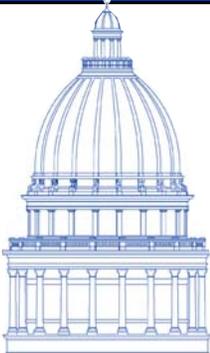


State of Utah  
Office of the Legislative Auditor General



# **Thirty-Sixth Annual Report to the Utah State Legislature**

**Fifty-Ninth Legislature  
2011 Session**



The Utah State Legislature created the Office of the Legislative Auditor General (OLAG) in 1975. OLAG has authority to audit any branch, department, agency, or political subdivision of the state.

The Legislative Auditor General is a constitutionally created position with a six-year term of appointment. The Auditor General reports directly to the Audit Subcommittee of the Legislative Management Committee. Traditionally, though not required, the committee has been composed of the President of the Senate, the Speaker of the House, and the minority leader of each house.

### ■ What Does the Office of the Legislative Auditor General Do?

OLAG may audit or review the work of any state agency, local government entity, or any entity that receives state funds. State law authorizes OLAG to review all records, documents, and reports of any entity that it is authorized to audit, notwithstanding any other provision of law.

OLAG’s audits may have multiple objectives and one of many formats. OLAG publishes the findings of these audits in reports that are written for the Legislature, but available to the public.

OLAG staff also provide short-term assistance to the Legislature in the form of special projects. Examples of this type of service include studies of driving privilege cards and state entity prescription drug purchasing practices.

### ■ How Are Audits Initiated?

Any legislator can make an audit request simply by writing a letter to the Audit Subcommittee. This letter should identify specific issues of concern that should be addressed by the audit. While the letter of request can be signed by one legislator, the request may have more influence if it is signed by a group of legislators or by the legislators on a committee.

Once the request is received, the Audit Subcommittee will prioritize it in the order that subcommittee members determine to be appropriate. Issues given high priority are those that will confront the Legislature in the next session or have the potential for a larger statewide impact.

### ■ What Is the Audit Process?

An audit will be staffed according to its priority assignment and staff availability. Once an audit is staffed, an auditor generally contacts the legislator(s) requesting the audit to discuss their concerns and identify when the audit results are needed.

If all the audit questions cannot be answered in the necessary time frame, the auditors will work with the legislator(s) to identify the most critical questions. Once the audit is complete, the report is presented to the Audit Subcommittee, which then releases it to the appropriate legislative committees and the public.

### ■ What Is the Purpose of This Annual Report?

This report fulfills requirements set forth in *Utah Code* 36-12-15(10), which states that “(a) Prior to each annual general session, the legislative auditor general shall prepare a summary of the audits conducted and of actions taken based upon them during the preceding year. (b) This report shall also set forth any items and recommendations that are important for consideration in the forthcoming session, together with a brief statement or rationale for each item or recommendation.”

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### ■ How May I Receive Audit Reports?

You can download a copy of most audit reports from the legislative website:  
[www.le.state.ut.us/audit/olag.htm](http://www.le.state.ut.us/audit/olag.htm).

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

**President Michael G. Waddoups, Co-Chair**  
President of the Senate  
R-Salt Lake County

**Speaker Rebecca D. Lockhart, Co-Chair**  
Speaker of the House  
R-Utah County

**Senator Ross I. Romero**  
Senate Minority Leader  
D-Salt Lake County

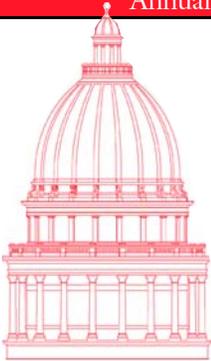
**Representative David Litvack**  
House Minority Leader  
D-Salt Lake County

*“The legislative auditor shall have authority to conduct audits of any funds, functions, and accounts in any branch, department, agency or political subdivision of this state and shall perform such other related duties as may be prescribed by the Legislature. He shall report to and be answerable only to the Legislature.”*

- Article VI, Section 33 of  
the *Utah Constitution*

### ■ Who Are the Auditor General Staff?

<b>Auditor General</b>	John M. Schaff, CIA
<b>Deputy Auditor General</b>	Rick Coleman, CIA, CPA
<b>Audit Managers</b>	Tim Osterstock, CIA, CFE Darin Underwood, CIA
<b>Audit Supervisors</b>	James Behunin, CIA Janice Coleman, CFE Brian Dean, CIA, CFE Wayne Kidd, CIA Kade Minchey, CIA Maria Stahla, CFE Susan Verhoef, CIA
<b>Lead Auditors</b>	Tim Bereece Leah Blevins Deanna Herring, JD Chris Otto
<b>Audit Staff</b>	David Apple Benjamin Buys Ian Christensen August Lehman Anndrea Parrish Jesse Martinson Candace Ware
<b>IT Auditor/ Systems Analyst</b>	David Gibson, CISA
<b>Quality Control/ Report Editor</b>	Leslie Marks, CFE
<b>Administrative Assistant</b>	Lynda Maynard
<b>Legislative Secretary</b>	Nancy Johnson



Based on issues addressed and recommendations made in our 2010 audits and the actions taken on 2009 audit recommendations, we believe the Legislature should consider the following items during the 2011 General Session.

■ **Audit 2010-01 A Performance Audit of Utah Medicaid Managed Care**

The Division of Medicaid and Health Financing has not provided adequate oversight of its managed care program. Utah Medicaid has not been fully aware of program costs or recipient utilization of the managed health care plans (health plans). This insufficient oversight has led to higher than necessary costs in the Utah Medicaid program. In total, we identified between \$13 to \$19 million in potential future cost-saving opportunities for the Utah Medicaid program.

