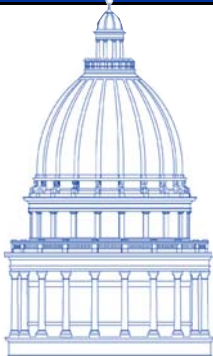




**Thirty-Seventh Annual Report
to the
Utah State Legislature**

**Fifty-Ninth Legislature
2012 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, the Senate Minority Leader and the House Minority Leader.

■ 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.”

Inside the Annual Report

Legislative Action.....	3
Completed Audits and Follow-Ups.....	5
Office Impact.....	13
Released Audits, 2008 to 2010.....	16

■ How May I Receive Audit Reports?

You can download a copy of most audit reports from the legislative website: www.le.utah.gov/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

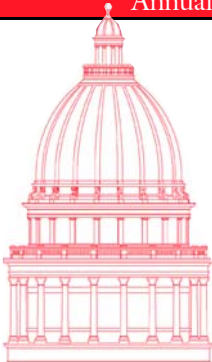
Representative David Litvack
House Minority Leader
D-Salt Lake County

“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?

Auditor General	John M. Schaff, CIA
Deputy Auditor General	Rick Coleman, CIA, CPA
Audit Managers	Tim Osterstock, CIA, CFE Darin Underwood, CIA
Audit Supervisors	James Behunin, CIA Janice Coleman, CFE Brian Dean, CIA, CFE Wayne Kidd, CIA Kade Minchey, CIA Maria Stahla, CFE Susan Verhoef, CIA
Lead Auditors	Tim Bereece Leah Blevins Deanna Herring, JD
Audit Staff	David Apple, CIA, CGAP Ian Christensen Jake Dinsdale Hillary Galvin Matthew Harvey August Lehman Jesse Martinson Anndrea Parrish Candace Ware
IT Auditor/ Systems Analyst	David Gibson, CISA
Quality Control/ Report Editor	Leslie Marks, CFE
Administrative Assistant	Lynda Maynard



Based on issues addressed and recommendations made in our 2011 audits and the actions taken on 2010 audit recommendations, we believe the Legislature should consider the following items during the 2012 General Session.

■ **2011-01 A Performance Audit of PEHP's Business Practices & 2011-06 Actuarial Study of PEHP's Contingency Reserves**

The audit of business practices identified PEHP's practice of combining risk pools' reinsurance premiums and claims which is not consistent with self-funded insurance models. We also found that PEHP has allowed risk pools to accrue reserve deficits. The Department of Insurance does not have enforcement authority to hold PEHP accountable to insurance standards.

Action Needed: The Legislature should determine if the state risk pool should continue to participate in PEHP's reinsurance coverage or obtain external reinsurance. In addition, the Legislature should also consider amending *Utah Code* and grant the Department of Insurance authority to require PEHP to comply with an improvement plan if issues arise in audits. Regarding the contingency reserves, the Legislature should require PEHP to implement at least a 50-day reserve of annual premium for the state's medical risk pool, and consider requesting a refund from the URS Board of Directors of at least \$26 million from the state's medical risk pool.

■ **2012-04 A Performance Audit of DABC Oversight of Package Agencies**

An internal audit function is warranted at DABC given the risk associated with the operations of the DABC.

Action Needed: The Legislature should consider adding the DABC to the Utah Internal Audit Act in

Utah Code 63I-5-201 requiring the DABC to have an internal audit function.

■ **2011-13 A Review of Allegations Regarding the Management of DABC**

We found significant concerns in the DABC's administration that has spanned over many years. These concerns included bid rigging, falsifying financial documentation, and artificially splitting invoices in violation of state statute. These concerns, when looked at in totality, have led to our conclusion that the DABC has been incompetently managed. The DABC is currently overseen by a five member part-time commission.

Action Needed: The Legislature should consider whether the DABC oversight structure needs to be revisited to help ensure sufficient oversight.

■ **2011-12 A Performance Audit of Mandatory Student Fees at the U of U**

The University of Utah's process for establishing and monitoring mandatory student fees lacks structure. Neither Utah statute nor Board of Regents policy provide needed guidance. We found the U of U did not have a centralized approval process or consistent student involvement. Documentation justifying the need for the fee and changes in fee amounts were not generally available, and monitoring the use of fees and fund balances varied by department.

