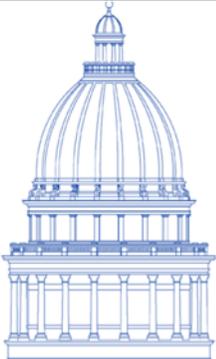




# **Forty-Third Annual Report to the Utah State Legislature**

**Sixty-Second Legislature  
2018 Session**



The Utah State Legislature created the Office of the Legislative Auditor General (OLAG) in 1975. OLAG has constitutional 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. Legislation which passed in 2016 added the House and Senate Majority Leaders as new members of the committee, making it a six-member committee.

■ 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 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 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 requested audit. While a letter of request can originate from 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 significant 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(11), 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 Can I Obtain Audit Reports?

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

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

**President Wayne L. Niederhauser, Co-Chair**  
President of the Senate  
R–Salt Lake County

**Speaker Gregory H. Hughes, Co-Chair**  
Speaker of the House  
R–Salt Lake County

**Senator Ralph Okerlund**  
Senate Majority Leader  
R–Beaver, Garfield, Juab, Kane, Millard, Piute,  
Sanpete, Sevier, Utah, Wayne Counties

**Representative Brad R. Wilson**  
House Majority Leader  
R–Davis County

**Senator Gene Davis**  
Senate Minority Leader  
D–Salt Lake County

**Representative Brian S. King**  
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?

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**Deputy Auditor General** Darin R. Underwood, CIA

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Wayne Kidd, CIA  
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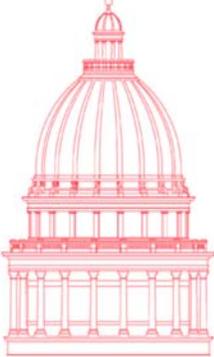
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Lane Farr  
Sarah Flanigan  
Hillary Galvin  
Zack King, CFE  
Nicole Luscher  
Matthew Taylor  
Ryan Thelin

**Administrative Assistant** Lynda Maynard

**Audit Technician** Lauri Felt



Based on issues addressed and recommendations made in our 2017 audits, we believe the Legislature should consider the following items during the 2018 General Session. Whether the Legislature chooses to act on the following items depends on legislative policy decisions that are outside the audit arena.

■ **2017-17: An In Depth Follow-up of Projections of Utah’s Water Needs**

See page 7 for audit summary.

*Action Needed:* The Legislature should consider ways to promote universal metering, including: requiring all secondary water systems to install meters during new construction when the cost is relatively low, and setting a date when all secondary water systems with a certain number of connections, must be metered. The Legislature should also consider the use of mandatory water audits and other methods to help water systems reduce their unaccounted use.

■ **2017-16: An In Depth Follow-up of Division of Drinking Water Source Sizing**

See page 7 for audit summary.

*Action Needed:* The Legislature should consider adopting legislation requiring that the peak day source demand, total annual demand, and unaccounted for demand be added to the annual water use reports submitted by public water systems to the Division of Water Rights.

■ **2017-14: A Performance Audit of State Energy Incentives**

See page 7 for audit summary.

*Action Needed:* The Legislature should work with the Utah State Tax Commission to consider requiring all agencies that certify energy-incentivizing tax credits to

submit certification records, complete with identifying taxpayer information, to the Tax Commission. The Legislature should consider examining any overlapping credits to determine whether the incentivized energy activity should be eligible for multiple tax incentives. Finally, if the Legislature desires more qualitative metrics, specific to energy incentives, it could consider encouraging agencies to develop metrics to help determine the effectiveness of their energy incentive programs.

■ **2017-13: A Performance Audit of the Division of Family Health and Preparedness**

See page 7 for audit summary.

*Action Needed:* The Legislature should consider statutory changes to require background checks for Baby Watch Early Intervention providers.

■ **2017-12: A Performance Audit of the History of Selected Public Education Programs**

See page 8 for audit summary.

*Action Needed:* The Legislature should review the intent of the Critical Languages Program and determine whether to terminate the program or keep it in statute.

■ **2017-08: A Performance Audit of the Utah Olympic Legacy Foundation (UOLF)**

See page 8 for audit summary.

**Action Needed:** The Legislature should consider several funding options to improve Olympic assets and prepare for a possible future Olympic Winter Games. Possible options include:

- Appropriating a larger yearly capital improvement stipend
- Including UOLF capital improvement projects in the state capital improvement fund
- Providing one-time funding year by year

■ **2017-07: A Performance Audit of Public Entities' Oversight of the Qualified Health Insurance (QHI) Statutes**

See page 9 for audit summary.