*Action Needed:* The Legislature should provide policy guidance to Utah Medicaid on appropriate cost control reimbursement methods and require Medicaid to submit progress reports to them on this issue. The Legislature should follow up with Medicaid to ensure the fullest and most appropriate cost-savings potential is realized.

■ **Audit 2010-16 A Performance Audit of Utah Medicaid Provider Cost Control**

This audit and two preceding audits released by our office identify substantial control weaknesses that result in the waste of tens of millions of dollars in Utah Medicaid program funds. Further, these audits show that oversight functions within the Department of Health are not independent and do not adequately identify problems leading to the waste of funds.

*Action Needed:* The Legislature should consider creating an Office of the Inspector General with oversight responsibility for Medicaid programs and funds.

■ **2010-17 A Limited Review of Conflict of Interest Allegations at the Utah Transit Authority Board**

We conducted a limited review of allegations concerning a conflict of interest of a member of the Utah Transit Authority (UTA) Board of Trustees. The trustee disclosed the conflict as required; however, based on an interpretation of *Utah Code* 17B-2a-814(5) by attorneys from the Office of Legislative Research and General Counsel, we found that the trustee may have violated a specific provision of the Public Transit District Act concerning the misuse of official information. UTA's general counsel interprets that statute differently and has advised board members accordingly.

*Action Needed:* We recommend that the Legislature review sections of the Public Transit District Act to determine if the statute still meets legislative intent.

■ **2010-11 A Performance Audit of the Department of Alcoholic Beverage Control (DABC)**

Some current commissioners for the DABC have potential conflicts of interest that have not been adequately disclosed; questions remain whether individuals who do business with liquor license holders can and should serve as commissioners. We also identified options that the Legislature could consider to address the current shortage of liquor licenses in Utah. In addition to efficiency recommendations directed towards the agency, we found that the commission could be more efficient if they were able to delegate approval authority for some permits.

**Action Needed:** The Legislature should consider revising current liquor laws to clarify if those who do business with liquor license holders should be commissioners. The Legislature should also consider options identified in this report to address the existing license shortage. Finally, the Legislature should consider allowing the commission the authority to delegate the issuance of some permits to their executive director.

### ■ 2010-04 A Limited Review of State Agency Regulatory Fees

It appears possible that regulatory fees in some agencies could be increased to cover a larger percentage of the cost of regulation. By increasing fees, those regulated, rather than the general public, would bear more of the cost of regulation, possibly freeing up general fund money for other uses.

**Action Needed:** The Legislature should analyze the sufficiency of fees collected by all regulatory agencies receiving General Fund money and increase fees where appropriate.

### ■ 2010-15 A Performance Audit of County and Municipal TDR Use in Utah

Transfer of Development Rights (TDR) use within an administrative program structure enables predictable results and helps ensure that participants are treated equitably and fairly. In our opinion, statutory direction may be needed because communities may not establish an administrative program unless it is required.

**Action Needed:** The Legislature should consider requiring communities using TDRs to establish an administrative structure in local ordinance. This operating structure would likely include establishing program goals, outlining the TDR transfer process, and establishing a method for tracking density transfers.

### ■ Audit 2010-07 A Review of the Use and Accountability of RAP Funds Statewide

The July 2010 audit on statewide use of the Zoo, Arts, Parks, and Recreation tax (the RAP tax) identified that county and municipal governing statutes for this tax

contain elements that are inconsistent and unclear. We believe it would be helpful to the municipalities and counties if the Legislature clarified legislative intent.

**Action Needed:** The Legislature should consider:

- (1) reconciling differences found in the county and municipal RAP portions of the *Utah Code*;
- (2) distinguishing a cultural arts facility from the definition of a recreational facility in *Utah Code* 59-12-702(6); and (3) defining the term *art* or substituting the term *arts* for most of the listed disciplines.

### ■ 2009-18 A Performance Audit of Eligibility for Public Safety Retirement

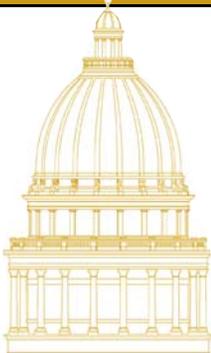
A statutory exception to eligibility for the Public Safety Retirement System (PSR) allows employees who are promoted or transferred to administrative positions within the same department to stay on the PSR plan. This exception allows employees to move from an eligible public safety position to an ineligible position but retain the more costly, enhanced retirement benefits that accompany public safety jobs.

**Action Needed:** The Legislature should consider modifying current PSR plan provisions by requiring public safety employees to switch to the Public Employees' Retirement System when they leave law-enforcement-related positions for uncertified positions that do not meet PSR eligibility requirements (i.e., primary duties in law enforcement, elevated risk to life and safety, and peace officer certification).

### ■ 2009-15 A Performance Audit of Career and Technical Education Costs

One policy question the audit raised was whether school districts should continue to receive full funding (\$5 million per year) for their secondary students enrolled in ATC programs even though the districts provide no instruction.

**Action Needed:** The Legislature should consider adjusting school districts' funding for students who are educated at ATCs.



