.”
WA	RCW 42.30.110(1)(m) Allows for closed meetings “to consider in the case of the life sciences discovery fund authority, the substance of grant applications and grant awards when public knowledge regarding the discussion would reasonably be expected to result in private loss to the providers of this information;”
<b>States that Provide the Same Protections for Trade Secrets in Open Meetings as Provided in Open Records Laws</b>	
AZ	A.R.S. § 38-431.03(A)(2). Discussions concerning trade secrets or proprietary data of private corporations are subject to open meeting law unless the information or records are “exempt by law from public inspection.”
CO	Colo. Rev. Stat. § 24-6-402(3)(a)(VII). Authorized to meet in an executive session “With respect to nonprofit corporations... matters concerning trade secrets, privileged information, and confidential commercial, financial, geological, or geophysical data furnished by or obtained from any person;”
ID	ID Code § 67-2345(1)(d) Meetings may be closed to consider records that are exempt from disclosure, such as proprietary business records and trade secret information.
NV	The meeting may be closed if the purpose of the meeting is to receive information that is required by law to be kept confidential.
OR	ORS 192.610(2)(f) “The governing body of a public body may hold an executive session: To consider information or records that are exempt by law from public inspection.”

**Five other western states we looked at provide the same protections for trade secrets in open meetings as they do in open records laws.**

Only Utah and Washington allow closed meetings to discuss trade secrets in very narrow circumstances. Since university research foundations we looked at are now classified as governmental nonprofits and their boards now subject to OPMA, their main purpose of developing and commercializing new technologies could make conducting some open meetings challenging.

## Recommendation

1. We recommend the Legislature consider affording the same protections from public disclosure under the Open and Public Meetings Act as it now provides to recorded data under the Government Records Access and Management Act.

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**Since some university research foundations are now classified as governmental nonprofits and are subject to OPMA, their purpose of developing and commercializing new technologies could make holding open board meetings challenging.**

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# Appendices

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## **Appendix A**

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# Checklist of Best Practices for Board Members Of Government-Affiliated Nonprofits

<b>Roles of Board and Staff</b>	
1. The board takes ultimate responsibility for governance of the entity by (a) appointing an executive staff, (b) providing broad policy guidance, (c) authorizing the use of resources, (d) setting goals and expectations, and (e) monitoring results.	<input type="checkbox"/>
2. The board members recognize their role is to be more than just a ceremonial body. They have a responsibility to lead and hold staff accountable for results.	<input type="checkbox"/>
3. The board chair reviews and approves the agenda before each meeting, inviting other board members to propose additional agenda items, if desired.	<input type="checkbox"/>
4. The executive director (a) helps the board draft a set of internal control policies and (b) guides staff as they carry out the board's policies.	<input type="checkbox"/>
5. To protect against fraud, staff duties are segregated such that no one person has control over all parts of a financial transaction.	<input type="checkbox"/>
6. The board appoints a board chair, a treasurer and a clerk.	<input type="checkbox"/>
7. For organizations with an insufficient number of staff to achieve a proper separation of duties, board members serve as treasurer and clerk.	<input type="checkbox"/>
8. The board approves a staffing policy that defines the responsibilities of all those who handle different aspects of the entity's finances.	<input type="checkbox"/>
9. The board is solely responsible for hiring and directing the audit function.	<input type="checkbox"/>

<b>Internal Controls</b>	
10. The board approves policies that govern the organization and addresses each best practice described in the best practice audit. This would include policies such as a personnel policy, a procurement policy, and records retention policy. A procurement policy is of particular importance with the recent instances of fraud, waste, and abuse that have occurred.	<input type="checkbox"/>
11. The board regularly reviews a report of entity disbursements. The report includes the date, vendor and amount of each expense since the last board meeting.	<input type="checkbox"/>
12. To control credit purchases, purchase cards (or "p-cards") are issued to a limited number of staff. Limits are placed on the dollar amount, type and number of charges made to each card.	<input type="checkbox"/>
13. An independent person with no book keeping or asset custody responsibilities is assigned to reconcile the bank statement each month with that month's receipts.	<input type="checkbox"/>
14. The board requires its formal approval of any expenditure above a certain dollar amount.	<input type="checkbox"/>

15. The board requires that two people sign all checks. Before signing, both signers will review and approve the attached requisition sheet.	<input type="checkbox"/>
16. The board verifies that the entity has complied with any applicable state laws including: certification and filing of annual budget (Utah Code 11-13-509), notice of public meetings (Utah Code 52-4), and financial statement reporting requirements (Utah Code 51-2a-201.5 or 11-13-528).	<input type="checkbox"/>

<b>Recruiting Qualified Personnel</b>	
17. Staff avoid recruiting individuals to serve as board members.	<input type="checkbox"/>
18. Executive director compensation is approved by the board and based on a study of comparable organizations and performance evaluations.	<input type="checkbox"/>
19. Local entities follow an open and objective recruiting process when filling staff positions and hiring outside contractors. Hiring relatives or business associates of the board and management is avoided.	<input type="checkbox"/>
20. Board and staff of governmental nonprofits regularly receive the required training in open and public meetings, board governance and other matters applicable to the entity's mission. Training can be obtained online at <a href="https://auditor.utah.gov/training/local-district/">https://auditor.utah.gov/training/local-district/</a> , through in-house seminars, and at conferences such as those offered by the Utah Association of Special Districts.	<input type="checkbox"/>
21. When in-house expertise is not available to perform special tasks, the entity hires or appoints qualified outside experts.	<input type="checkbox"/>

<b>Tone at the Top</b>	
22. The board adopts a code of ethics that clearly states the organization's values and standards of behavior.	<input type="checkbox"/>
23. The board and management seek opportunities to reinforce the organization's ethical standards during staff meetings, training, and newsletters.	<input type="checkbox"/>
24. The board holds everyone accountable, including management, to high standards of performance.	<input type="checkbox"/>
25. The board and executive director avoid using a compensation system and other incentives that encourage employees to take unnecessary risks.	<input type="checkbox"/>
26. The board adopts a conflict of interest policy (based on Utah Code 10-3-13) describing how members should respond when their personal interests have the potential to conflict with their duties as a board member.	<input type="checkbox"/>