**Action Needed:** The Legislature should consider amending DFCM's QHI statute to: (1) clarify that on CMGC projects the fixed limit of construction costs is the basis for subjecting projects to the QHI requirement, and (2) limit the exemptions for change orders to a percentage of total contract amounts.

■ **2017-06: A Performance Audit of Statewide Investigative Functions**

See page 9 for audit summary.

**Action Needed:** The Legislature should consider examining statutory language that describes and defines law enforcement officers' full-spectrum peace officer authority to determine if it matches legislative intent, and if it should be clarified.

■ **2017-05: A Review of the Best Practices for Internal Control of Utah's Limited Purpose Entities**

See page 9 for audit summary.

**Action Needed:** The Legislature could consider passage of Senate Bill 28 — Local Government and Limited Purpose Entity Registry, and Senate Bill 29 — County Listing of Local Government and Limited Purpose Entities. These bills contain best practices for state

oversight of limited purpose entities, which were listed as audit recommendations. The bills address:

- Creating a state registry of limited purpose entities
- Withholding funds from local entities that do not comply with all state disclosure laws
- Requiring counties to promote greater public awareness of limited purpose entities in their areas

■ **2017-02: A Performance Audit of Utah Antidiscrimination and Labor Division's Employment Discrimination Unit**

See page 10 for audit summary.

**Action Needed:** The Legislature could consider passage of House Bill 30 — Utah Antidiscrimination Act Amendments, which contains many of the audit recommendations.

■ **2017-01: A Performance Audit of Utah's Monetary Bail System**

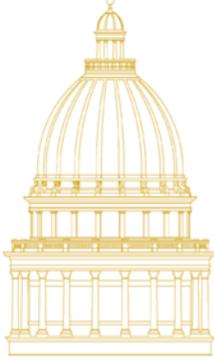
See page 10 for audit summary.

**Action Needed:** In a September 2017 letter, legislative leadership respectfully requested the Courts delay proposals for implementing a statewide risk assessment tool for pre-trial defendants (under Rule 7 of the Utah Rules of Criminal Procedure). The risk assessment was recommended in Chapter III of our report. Therefore, we encourage urgency with the further study, which was also mentioned in the letter, that "the entire Legislature reviews these proposals and programs, and determines whether to modify existing policies."

The Legislature should also consider changes to the surety bond forfeiture process found in Chapter IV:

- Reducing the statutory timeframes for processing forfeitures
- Requiring all forfeiture notifications to be processed via certified electronic mail
- Working with the Courts to design a forfeiture process that improves court appearances and reduces automatic bond exonerations





In 2017, the Office of the Legislative Auditor General (OLAG) completed 19 audits (16 in-depth audits and 3 special projects). OLAG's 2017 audits are listed in the table below, and the audit follow-ups for 2016 and 2017 are listed on the next page. The remainder of the section summarizes each audit and its follow-up results. Full reports can be found on the legislative website located at: [www.le.utah.gov/audit/olag.htm](http://www.le.utah.gov/audit/olag.htm).

**2017 Completed Audits**

Audit Name	Audit Number	Agency Recommendations	Legislative Recommendations	Release Date
In Depth Follow-up of Projections of Utah's Water Needs	2017-17	10	3	December
In Depth Follow-up of Division of Drinking Water Source Sizing	2017-16	2	1	December
Statewide Energy Incentives	2017-14	1	3	November
Performance History Audit of Selected Public Ed. Programs	2017-12	6	1	November
Sources of Funding and Expenditures for Homeless Initiatives	2017-11	2	1	October
Beaver Valley Hospital's Medicaid Upper Payment Limit Program	2017-10	11	0	October
Procurement Process for the U of U's Heritage 1K Project	2017-09	3	0	October
The Utah Olympic Legacy Foundation (UOLF)	2017-08	4	1	October
Public Entities' Oversight of the Qualified Health Ins. Statutes	2017-07	5	1	August
Statewide Investigative Functions	2017-06	6	1	August
Best Practices for Internal Cntrl of Utah's Limited Purpose Entities	2017-05	2	4	June
Sex Offender Treatment Program*	2017-04	17	0	April
USBE's "Aspire" Student Information System*	2017-03	1	0	April
Utah Antidiscrimination and Labor Division's Employment Discrimination Unit*	2017-02	20	2	January
Utah's Monetary Bail System*	2017-01	6	3	January