**In 2010, the Office of the Legislative Auditor General (OLAG) completed 23 audits (17 in-depth audits and six special projects). For this annual report, we completed follow-up inquiries on 17 audits (four audits from 2010 and 13 audits from 2009). This section summarizes OLAG's work in these areas. Full reports are located on our website: [www.le.state.ut.us/audit/olag.htm](http://www.le.state.ut.us/audit/olag.htm).**

### ***2010 Completed Audits***

<b>Audit Name/Number</b>		<b>Number of Recommendations</b>	<b>2010 Release Date</b>
Conflict of Interest Allegations at the Utah Transit Authority Board	2010-17	4	December
Utah Medicaid Provider Cost Controls	2010-16	9	December
County and Municipal TDR Use in Utah	2010-15	4	December
Follow-up of Utah Medicaid's Implementation of Audit Recommendations	2010-14	2	December
Charter School Oversight	2010-13	16	October
School District Travel Accountability	2010-12	4	October
Department of Alcoholic Beverage Control (DABC)	2010-11	14	October
Working 4 Utah Initiative	2010-10	8	July
State-Funded Business Programs and Initiatives	2010-09	3	July
State's Career Service System	2010-08	5	July
Use and Accountability of RAP Tax Funds Statewide	2010-07	5	July
Driver License Division	2010-06	9	May
Workload in Second District Court and Fifth District Juvenile Court	2010-05	2	February
State Agency Regulatory Fees	2010-04	1	January
Counties' Municipal Services	2010-03	4	January
Utah Antidiscrimination and Labor Division	2010-02	7	January
Utah Medicaid Managed Care	2010-01	27	January

### ***Completed Special Projects***

Fund Balances Maintained in School Districts	ILR2010-F	0	December
Revenues and Costs of the DABC	ILR2010-E	0	August
UDOT's Controls Over Right-of-Way Property Management	ILR2010-D	2	July
Review of HOV Lanes	ILR2010-C	1	July
Effects of DABC Budget Cuts on State Revenue	ILR2010-B	1	May
Jordan School District's FY 2009 Purchases	ILR2010-A	0	May

### ***Best Practices***

The Auditor General also has the statutory responsibility of reviewing all new government programs and providing the new program or agency with a list of best practices to use in setting up the new program or agency. Since 2000, the Auditor General has published *Best Practices for Good Management* as a guide for new programs.

You may view a copy of this publication at [http://le.state.ut.us/audit/BP\\_2009.pdf](http://le.state.ut.us/audit/BP_2009.pdf).

***Audit Follow-Ups***

<b>Audit Name/Number</b>		<b>Number of Recommendations</b>	<b>Follow-Up Status</b>
Workload in Second District Court and Fifth District Juvenile Court	2010-05	2	1 In Process, 1 Partially Implemented
State Agency Regulatory Fees	2010-04	1	1 Not Implemented
Utah Antidiscrimination and Labor Division	2010-02	7	6 Implemented, 1 Not Implemented
Utah Medicaid Managed Care	2010-01	27	Reported in <i>A Follow-up of Utah Medicaid's Implementation of Audit Recommendations</i> (Dec. 2010)
DWS Eligibility Services	2009-19	19	12 Implemented, 2 Partially Implemented, 4 In Process, 1 Not Implemented
Eligibility for Public Safety Retirement	2009-18	1	1 Not Implemented
Cost of Benefits for Reemployed Retirees and Part-Time Employees	2009-17	7	3 Implemented, 1 Partially Implemented, 1 In Process, 2 Not Implemented
911 System in Salt Lake County	2009-16	8	5 Implemented, 3 In Process
Career and Technical Education Costs	2009-15	3	2 Implemented, 1 Not Implemented
Conversion of Justice Courts to CORIS	2009-14	9	8 Implemented, 1 Not Implemented
Department of Technology Services	2009-13	10	4 Implemented, 6 In Process
Medicaid Fraud, Waste & Abuse Controls	2009-12	25	Reported in <i>A Follow-up of Utah Medicaid's Implementation of Audit Recommendations</i> (Dec. 2010)
Follow-up of Higher Ed. Personnel Budget	2009-11	6	4 Implemented, 2 In Process
Office of Services Review (OSR)	2009-10	1	1 Implemented
Insurance Fraud Division	2009-09	8	7 Implemented, 1 In Process
Retirement Systems' Administrative Costs	2009-07	4	4 Implemented
Association Leave in Utah's School Districts	ILR2009-B	3	1 Implemented, 2 Not Implemented

■ **Completed Audits**

**2010-17 A Limited Review of Conflict of Interest Allegations at the Utah Transit Authority Board**

A conflict of interest existed at UTA but it was disclosed. Concerns that the board trustee interfered in the site selection of a FrontRunner stop in Draper were not substantiated. However, attorneys from the Office of Legislative Research and General Counsel determined that the trustee may have violated a provision of the Public Transit District Act by misusing official information.

**2010-16 A Performance Audit of Utah Medicaid Provider Cost Control**

Instances of fraud, waste, and abuse exist in the Utah Medicaid program, including clinic overcharging, weak pharmacy controls, and suspected fraud at a women's clinic. Problems with Utah Medicaid's internal payment system and policies were also identified, including payment for the transportation of unborn babies, duplicate payments, and drug costs that are higher than necessary. Creating a Medicaid Office of the Inspector General could increase independence and oversight of potential fraud, waste, and abuse concerns.

### **2010-15 A Performance Audit of County and Municipal TDR Use in Utah**

Although Transfer of Development Rights (TDR) programs are commonly used nationwide, they are not widely used in Utah. We identified five Utah counties and municipalities that use TDRs. Four operate within a structured TDR program framework. The fifth uses a discretionary, less-structured TDR approach that has caused unpredictable results and led to insinuations of bias and favoritism. TDR use within a program structure enables predictable results and helps ensure that participants are treated equitably and fairly.