Action Needed: The Legislature should consider establishing general principles guiding the use of

mandatory student fees, including (1) requiring the Board of Regents to establish policy restricting the use of student fees, (2) defining the level of student involvement in approving fees, and (3) requiring fee documentation and monitoring.

■ 2011-03 A Performance Audit of the Division of Parks and Recreation

During the 2011 General Session, the Legislature passed intent language for Division of State Parks and Recreation to reduce its reliance on General Funds to \$4 million by 2015 as part of a plan to gradually reduce taxpayer support. Ultimately, the level of taxpayer subsidy should be based on a policy regarding which types of parks are expected to be self supporting.

Action Needed: The Legislature should consider more clearly articulating state policy on the extent to which different types of parks and activities should receive public support, and continue to gradually adjust General Fund appropriations based on that policy.

■ 2011-08 A Performance Audit of Higher Education O&M Funding

Despite concerns that higher education facilities are not adequately maintained, there is limited transparency and accountability of operation and maintenance (O&M) funding. The current record-keeping system did not allow us to determine how much funding is appropriated annually by the Legislature. Further, building records do not identify which buildings are eligible for state O&M funds. At times, buildings may simply be added to an institution's maintenance schedule with no additional funds. Buildings without O&M funds dilute the resources intended for state-funded buildings and may adversely affect buildings' functionality and longevity.

Action Needed: The Legislature should consider a variety of actions to adjust and/or more clearly articulate state O&M funding policy. Options include:

- making state O&M funding decisions for non-state-

- funded buildings before construction begins
- requiring the institutions to have a funding plan for all buildings that do not receive state O&M funds
- funding O&M as an appropriation unit within the E&G line item
- directing the Board of Regents to maintain a record of all higher education buildings that denotes the source of their O&M funds
- directing institutions to use reimbursed overhead funds provided for infrastructure and O&M for those purposes if needed.

■ 2011-11 A Performance Audit of the Operating Efficiency of the Utah State Court System

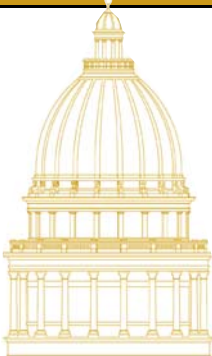
Traffic schools in Utah's municipalities are currently unregulated. This has led to at least one municipality avoiding the sharing of revenue with the state by issuing invitations to traffic school, and thus sending people to traffic school instead of issuing citations. Additionally, since traffic schools are unregulated, they can vary greatly in quality and cost.

Action Needed: The Legislature should consider whether municipalities should be allowed to use traffic school invitations as an alternative to issuing citations. The Legislature should also consider whether regulation of traffic schools should occur.

■ 2012-02 A Review of School Community Council Election Practices

House Bill 152 Substitute from the 2011 General Legislative Session required our office to conduct an audit of a sample of schools to determine if they are adhering to School Community Council (SCC) membership election requirements.

Action Needed: The Legislature should clarify whether SCCs are subject to the posting requirements of the Utah Public Notice website. Further, the Legislature should reexamine the prohibition of an educator serving as a parent or guardian SCC member within the district of employment, to ensure the desired intent of the law.



In 2011, the Office of the Legislative Auditor General (OLAG) completed 16 audits (15 in-depth audits and 1 special project) and 1 informational letter. For this annual report, we completed follow-up inquiries on 20 audits (5 audits from 2011 and 15 audits from 2010). The 20 audits contained 149 recommendations, only 10 of which (7 percent) were not implemented. This section summarizes OLAG's work in these areas. Full reports are located on our website: www.le.utah.gov/audit/olag.htm.

2011 Completed Audits

Audit Name	Number	Number of Recommendations	2011 Release Date
Higher Education Graduation Rates and Excess Hours	2011-15	8	November
Utah Division of Wildlife Resources	2011-14	8	November
Allegations Regarding the Management of the DABC	2011-13	3	October
Mandatory Student Fees at the University of Utah	2011-12	4	October
Operating Efficiency of the Utah State Court System	2011-11	7	September
IT Security at Universities and Quasi-Government Agencies	2011-10	5	September
Higher Education Institutions' Residency Determination	2011-09	5	September
Higher Education Operating and Maintenance Funding	2011-08	11	September
School District's Health Insurance	2011-07	2	July
Actuarial Study of PEHP's Contingency Reserves	2011-06	2	July
Public Education Cosmetology Programs	2011-05	0	May
DABC Actions Regarding a \$300,000 Loss from a Package Agency	2011-04	4	May
Division of Parks and Recreation	2011-03	13	January
Division of Child and Family Services	2011-02	19	January
PEHP's Business Practices	2011-01	24	January