**2017 Completed Budget and Appropriation Audits**

**Utah Code** 36-12-15.1 provides for special audits that focus on the extent to which the entity has efficiently and effectively used its appropriation; whether the entity's size and operation are commensurate with its spending history, and whether the entity is diligent in its stewardship of state resources. In 2017, the Audit Subcommittee prioritized these budget and appropriation audits:

Dept. of Health's Family Health and Preparedness Division	2017-13	20	1	November
An In depth Budget Review of the Department of Health				<i>Anticipated release in early 2018</i>

**2017 Completed Special Projects**

A Limited Review of the STEM Action Center*	2017-C	6	0	June
A Limited Review of Public Education Federal Grants*	2017-A	0	1	June
Survey of P-Card Controls in Higher Education*	2017-B	5	0	April

\*Follow-ups were completed on these audits, so the summaries appear in the "Completed Audits With Follow-Up" section beginning on Page 9.

For this annual report, we completed follow-up inquiries on 15 audits (7 audits from 2017 and 8 audits from 2016 shown below). We also anticipate conducting an in-depth follow-up on 1 additional audit from 2016. The 15 audits with follow-ups contained 131 recommendations to audited agencies, all of which are at some level of implementation. There were also 15 legislative recommendations, of which 3 have yet to be implemented. (See the companion section: “Legislative Action Items” on page 3.)

<b>Audit Follow-Ups</b>					
Audit Name	Number	Recommendations		Follow-Up Status	
		Agency	Legislature	Agency	Legislature
A Performance Audit of the Sex Offender Treatment Program	2017-04	17	0	12 Implemented; 5 In Process	—
A Performance Audit of USBE’s “Aspire” Student Information System	2017-03	1	0	1 Implemented	—
A Performance Audit of the Utah Antidiscrimination & Labor Division’s Employee Discrimination Unit	2017-02	20	2	16 Implemented; 4 In Process	2 In Process
A Performance Audit of Utah’s Monetary Bail System	2017-01	6	3	6 In Process	3 Not Yet Implemented*
A Limited Review of the STEM Action Center	ILR2017-C	6	0	5 Implemented; 1 In Process	—
Survey of P-Card Controls in Higher Education	ILR2017-B	5	0	5 Implemented/In Process from 5 Higher Ed Institutions	—
A Limited Review of Public Education Federal Grants	ILR2017-A	0	1	—	1 Implemented
A Performance Audit of the University of Utah Athletics Department	2016-10	18	0	To be assigned as an In Depth Follow-up in 2018	
A Performance Audit of the DHRM’s Field Service Operations	2016-09	6	1	2 Implemented; 1 In Process; 3 Partially Implemented	1 Implemented
A Review of the Distribution and Use of the Local 911 Surcharge	2016-08	7	2	4 Implemented; 3 In Process	2 Implemented
A Performance Audit of the Economic Development Corporation of Utah	2016-07	6	0	6 Implemented	—
A Performance Audit of the DFI’s Regulation of the Payday Loan Industry	2016-04	6	5	5 Implemented; 1 In Process	5 Implemented
A Performance Audit of USOR’s Case Management Controls	2016-03	8	0	7 Implemented; 1 Partially Implemented	—
A Survey of Allegations Involving Utah State University’s Anthropology Program	ILR2016-G	4	0	4 Implemented	—
UCA Improving Controls after Fraud Discovered	ILR2016-F	2	0	2 Implemented	—
A Limited Review of the Division of Risk Management	ILR2016-E	4	1	2 Implemented; 2 In Process	1 Implemented
<b>131 Total Recommendations:</b>		<b>116</b>	<b>15</b>		

*\*Recommendations to the Legislature which are not yet implemented are addressed in the “Legislative Action” section on page 3.*

## ■ Completed Audits

### **Audit 2017-17: An In Depth Follow-up of Projections of Utah's Water Needs**

Our in-depth follow-up concludes the latest water use data is much improved. However, the Division of Water Resources (DWRe) and the Division of Water Rights (DWRi) need more time to finish implementing all recommendations in our May 2015 audit. For example, DWRe can do more trend analysis and validation of water use data. Progress has also been made towards implementing our recommendations regarding water conservation. However, even though the Legislature and the Governor have expressed support for universal metering, only a few cities with secondary systems have installed meters. In addition, many, but not all water systems, have complied with the new law requiring a tiered pricing structure. We recommend the Legislature consider leak detection as another strategy for reduce water consumption. Finally, DWRe is still working on updating its basin plans and developing better estimates of the future water supply.