### **2010-14 A Follow-up of Utah's Medicaid Implementation of Audit Recommendations**

This report presents an in-depth follow-up to two Medicaid audits, *A Performance Audit of Fraud, Waste, and Abuse Controls in Utah's Medicaid Program* (Audit 2009-12) and *A Performance Audit of Utah Medicaid Managed Care* (Audit 2010-01). Recommendations in Audit 2009-12 are starting to be implemented, but more needs to be done to institute management controls over the prior authorization process and to improve independence of the oversight functions in the Department of Health. Most recommendations in Audit 2010-01 are in process and some cost savings have been achieved.

### **Audit 2010-13 A Performance Audit of Charter School Oversight**

The State Charter School Board has not established clear standards to evaluate schools' financial performance. The Board needs to adopt policies that further define how its disciplinary and termination processes will proceed. The Board should also enhance its financial oversight by requiring training for charter school board members, enforcing financial reporting requirements, and further utilizing audited financial statements. Acceptable uses of Charter School Revolving Load funds need to be further defined. Loan requests should be prioritized by the Charter School Revolving Subaccount committee as allowed by statute.

### **Audit 2010-12 A Performance Audit of School District Travel Accountability**

Total travel expenditures amount to less than one percent of the total annual expenditures in five sampled school districts. Our sample shows most school administrators and boards have started to cut travel expenditures. Districts should review the number and type of association memberships and determine if continued involvement is appropriate in light of budget cuts. Districts should review their involvement in the Chinese Bridge Delegation travel program because Utah appears to over-participate compared to other states. Also, inconsistently reported travel expenditures need to be standardized.

### **Audit 2010-11 A Performance Audit of the Department of Alcoholic Beverage Control (DABC)**

The DABC commission has habitually violated the state's open meeting laws and some commissioners have potential conflicts of interest that have not been adequately disclosed. The DABC has experienced growth in retail stores, but has done so without an adequate business plan. While retail operations of the DABC are profitable, store productivity could be improved. The licensing and compliance section of the DABC should formalize policies and procedures and develop policies to ensure adequate communication with liquor law enforcement. Finally, the Legislature could reconsider the liquor license quota and allow the commission to delegate approval authority to the executive director for certain event permits.

### **Audit 2010-10 A Performance Audit of the Working 4 Utah Initiative**

Most state agencies need better performance measures to monitor the productivity of their employees. Inadequate performance measures made it difficult to identify the effect of the four-day work week on productivity. Anecdotal evidence suggests that some functions in state government perform better under the new schedule while other functions do not. It has been reported that the initiative cut government's costs by

millions of dollars, but these claims were overstated. Finally, the growing acceptance of several questionable personnel policies and practices could lead to a reduction in employee productivity.

#### **Audit 2010-09 A Limited Review of State-Funded Business Programs and Initiatives**

A review of state-funded business programs and incentives showed no duplication of services provided to Utah businesses. The structure of the Business Resource Centers (BRCs) administered by the Governor's Office of Economic Development (GOED) is a natural check on possible duplication. Utah provides much greater program coordination than other states reviewed. In order to improve coordination going forward, GOED should consider having the BRC Board become the coordinating board for all business programs and incentives, and provide more oversight over contracted entities.

#### **Audit 2010-08 A Limited Review of the State's Career Service System**

This audit reviewed potential alternatives to the state's career service system. Some other states do not have traditional career service systems, yet they maintain merit principles of fair and equitable treatment of employees. The Legislature may choose to adopt changes or maintain the current system with an increased emphasis on performance management. Agency managers could be more effective at managing employee performance under the current system by properly documenting employee discipline on annual performance evaluations, for example.

#### **Audit 2010-07 A Review of the Use and Accountability of RAP Tax Funds Statewide**

Governing statute for Utah's Zoo, Arts, Parks, and Recreation tax (referred to as the RAP tax) contains elements that are inconsistent and unclear. The Legislature should address these statutory concerns through a review and clarification of both the county and municipal RAP portions of the *Utah Code*. Given

current statutory requirements, some RAP-funded programs and projects appeared to be inconsistent; however, the majority seemed reasonable. Finally, the accounting transparency of RAP funding varies among and within county and municipal accounting systems. Nonetheless, no cases were found for which RAP revenue and qualifying expenditures could not be adequately accounted.

#### **Audit 2010-06 A Performance Audit of the Driver License Division**

The DLD needs to improve its oversight of the third-party tester program. We observed improper commercial driver license (CDL) exams, which had the appearance of fraud, and the lack of policies necessary to oversee third-party tester activities. The risk is substantial because proper testing helps determine whether CDL operators can safely operate commercial vehicles. Further, peace officer absenteeism at DUI administrative hearings has increased. Their absence allows a potentially dangerous driver to continue driving under a valid license until a court hears the case. DLD offices have also adjusted to the I.D. and lawful presence verification process and reduced wait times.

#### **2010-03 A Performance Audit of Counties' Municipal Services**

Counties that cannot identify their MSF funding sources cannot demonstrate that their funding is appropriate. All counties with MSFs should have clear accounting of MSF funding sources and uses. Counties that choose or are required to have an MSF should perform a service cost review. This identifies how much cost can be attributed to unincorporated and incorporated county residents. Finally, fourth through sixth-class counties sampled pay for municipal services from their general funds.

## ■ Completed Audits with Follow-Up

### **Audit 2010-05 A Limited Review of Workload in the Second District Court and the Fifth District Juvenile Court**

The Judicial Council recommended to the Legislature in November 2009 that a vacant judgeship be transferred from the Second District Court to the Fifth District Juvenile Court. The recommendation of the Judicial Council appears reasonable. Available evidence indicates a much more acute need for judicial resources in the Fifth District Juvenile than in the Second District. However, weighted caseload data from the district court should be updated to provide more reliable information in the future.