Completed Special Projects

Competitive Business Practices of the Utah Local Governments Trust	ILR2011-B	0	May
Information Regarding Disability Law Center Performance Audit Request	N/A	N/A	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 www.le.utah.gov/audit/BP_2009.pdf.

Audit Follow-Ups

Audit Name	Number	Number of Recommendations	Follow-Up Status
Actuarial Study of PEHP's Contingency Reserves	2011-06	2	2 Not Implemented. See also <i>An In-depth Follow-up Audit of PEHP's Business Practices</i> (January 2012).
DABC Actions Regarding a \$300,000 Loss From a Package Agency	2011-04	4	4 Implemented
Division of Parks and Recreation	2011-03	13	4 Implemented, 8 In Process, 1 Partially Implemented. See also <i>An In Depth Follow-up of the Division of Parks and Recreation</i> (January 2012).
Division of Child and Family Services	2011-02	19	4 Implemented, 15 In Process
PEHP's Business Practices	2011-01	24	9 Implemented, 1 Partially Implemented, 9 In Process, 2 Not Implemented; 3 recommendations will be addressed in a future follow-up. See also <i>An In-depth Follow-up of PEHP's Business Practices</i> (January 2012).
Conflict of Interest Allegations at the UTA Board	2010-17	4	4 Implemented
Utah Medicaid Provider Cost Controls	2010-16	9	6 Implemented, 3 In Process. See also <i>An In-depth Follow-up of Utah Medicaid's Implementation of Audit Recommendations</i> (January 2012).
County and Municipal TDR Use in Utah	2010-15	4	3 Implemented, 1 In Process
Follow-up of Utah's Medicaid Implementation of Recommendations (December 2010)	2010-14	2	2 Implemented. See also <i>An In-depth Follow-up of Utah Medicaid's Implementation of Audit Recommendations</i> (January 2012)
Charter School Oversight	2010-13	16	13 Implemented, 2 Partially Implemented, 1 In Process
School District Travel Accountability	2010-12	4	3 Implemented, 1 Partially Implemented
DABC Controls	2010-11	14	8 Implemented, 4 In Process, 2 Not Implemented
Working 4 Utah Initiative	2010-10	8	6 Implemented, 2 Not Implemented
State-Funded Business Programs and Initiatives	2010-09	3	3 Implemented
State's Career Service System	2010-08	5	3 Implemented, 1 In Process, 1 Not Implemented
Use and Accountability of RAP Tax Funds Statewide	2010-07	5	5 Implemented
Driver License Division	2010-06	9	7 Implemented, 1 In Process, 1 Not Implemented
UDOT's Controls Over Right-of-Way Property Management	ILR2010-D	2	2 In Process
Review of HOV Lanes	ILR2010-C	1	1 Implemented
Effects of DABC Budget Cuts on State Revenue	ILR2010-B	1	1 Implemented

■ **Completed Audits**

2011-15 A Performance Audit of Higher Education Graduation Rates and Excess Hours

The U of U's graduation rate is comparatively low and needs to improve. Although SUU and WSU compare favorably to peer groups, improvement could be desirable for both institutions. USU compares

favorably. Further, State Board of Regents' policy to discourage students from taking excess credit hours (hours in excess of graduation needs) by assessing an excess credit hour surcharge appears ineffective; little has been collected. Excess credit hours contribute to the time it takes to graduate. The longer the enrollment span, the less likely graduation is.

2011-14 A Performance Audit of the Utah Division of Wildlife Resources (DWR)

DWR can improve inefficiencies in its Aquatics Section. These inefficiencies stemmed largely from an inadequate system for tracking hatchery cost data that has led to wasteful levels of egg and fish production. In addition to improving the tracking of hatchery cost data, we identified other opportunities for the state hatchery system to reduce costs. Within the Wildlife Section, our limited review of conservation permits concluded that public hunting opportunities were not significantly impacted by the practice of allocating permits to conservation groups. Still, we recommend DWR review whether the program is fully equitable to public hunters.