**Results of Follow-Up:** Two recommendations were made; one is in process and one partially implemented.

### **Audit 2010-04 A Limited Review of State Agency Regulatory Fees**

In some regulatory agencies, General Fund money is appropriated to cover a portion of expenditures. It appears possible that regulatory fees in some of these agencies could be increased to cover a larger percentage of the cost of regulation. In fact, regulatory fees in other states offer support for some regulatory fee increases in Utah. By increasing fees, those regulated, rather than the general public, would bear more of the cost of regulation, possibly freeing up General Fund money for other uses. In our opinion, regulatory fees merit legislative consideration.

**Results of Follow-Up:** One recommendation was made to the Legislature, which has not yet been implemented.

### **Audit 2010-02 A Performance Audit of Utah Antidiscrimination and Labor Division**

Although UALD's informal complaint process should be completed promptly, some employment cases are neglected for years. Utah already sets specific time limits for processing housing discrimination complaints and should establish similar time limits for employment discrimination complaints. The process can be streamlined and customer service improved by assigning investigators more promptly. This audit also raises concerns about housing discrimination complaint procedures that need to be reviewed and/or changed, including requiring final interviews whenever a reasonable cause determination is indicated.

**Results of Follow-Up:** Seven recommendations were made; six have been implemented, and one has not been implemented. The recommendation not yet implemented is for the Legislature to consider requiring the division to complete its employment discrimination investigations within set time limits.

### **2010-01 A Performance Audit of Utah Medicaid Managed Care**

The Division of Health Care Financing (HCF or Utah Medicaid program) has not provided adequate oversight of its managed care program. Utah Medicaid has not been fully aware of costs or utilization of the managed health care plans (health plans). This insufficient oversight has led to higher than necessary costs in the Utah Medicaid program. In total, we identified between \$13 to \$19 million in potential future cost-saving opportunities for the Utah Medicaid program. These cost savings hinge largely on Utah Medicaid expanding its management vision to be more dynamic, best-practice driven, and cost-saving centered.

**Results of Follow-Up:** Twenty-seven recommendations were made. For implementation status, please refer to *A Follow-up of Utah Medicaid's Implementation of Audit Recommendations* (Audit 2010-14).

**Audit 2009-19 A Performance Audit of DWS Eligibility Services**

Department of Workforce Services (DWS) management, who allocated \$125 million in fiscal year 2009, should do more to increase cost allocation accuracy. An increased emphasis on timely responses will improve cost allocation accuracy and could have saved the state over \$500,000 in fiscal year 2009. DWS recently freed up \$16.1 million in state funds by using third-party in-kind contributions as part of the state's TANF obligation. We believe the Legislature should determine how these funds should be used. DWS could save the state over \$530,000 by eliminating four underutilized buildings. Three additional buildings should be downsized to save the state additional funds.

**Results of Follow-Up:** Nineteen recommendations were made; twelve have been implemented, two partially implemented, four are in process and one was not implemented. The one recommendation not implemented is for the Legislature to determine how to appropriate the above-mentioned \$16.1 million.

**Audit 2009-18 A Performance Audit of Eligibility For Public Safety Retirement**

This audit found that 37 current state employees are on the PSR plan even though their jobs do not meet the eligibility requirements. A statutory exception allows employees to move from an eligible public safety position to an ineligible position but retain the enhanced retirement benefits that accompany public safety jobs. Because of the enhanced benefits, the state pays more for employees on PSR compared to those on public employee retirement plans. This exception makes Utah unique from many other western states. The Legislature should consider modifying current PSR plan provisions by addressing this exception.

**Results of Follow-Up:** One recommendation was made to the Legislature (to address the PSR exception), which has not yet been implemented.

**Audit 2009-17 A Performance Audit of the Cost of Benefits for Reemployed Retirees and Part-Time Employees**

Benefits to reemployed retirees and part-time employees pose significant costs to the state. Current statute provides a financial incentive for public employees to retire and then return to work. URS' actuary estimates the impact to the retirement system at \$401 million for the retirees who returned to work between 2000 and 2008. If the practice continues, we estimate future costs of \$897 million to the retirement system over the next decade. In addition, part-time employees' ability to inflate their retirement benefits by going full-time before retirement should be reviewed. Finally, the state does not prorate health care benefits for part-time employees. Doing so could save between \$2.2 and \$2.6 million annually.

**Results of Follow-Up:** Seven recommendations were made; three have been implemented; one is in process, one has been partially implemented and two are not implemented. The two recommendations not yet implemented require legislative policy consideration.

**Audit 2009-16 A Performance Audit of the 911 System in Salt Lake County**

Current uses of the local 911 surcharge revenue are outside those identified in the *Utah Code*. While the statute refers only to emergency telecommunications, both Valley Emergency Communications Center (VECC) and the Salt Lake County Sheriff's Dispatch use surcharge funds to cover non-emergency calls. Also, VECC uses excess 911 surcharge revenue to subsidize dispatching costs. In addition to these statutory concerns, the existing organization of the 911 system in Salt Lake County is inefficient. Emergencies handled by the Sheriff's Office are transferred from VECC to the Sheriff's Dispatch, which creates duplication of effort and slower emergency response times.

**Results of Follow-Up:** Eight recommendations were made; 5 have been implemented and 3 are in process.

**Audit 2009-15 A Performance Audit of Career and Technical Education Costs**

The cost per hour of classroom instruction at applied technology colleges (ATCs) was lower than at two-year colleges. The ATCs had lower costs mainly because of the lower compensation paid to instructors and heavier instructor workloads. These results differ from information in a 2007 study by the Utah system of Higher Education (USHE) because the USHE study overstated the number of instruction hours offered in college-based career and technical education courses. The audit also raises the policy question of whether school districts should continue to receive full funding (\$5 million per year) for their secondary students enrolled in ATC programs even though the districts provide no instruction.