2011-13 A Review of Allegations Regarding the Management of the DABC

We believe the DABC has been incompetently managed. For years, the DABC has been rigging bids, falsifying reports and artificially splitting invoices. The DABC has also done substantial business with Flexpak, a company owned by the former director's son, without competitive bidding or proper contracting procedures. DABC management also failed to provide oversight of the department's financial affairs. Because of this demonstrated pattern of poor management, the Legislature may want to consider revising the current oversight structure of the department.

2011-12 A Performance Audit of Mandatory Student Fees at the University of Utah

The University of Utah needs increased transparency and accountability for its mandatory student fee

process. Policies are needed defining the approval process including the level of student involvement. Documentation requirements should include justification of the fee amount and appropriate use of revenues. Monitoring should be required to ensure fee revenues are used for the intended purpose. The Legislature and Board of Regents should also provide more guidance.

Audit 2011-11 A Performance Audit of the Operating Efficiency of the Utah State Court System

While the courts' electronic records project is progressing, an enhanced focus on timeliness and objectives, addressing judges' technical concerns, and mandating electronic filing is needed. Further, the courts should implement case processing time standards to promote better case management. The courts have worked to improve custody evaluations, but oversight of evaluators can be improved. Finally, statewide traffic citation trends have remained level despite the recession. However, the quality of traffic schools is unregulated and at least one municipality has used invitations to traffic school in lieu of issuing tickets which circumvents the revenue sharing process.

Audit 2011-10 A Performance Audit of IT Security at Universities and Quasi-Government Agencies

Higher education proactively monitors IT security and their assessments seem comprehensive. Some quasi-government agencies, however, were lacking key IT security features such as policies, IT continuity plans, and IT security awareness training. These agencies should adopt basic IT security features.

Audit 2011-09 A Performance Audit of Higher Education Institutions' Residency Determination

While most surveyed institutions adequately documented student residency, two institutions, Dixie State College and the College of Eastern Utah (CEU), displayed weak documentation of initial residency

determination. CEU also showed inadequate documentation in granting residency for students challenging an initial nonresident classification.

Audit 2011-08 A Performance Audit of Higher Education Operating and Maintenance Funding

This audit reviewed legislatively-appropriated operation and maintenance (O&M) funding of facilities within Utah's system of higher education. The transparency and accountability of O&M funding is weak. There is not a comprehensive record of how much funding is provided for O&M, nor a sufficient record of which buildings have been funded. Also, we identified some instances where institutions may be adding buildings to campuses without an identified O&M funding source. This practice can dilute resources available for facilities with legislatively approved funding. Lastly, we identify other potential sources of O&M funding available to the institutions that should be reviewed and considered, including reimbursed overhead funds and revenue-generating activities.

Audit 2011-07 A Survey of School District's Health Insurance

Health care costs and benefits vary for each school district. Of the ten school districts surveyed, the average annual family premium was \$14,097; the highest premium was \$16,716 and the lowest premium was \$10,078. One factor affecting high premiums is the variation in the districts' procurement practices. Four of the ten school districts have not bid their health insurance in more than five years. Some school districts offer significantly more medical benefits which further affect premiums.

Audit 2011-05 A Review of Public Education Cosmetology Programs

There is little evidence that private beauty schools have suffered undue competition from cosmetology programs offered by public schools. The school district programs are too small to have a significant impact on the overall industry. However, we did find significant differences in the sources of revenue and in the

operating costs of public and private beauty schools. Public schools are largely supported by tax dollars, while private schools primarily rely on tuition and income from salon sales. The school district cosmetology programs also have higher operating costs than private schools.

■ Completed Audits with Follow-Up

Audit 2011-06 Actuarial Study of PEHP's Contingency Reserves

PEHP has not actuarially determined reserves for the state's medical risk pool. In response to a legislative request, our office asked the actuary firm of Milliman, Inc. to conduct a study of PEHP's contingency reserves. Based on the Milliman report, we recommend that at least a 50-day contingency reserve of annual premiums be maintained for the state's medical risk pool. Depending on the Legislature's preference, as much as \$26 million in reserves (based on fiscal year 2010 data) could be refunded to state employers and employees.

Results of Follow-Up: Two recommendations were made to the Legislature which are yet to be implemented. Both are discussed in the Legislative Action Items section of this report.

Audit 2011-04 A Review of DABC Actions Regarding a \$300,000 Loss from a Package Agency

The Department of Alcoholic Beverage Control (DABC) exercised poor management of the now closed Eden Package Agency which resulted in a \$300,000 state loss. DABC management failed to report the issues surrounding this package agency to their commission and the potential criminal activity to the Utah Attorney General. DABC's actions contributed to increased losses to the state. For example, DABC failed to ensure payments from the Eden Package Agency were made in a timely fashion and continued to ship liquor despite the store's growing debt.

Results of Follow-Up: Four recommendations were made and all were implemented.

**Audit 2011-03 A Performance Audit of the
Division of Parks and Recreation**

Utah's state park system could become more self-sufficient and less reliant on the state's general fund. First, the Utah Division of Parks and Recreation (division) needs to develop a more business focused operation to improve park system efficiency. Second, budget reductions and improved park efficiency can be achieved through staffing modifications. Staffing expenses represent 60 percent of the division's total costs and the division needs to evaluate the necessity of some positions if it is to become less reliant on the general fund. Third, some parks should reduce services by aligning operations more closely to public demand; other parks, however, may need to close. Finally, the Legislature could consider privatization of some Utah state parks. If the Legislature decides to pursue privatization, a pilot program should be implemented first to gauge success.

Results of Follow-Up: Thirteen recommendations were made; four have been implemented, eight are in process, and one is partially implemented.

**Audit 2011-02 A Performance Audit of the
Division of Child and Family Services (DCFS)**

By modifying practices and controls, DCFS can reduce its costs. First, providing effective in-home services can allow more children to remain with their families rather than entering foster care; this can lower costs and improve long-term outcomes for children. Second, DCFS should proactively monitor foster care placements and implement cost-saving changes. For example, DCFS regions are placing children with private companies that are \$30 per day more expensive than highly trained foster care parents. Third, DCFS can be more efficient when screening child abuse calls and following-up on abuse allegations. Significant savings appear possible if DCFS restructures its intake and CPS processes. Fourth, caseworkers need to be more efficient through increased use of courtesy caseworkers and technology. Finally, monthly subsidy

standards and funding practices need to be addressed to ensure consistent awards to adoptive families.

Results of Follow-Up: Nineteen recommendations were made; four have been implemented and fifteen are in process.

**2011-01 A Performance Audit of PEHP's Business
Practices**

Public Employees Health Program's (PEHP) business practices can improve. First, PEHP is not as competitive as in the past. PEHP has higher medical, hospital, and pharmacy claims costs than other local insurance carriers. Further, since our 2003 PEHP audit, the state's claim costs have increased 114 percent. Second, PEHP has permitted a poor purchasing process to continue which inhibits a competitive procurement environment. Third, PEHP's business practices have caused financial problems in individual risk pools. Seven medical risk pools have combined reserve deficits of \$8.4 million while three risk pools have \$34.9 million of excess reserves. Fourth, the pharmacy program requires adjustments to ensure that members' needs are being met fairly and objectively. Finally, the appeals process needs additional controls to strengthen objectivity and independence.

Results of Follow-up: Twenty-four recommendations were made; nine were implemented, one partially implemented, nine are in process, three will be addressed in a future follow-up, and two recommendations await legislative action discussed further in the Legislative Action Items section.

**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.

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

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.

Results of Follow-Up: Nine recommendations were made; six have been implemented and three are in process.

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

We identified five Utah counties and municipalities that use Transfer of Development Rights (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.

Results of Follow-Up: Four recommendations were made; three are implemented and one is in process.

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

Recommendations in Audit 2009-12 (A Performance Audit of Fraud, Waste, and Abuse Controls in Utah's Medicaid Program) 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 (A Performance Audit of Utah Medicaid Managed Care) are in process and some cost savings have been achieved.

Results of Follow-Up: Two recommendations were made; both have been implemented.

Audit 2010-13 A Performance Audit of Charter School Oversight

The State Charter School Board did not establish 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 Loan funds need to be further defined. Loan requests should be prioritized by the Charter School Revolving Subaccount committee as allowed by statute.

Results of Follow-Up: Sixteen recommendations were made; thirteen have been implemented, two partially implemented and one is in process.