**Results of Follow-Up:** Three recommendations were made; two have been implemented, and one has not been implemented. The recommendation not yet implemented was for the Legislature to consider adjusting school districts' funding for students who are educated at ATCs.

**Audit 2009-14 A Performance Audit of the Conversion of Justice Courts to CORIS**

The ongoing project to convert all justice courts to the Court Records Information System (CORIS) will improve Utah's court records. Benefits include better justice court data quality and the ability to search all court records statewide. The project has been well planned, with most courts scheduled to convert by the statutory deadline. Ninety-five percent of justice court clerks using CORIS report being pleased with it.

**Results of Follow-Up:** Nine recommendations were made; eight have been implemented, and one has not been implemented. The recommendation not yet implemented requires legislative study.

**Audit 2009-13 A Performance Audit of the Department of Technology Services**

DTS has been slow to consolidate IT resources and has done little to reduce IT redundancy within state agencies. Also, DTS has not provided adequate oversight of newly acquired IT assets. Specifically, DTS did not require business case analyses as called for in *Utah Code* and has yet to track IT assets owned by user agencies. Additionally, agency IT plans, which are required to be submitted annually by state agencies, are not compliant with *Utah Code*. The audit also found that the statewide IT strategic plan lacked adequate guidance on how major agency objectives outlined in House Bill 109 would be implemented.

**Results of Follow-Up:** Ten recommendations were made; four were implemented, and six are in process.

**Audit 2009-12 A Performance Audit of Fraud, Waste, and Abuse Controls in Utah's Medicaid Program**

Systematic improvements in Utah Medicaid's Bureau of Program Integrity (BPI) can, over time, generate annual savings of over \$20 million in federal and state Medicaid funds. These savings can be achieved by BPI improving efficiencies and implementing better management controls over operations. BPI is not adequately controlling recipient access and utilization of Medicaid programs through its prior authorization process. Also, there are sustained inefficiencies and ineffectiveness of BPI's cost-recovery efforts. BPI has unreliable data, is not effectively using staff, and is only reviewing about 5 percent of Medicaid spending. Lastly, several oversight functions responsible for reviewing Medicaid dollars lack sufficient independence.

**Results of Follow-Up:** Twenty-five recommendations were made. For implementation status, please refer to *A Follow-up of Utah Medicaid's Implementation of Audit Recommendations* (Audit 2010-14).

**Audit 2009-11 A Follow-Up Audit of Higher Education Personnel Budgeting Practices**

While the Board of Regents has implemented some of the recommendations made in *A Performance Audit of Higher Education Personnel Budgeting Practices* (Audit 2007-11), more improvements can still be made. For example, what constitutes “carryforward funds” still needs to be clarified, and the accounting of turnover savings lacks accuracy. Large variances still exist between budgeted employees and actual employees at some higher education institutions. Budgets are still not reflective of actual expenditures, and the Board of Regents has yet to define acceptable variance levels.

**Results of Follow-Up:** Six recommendations were made; four have been implemented and two are in process.

**Audit 2009-10 A Performance Audit of the Office of Services Review (OSR)**

OSR is accurate and unbiased in its review of the Division of Child and Family Services (DCFS). We found that OSR was correct 97.5 percent of the time, and there was no apparent bias in the type of errors the OSR reviewers made. Beginning in December 2010, OSR will be able to make changes to the questions included in its review. Hence, we believe that OSR should evaluate its practices now to be ready to make appropriate improvements in December 2010.

**Results of Follow-Up:** One recommendation was made, which was implemented.

**Audit 2009-09 A Performance Audit of the Insurance Fraud Division**

The IFD within the Department of Insurance needs to improve deficiencies in its operations. Of particular concern is the ineffectiveness or lack of basic management controls—for example, policies and procedures—that have the potential to expose the state to unnecessary risk. We were also asked whether IFD investigators should be changed from special function

officers to law enforcement officers. In our opinion, this change is not necessary.

**Results of Follow-Up:** Eight recommendations were made; seven were implemented and one is in process.

**Audit 2009-07 A Performance Audit of Utah Retirement Systems’ Administrative Costs**

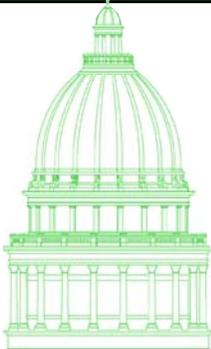
From 1999 to 2007, Utah Retirement Systems’ administrative and investment costs for the defined benefit (DB) plan increased 107 percent, primarily due to an increase in investment costs. Compared to other retirement systems, URS’ administrative costs per member for the DB plan are lower, but investment expense ratios are higher. Because of the many factors impacting costs, per our suggestion, URS has contracted with an independent company to complete an in-depth evaluation of URS’ cost and performance that should be presented to the Legislature. Periodic reviews of defined contribution plan costs are also needed to ensure that costs are reasonable.

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

**ILR 2009-B Association Leave in Utah’s School Districts**

There are weaknesses in some school districts regarding the practice of association leave. Most sampled districts do not account for the association president’s time and there are no guidelines defining district association benefits. Without accountability and guidelines, districts are not fulfilling their statutory responsibilities to ensure that association leave has a direct benefit to the school district, that they supervise employees on association leave, and that they obtain reimbursement for the cost of paid association leave activities that do not provide a direct benefit to education.

**Results of Follow-Up:** Three recommendations were made; one has been implemented by the USOE. The two recommendations not yet implemented need to be addressed at the school district level.