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

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.

Results of Follow-Up: Four recommendations were made; three have been implemented and one is partially implemented.

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.

Results of Follow-Up: Fourteen recommendations were made; eight have been implemented, four are in process, and two have not been implemented. The DABC has yet to address the appropriateness of package agency compensation and develop a plan to adjust compensation if needed. Also, the Legislature has not considered delegating approval of special event beer permits and single event permits to the department's executive director.

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.

Results of Follow-Up: Eight recommendations were made; six have been implemented and two have not been implemented. The two recommendations not implemented were made to the Attorney General's Office requesting a legal opinion to the Legislature on constitutional provisions of an eight-hour work day. But, to prepare that opinion, the AG's office said it would need a formal request from the Legislative Management Committee.

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.

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

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.

Results of Follow-Up: Five recommendations were made; three have been implemented; one is in process;

and one has not been implemented. The Legislature has not considered changing the state's career service system, or maintaining the current system with an increased emphasis on performance management.

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.

Results of Follow-Up: Five recommendations were made; three to the Legislature and two to the RAP enactors. All five recommendations were implemented.

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.

Results of Follow-Up: Nine recommendations were made; seven have been implemented, one is in process, and one has not yet been implemented for these reasons: first, a new federal bonding requirement of third-party testers is being challenged at the federal level and Utah is waiting for procedural clarification; and second, the DLD is concerned with the logistics and legality of charging an annual fee to third-party testers.

ILR 2010-D UDOT's Controls Over Right-of-Way Property Management

This audit examined the accuracy and depth of a Utah Department of Transportation (UDOT) Right-of-Way (ROW) Property Management Section employee disciplinary case. We determined that proper action was taken.

Results of Follow-Up: Two recommendations were made; both are in process and are reported to be completed within the next 30 days.

ILR 2010-C Review of HOV Lanes

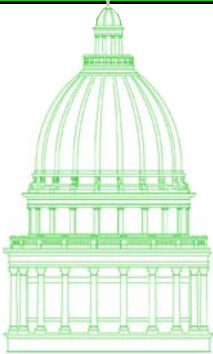
This audit found that UDOT needed to address the effectiveness of the HOV lane after the department implemented a new electronic tolling system. A bill passed during the 2010 Legislative General Session addressed many of the questions in the audit request.

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

ILR 2010-B Effects of DABC Budget Cuts on State Revenue

The overall effect of DABC operating budget cuts on state revenue is unknown. The reported revenue loss from 2010 budget cuts was based on unsupported management assumptions. Also, DABC management did not adequately consider alternatives to addressing budget reductions.

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



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 found that over the past decade, the number of children in foster care has increased by 38 percent while the number served in their home has decreased by 40 percent. Statute states that “it is in the best interest and welfare of a child to be raised under the care and supervision of the child’s natural parents.” Based on our recommendations, the Division of Child and Family Services’ (DCFS) is in process of implementing a multi-year initiative focused on enhancing the in-home services available to families as well as developing a risk assessment tool to help ensure children are safely receiving in-home services.
- An inadequate system for tracking fish hatchery cost data has led to wasteful levels of egg and fish production in the Aquatics Section of the Division of Wildlife Resources (DWR). Based on our recommendation, DWR will improve the tracking of hatchery cost data, better plan the number of fish grown, and increase oversight of the Aquatics Section by developing an enhanced long-range planning process. Also based on our recommendations, DWR has committed to reduce costs in fish hatcheries by limiting the number of excess fish eggs given to other states, and reducing the amount of unused eggs that are destroyed.

- Based on our recommendation, the State Board of Education has adopted administrative rules that clarify expectations for charter schools and the steps that will be followed to assist schools during disciplinary proceeding. The State Charter School Board has also developed training and best practices to help schools improve their financial status. These changes improve the state’s financial oversight of charter schools and ensure a more consistent disciplinary process.
- We found the Division of Parks had an insufficient system to monitor revenues and expenditures of each state park. Based on our recommendation, the division has begun to more accurately monitor the financial performance of individual parks. These improvements should allow the state parks to operate in a more business-like fashion and reduce the agency’s dependency on general funds.