**It is the mission of the Office of the Legislative Auditor General to serve the citizens of Utah by providing objective information, in-depth analyses, and useful recommendations that help legislators and other decision makers:**

- **Improve Programs**
- **Reduce Costs**
- **Promote Accountability**

**To achieve this mission, the office completes in-depth audits and special projects requested by the Legislature. Listed below are examples of recent audit contributions to each mission objective.**

### ■ Improving Programs

We identify changes in statute or agency policies and practices that can help programs more effectively achieve their purposes. For example:

- We observed improper commercial driver license (CDL) examinations, which had the appearance of fraud, and the lack of policies necessary to oversee third-party tester activities. For example, a third-party tester did not administer a CDL test as scheduled; but, the driver received his CDL with test results referencing the scheduled date and time, signed by the third-party tester. The risk associated with these findings is substantial, because proper testing helps determine whether CDL operators possess the skills required to safely operate commercial vehicles. Based on our recommendations, the Utah Driver License Division (DLD) is creating policies to strengthen their oversight of Utah's CDL program and limit the current number of CDL third-party testers.
- We found that some employment complaint cases at the Utah Antidiscrimination and Labor Division (UALD) are neglected for years because the informal complaint process is not completed promptly. Based on our recommendation, UALD is streamlining its process by assigning investigators more promptly. Procedures specific to housing discrimination complaints were also changed, including requiring final interviews whenever a reasonable cause determination is indicated.

### ■ Reducing Costs

We find savings for Utah taxpayers by identifying ways to run programs more efficiently or collect revenues that agencies are failing to collect. For example:

- We found that insufficient oversight and inadequate performance goals have led to higher than necessary costs in the Utah Medicaid program. Also, we identified several other practices, not directly related to managed care, that, if changed or improved, could produce cost savings to the Medicaid program. In total, we identified about \$13 to \$19 million in potential future cost-saving opportunities. These cost savings, added to cost savings identified in other Medicaid reports, total about \$33 to \$39 million in potential annual savings for the state that could be realized over a number of years.
- We found that the state does not currently prorate health care premiums for part-time employees, even though it is a common practice in both public and higher education. If health care premiums were prorated for part-time employees, we estimate that annual savings could range between \$2.2 million and \$2.6 million. Based on our findings, the Legislative Fiscal Analyst is preparing fiscal recommendations for the Legislature to consider during General Session 2011.

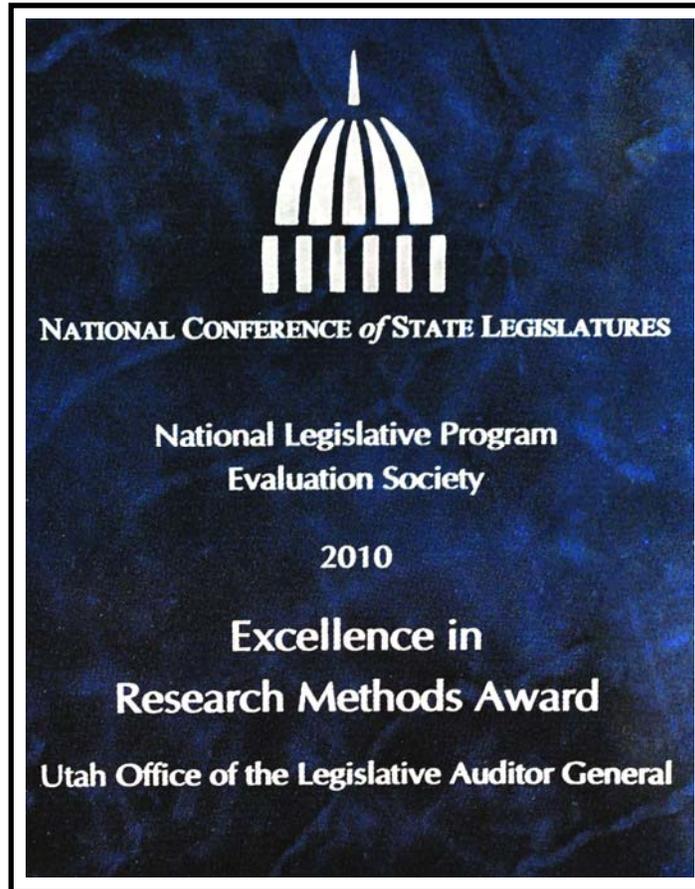
## ■ Promoting Accountability

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

- We found that a Salt Lake health clinic owned and operated by the Department of Health has been upcoding (overcharging) the Utah Medicaid program. Specifically, we found that 99 percent of high-coded claims at this clinic could not be substantiated at the level billed. DOH management members, as non-paid volunteers at the clinic, also submitted upcoded claims. Further, the audit identified private clinics that also upcoded claims. Recommendations to DOH in the report are aimed at improving oversight and training that should in turn promote greater accountability in the medical community toward upcoding claims submitted to the Medicaid program. Based on our recommendation, legislation is being considered to create a Medicaid Office of the Inspector General to increase independence and oversight of potential fraud, waste, and abuse.
- We found a lack of accountability at the Utah Department of Alcoholic Beverage Control (DABC). The commission has habitually violated the state's Open Meeting Laws, and all closed meetings reviewed had some discussions that should have taken place in open meetings. Based on our recommendations, the DABC is no longer considering the issuance of liquor licenses in closed meetings and is working with staff to develop a framework for considering liquor license applicants in open meetings. We also found that two commissioners have potential conflicts of interest that have not been adequately disclosed. This lack of disclosure is due primarily to an absence of rules governing conflicts of interest for the commission. To address this absence, the commission is implementing our recommendation to develop rules that address conflicts of interest for the commission and how they should be disclosed.
- We found that the effect of the new four-day work week on productivity has not been adequately measured. Specifically, we were unable to find enough objective data to draw any firm conclusions regarding the effects of the four-day workweek on worker productivity. Based on our recommendation, executive branch agencies are developing performance measures that can be used to better monitor employee performance. We also examined the reported-claims that the four-day workweek initiative had cut the cost of government by many millions of dollars. These claims were found to be overstated.
- Utah Board of Regents has implemented or is in the process of implementing recommendations to ensure that individual institutions of higher education are accurately reporting personnel and non-personnel budgets and expenditures. In response to the recommendations of this report, the Board of Regents has better defined what constitutes carryforward balances and position vacancy reporting to help ensure that budgeted amounts and actual expenditures are more fully and accurately reported. In response to the audit, the Board of Regents is also in the process of developing acceptable ranges for budget variances and reporting mechanisms when variances are exceeded.



## Legislative Auditor Receives National Award



The Utah Office of the Legislative Auditor General (OLAG) received the 2010 Excellence in Research Methods Award from the National Legislative Program Evaluation Society (NLPES), a staff section within the National Conference of State Legislatures (NCSL). This award is a reflection of the strength of the audit environment created by the Utah Legislature combined with the experience and strength of a committed audit staff.

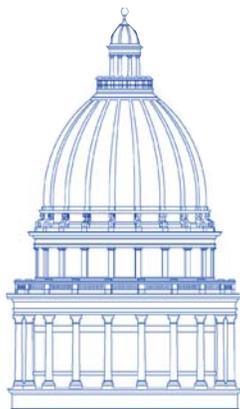
Each year, NLPES gives the Excellence in Research Methods award to a state's audit or evaluation office which produces a report

developed through the use of exemplary research methods. OLAG received the award for *A Performance Audit of the Cost of Benefits for Reemployed Retirees and Part-Time Employees* (Audit 2009-17).

NLPES selects the recipient of this award based on the following criteria: (1) technical difficulty and sophistication, (2) innovative or unusual applications of established methodologies, and (3) exceptional breadth, depth, and scope of fieldwork which takes the evaluation to a more comprehensive level.

# Released Audits and Informal Reports, 2007-2009

2009		2008-06	
2009-19	DWS Eligibility Services	2008-05	Utah Department of Corrections Follow-Up
2009-18	Eligibility for Public Safety Retirement	2008-04	Utah State Hospital
2009-17	Cost of Benefits for Reemployed Retirees and Part-Time Employees	2008-03	Utah Transit Authority (UTA)
2009-16	911 System in Salt Lake County	2008-02	Carson Smith Scholarship
2009-15	Career and Technical Education Costs	2008-01	Committee of Consumer Services
2009-14	Conversion of Justice Courts to CORIS	ILR2008-D	Medical Assistance Eligibility Determination Costs
2009-13	Department of Technology Services	ILR2008-C	Utah Severance Tax Volume/Value Database
2009-12	Medicaid Fraud, Waste & Abuse Controls	ILR2008-B	Follow-Up of Sample Matching Driver Privilege (DP) Cards to Vehicle Insurance
2009-11	Follow-up of Higher Education Personnel Budget	ILR2008-A	Educator Classifications
2009-10	Office of Services Review (OSR)		<b>2007</b>
2009-09	Insurance Fraud Division	2007-15	Utah's Coal Regulatory Program
2009-08	Public Education Employees' Criminal Background Checks	2007-14	Class-Size Reduction Funding
2009-07	Retirement Systems' Administrative Costs	2007-13	School District Internal Controls
2009-06	Sale of the CEU President's Home	2007-12	Petroleum Storage Tank Trust Fund
2009-05	Cities' Compliance with Impact Fee Statute	2007-11	Higher Education Personnel Budgeting Practices
2009-04	Elementary School Class Size	2007-10	Court Fines, Surcharges, and Fees
2009-03	Drug Offender Reform Act (DORA)	2007-09	Compliance with Uniform Management of Institutional Funds Act (UMIFA)
2009-02	School Children's Trust Section	2007-08	Follow-Up of the School & Institutional Trust Land Administration (SITLA)
2009-01	Public Lands Policy Coordinating Office	2007-07	Public Education Costs of Undocumented Children
ILR2009-C	Emergency Care in Utah	2007-06	Review of HB 382—Educational Salary Adjustments
ILR2009-B	Association Leave in Utah's School District	2007-05	Disability Determination Services
ILR2009-A	Allegations Made Concerning DSPD	2007-04	Governor's Office of Economic Development
		2007-03	UDOT Project Costs
		2007-02	Review of Fiscal Note Accountability
		2007-01	Utah Charter Schools
		ILR2007-F	The Transportation Prioritization Process
		ILR2007-E	The State Construction Registry
		ILR2007-D	States that Provide Local Property Tax Revenue to Charter Schools
		ILR2007-C	Cost of Legal Notices Placed in Newspapers
		ILR2007-B	Guardian ad Litem's Case Management System
		ILR2007-A	Observations of Electronic Voting System and Procedures Used in Utah's Nov. 7, 2006 Election
2008			
2008-14	School Building Construction		
2008-13	Use of Mineral-Related Funds in Uintah Basin		
2008-11	School Busing		
2008-10	Follow-Up of the Office of the Guardian ad Litem		
2008-09	Adult Education Services		
2008-08	Utah's Jail Contracting Program		
2008-07	Division of Securities		



Office of the Legislative Auditor General  
W315 House Building  
State Capitol Complex  
Salt Lake City, UT 84114-0151  
(801) 538-1033  
<http://www.le.state.ut.us/audit/olag.htm>