■ 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:

- The 2011 audit of PEHP found that the state’s medical reserves consisted of \$61 million. The Legislature then asked us to oversee an actuarial study of the state’s contingency reserves. The actuarial study showed that PEHP should maintain at least a 50-day reserve. Using the 50-day benchmark, \$26 million of the state’s reserves could

be refunded to employers and employees. The in-depth follow-up audit of PEHP completed in January 2012 showed that the state's medical reserves have increased to \$85 million. As a result, the possible refund amount has now increased to about \$46 million.

- Over the past few years OLAG has conducted three performance audits and two in-depth follow-up reviews of the Utah Medicaid program. It is estimated in the latest in-depth follow-up that with adherence to the past audits, \$39.5 million to \$45.5 million in annual program cost savings is possible. Additionally, a Medicaid cost recovery contractor, that was established in conjunction with our past audit work, has identified another \$23 million for potential recovery. Thus, savings to the Utah Medicaid program could reach a half-billion dollars or more over a ten year period.
- In the audit of the Division of Child and Family Services, we found that the Department of Human Services has historically submitted building block requests that generate about \$750,000 in additional adoption subsidy appropriations than the prior year. Prior building block requests were based on all existing adoption subsidies. Recent adoption subsidy practices have reduced the value and frequency of monthly adoption subsidies awarded. Based on our recommendation that more recent average cost data be used, no building block request for fiscal year 2013 will be submitted for monthly adoption subsidies.

■ Promoting Accountability

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

- In response to concerns raised in our audit of mandatory student fees at the University of Utah, the Utah Board of Regents adopted policies requiring institutions to follow a structured process for establishing and monitoring student fees. Institutions are now required to include students in the process with a student fee advisory board. Policies address the process for the creation, review, and maintenance of fees including documentation justifying the fee amount and minimizing fund balances.
- We reported the need for increased transparency and accountability over operation and maintenance (O&M) funding within the Utah System of Higher Education. Currently, building records are vague, in that they do not indicate which buildings are eligible for state O&M funds. Recommendations are aimed at strengthening accountability of O&M funds and improving the process whereby the funds are appropriated.
- We concluded that the Utah Department of Alcoholic Beverage Control (DABC) has been incompetently managed based in part on years of bid rigging, falsifying financial documentation, and artificially splitting invoices in violation of state statute. Based on these findings, DABC has since revised their practices to ensure compliance. Also as a result of our recommendations, the state's Division of Purchasing and General Services is working with all state agencies to ensure that state procurement rules are understood and followed.

Who Audits the Auditors? — Results of 2011 Independent Peer Review —

A question sometimes posed to the Office of the Legislative Auditor General is: “Who audits the auditors?” In October 2011, our office participated in a peer review, wherein three directors of audit organizations from other states assessed our office’s processes and quality.

We are pleased to share with the Legislature and the citizens of Utah the results of this independence review of our office, as issued in a January 12, 2012 letter from the National Conference of State Legislatures entitled *Utah Peer Review Compliance Letter*.

Dear Mr. Schaff:

At your request, and under the terms of a 2011 contract executed with the National Conference of State Legislatures, we assessed the quality review process and overall quality of reports on a sample of projects completed by your office during the compliance period from 2010 to 2011.

The Utah Office of the Legislative Auditor General (ULAG) conducts its performance audits in compliance with accepted best practices and standards followed by government program evaluators and performance auditors. The Utah Office of the Legislative Auditor General does not profess adherence to the *Generally Accepted Government Auditing Standards* (i.e., the Yellow Book) published by the Comptroller General of the United States. This peer review compared the office’s policies and performance to the knowledge base of peers from similar offices and to the core principles of credibility, independence, objectivity, and reliability included in the Yellow Book. In our opinion, ULAG’s quality assurance system is well-designed and provides reasonable assurance that its products meet the core characteristics, as outlined by the peer review team, of a quality performance audit organization for the period reviewed. This report includes the peer review teams’ observations about ULAG’s quality assurance system and products.

We base our assessment on observations made during an on-site review conducted October 3-7, 2011. It included a review of the ULAG’s audit-related policies and procedures, employee handbook, four performance audits and selected personnel records, as well as interviews with key legislators and several of the office’s professional staff. We note that the conduct of our review was not impaired in any way. We were granted full access to relevant reports, working papers, supporting documentation and staff.

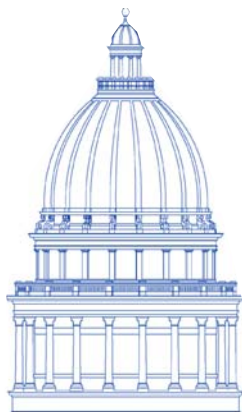
We appreciate the courtesy and cooperation extended to us in conducting this review. We commend you for contracting for this peer review in order to confirm the independence and quality of your audits.

Sincerely,

John Turcotte, Director — Program Evaluation Division, North Carolina General Assembly
Patrick Goldsmith, Director — Performance Audit Division, Legislative Auditor’s Office, Louisiana Legislature
Leslie McGuire, Director — Performance Audit Operations Division, Dept. of Audits and Accounts, Georgia

Released Audits and Informal Reports, 2008-2010

2010			
2010-17	Conflict of Interest Allegations at the UTA Board	2009-11	Follow-up of Higher Education Personnel Budget
2010-16	Utah Medicaid Provider Cost Controls	2009-10	Office of Services Review (OSR)
2010-15	County and Municipal TDR Use in Utah	2009-09	Insurance Fraud Division
2010-14	Follow-up of Utah Medicaid's Implementation of Audit Recommendations	2009-08	Public Education Employees' Criminal Background Checks
2010-13	Charter School Oversight	2009-07	Retirement Systems' Administrative Costs
2010-12	School District Travel Accountability	2009-06	Sale of the CEU President's Home
2010-11	Department of Alcoholic Beverage Control (DABC)	2009-05	Cities' Compliance with Impact Fee Statute
2010-10	Working 4 Utah Initiative	2009-04	Elementary School Class Size
2010-09	State-Funded Business Programs and Initiatives	2009-03	Drug Offender Reform Act (DORA)
2010-08	State's Career Service System	2009-02	School Children's Trust Section
2010-07	Use and Accountability of RAP Tax Funds Statewide	2009-01	Public Lands Policy Coordinating Office
2010-06	Driver License Division	ILR2009-C	Emergency Care in Utah
2010-05	Workload in Second District Court and Fifth District Juvenile Court	ILR2009-B	Association Leave in Utah's School District
2010-04	State Agency Regulatory Fees	ILR2009-A	Allegations Made Concerning DSPD
2010-03	Counties' Municipal Services		
2010-02	Utah Antidiscrimination and Labor Division		2008
2010-01	Utah Medicaid Managed Care	2008-14	School Building Construction
ILR2010-F	Fund Balances Maintained in School Districts	2008-13	Use of Mineral-Related Funds in Uintah Basin
ILR2010-E	Revenues and Costs of the DABC	2008-11	School Busing
ILR2010-D	UDOT's Controls Over Right-of-Way Property Mgt.	2008-10	Follow-Up of the Office of the Guardian ad Litem
ILR2010-C	Review of HOV Lanes	2008-09	Adult Education Services
ILR2010-B	Effects of DABC Budget Cuts on State Revenue	2008-08	Utah's Jail Contracting Program
ILR2010-A	Jordan School District's FY 2009 Purchases	2008-07	Division of Securities
		2008-06	Davis Behavioral Health
		2008-05	Utah Department of Corrections Follow-Up
		2008-04	Utah State Hospital
		2008-03	Utah Transit Authority (UTA)
		2008-02	Carson Smith Scholarship
		2008-01	Committee of Consumer Services
		ILR2008-D	Medical Assistance Eligibility Determination Costs
		ILR2008-C	Utah Severance Tax Volume/Value Database
		ILR2008-B	Follow-Up of Sample Matching Driver Privilege (DP) Cards to Vehicle Insurance
		ILR2008-A	Educator Classifications
2009			
2009-19	DWS Eligibility Services		
2009-18	Eligibility for Public Safety Retirement		
2009-17	Cost of Benefits for Reemployed Retirees and Part-Time Employees		
2009-16	911 System in Salt Lake County		
2009-15	Career and Technical Education Costs		
2009-14	Conversion of Justice Courts to CORIS		
2009-13	Department of Technology Services		
2009-12	Medicaid Fraud, Waste & Abuse Controls		



Office of the Legislative Auditor General
W315 House Building
State Capitol Complex
Salt Lake City, UT 84114-0151
(801) 538-1033
www.le.utah.gov/audit/olag.htm