### **Audit 2017-16: An In Depth Follow-up of the Division of Drinking Water's Minimum Source Sizing Requirement**

The Division of Drinking Water (DDW) has made progress towards implementing the recommendations of our December 2014 audit report. Our prior report concluded that the division's source sizing standards appear too high and that its outdoor standards appear to low. Recent data gathered from four large water districts confirms the earlier findings that the standards do not align well with current water use. What is unclear, is the effect that unaccounted for water has on such comparisons. Even so, the division has concluded that its current approach to regulation is not optimal. Rather than developing a new set of source sizing standards that apply statewide, the division has proposed that each public water system identify the source capacity that best meets its own local demand for water. This approach would require each water system to collect the data they need to identify the appropriate source sizing and storage capacity of its own water system. To accomplish this, each water system would

need to monitor its peak day demand, total annual demand, and unaccounted for water use.

### **Audit 2017-14: A Performance Audit of State Energy Incentives**

We were asked to review state subsidies, credits, and other incentives for energy-related activities. We found that state funds and state-regulated funds provided energy incentives from many different programs and are not centrally tracked. These energy incentives constituted \$566 million in the last five years. Specifically, energy incentives through state tax credits are substantial, exceeding \$74 million, while energy-incentivizing state tax exemptions and deductions are not quantified. In addition, state grant and loan programs provided over \$49 million in energy incentives, with most coming from programs that are not specifically focused on incentivizing energy activities. Other state programs (including the administrative costs of state energy incentives) and state-regulated utility programs spent over \$442 million on energy incentive programs. Monitoring the effectiveness of state energy incentives needs more guidance.

### **Audit 2017-13: A Performance Audit of the Division of Family Health and Preparedness**

This report found that Child Care Licensing needs clear policies regarding sanctions and appeals. Second, Health Facility Licensing needs shorter timeframes between reviews of facilities, as well as improved processes to reduce risk to facility residents. Third, the Baby Watch Early Intervention Program can improve both monitoring and data utilization, and consider funding sources such as private insurance. Finally, the division can improve performance management. The division agrees with the audit findings and is working toward full implementation of all recommendations.

### **Audit 2017-12: A Performance Audit of the History of Selected Public Education Programs**

We conducted a performance history review of five education programs (K-3 Reading Improvement, Critical Languages, Dual Immersion, Student

Leadership Skills, and Digital Teaching and Learning) and the school grading accountability system. Based on this review, USBE's strategic plan can be enhanced with the addition of guiding oversight and accountability principles at the state level. We believe that these guiding principles will help USBE to effectively implement and operate education programs, and help improve the policy-making process.

**Audit 2017-11: A Limited Review of Sources of Funding and Expenditures for Homeless Initiatives**

This audit examined the various funding streams for homeless services, where they originated and how they are used. We found that the federal government is the largest funder of homeless services in Utah, followed by the state. Salt Lake County and Salt Lake City are also heavily involved in funding homeless services.

Additionally, both the county and the city are heavily involved in funding associated costs of homelessness such as police, fire, and the county jail. We found that county spending on homelessness could be more transparent, and recent efforts to increase coordination of homeless funding and services should continue to increase the efficiency of homeless funding.

**Audit 2017-10: A Performance Audit of the Beaver Valley Hospital's Medicaid Upper Payment Limit Program (For Nursing Facilities)**

This report found that adequate controls have not been implemented by Beaver Valley Hospital (BVH) throughout its 40 nursing facilities they operate. Money used to receive federal funds, known as seeding, requires greater oversight by the Department of Health. The department needs to ensure federal rules are being observed and to minimize the risk of a disallowance repayment of over \$20 million. This potential repayment could result in the reimbursement of the \$20 million by BVH, which they may not have the ability to repay, and could fall on the state. Federal funds, called the Upper Payment Limit (UPL), are to be used to improve member care; however, evidence of adequate oversight could not be found to ensure that these funds were used for this purpose.

**Audit 2017-09: A Review of the Procurement Process for the U of U's Heritage 1K Project**

This audit found that the U of U did not follow appropriate procurement processes when awarding a contract to a company owned by the person who donated the \$12 million for the Heritage 1K Project. Request for sole source status and approval of that request were done too late in the process to follow state code. If the University had competitively bid the project, they could have gotten the same services for half the price. This would have allowed them to sequence twice the number of genomes. Despite these concerns, valuable scientific information was gathered using the donated funds.

**Audit 2017-08: A Performance Audit of the Utah Olympic Legacy Foundation (UOLF)**

This audit reviewed the UOLF's management of Olympic assets and found that these assets are beginning to reach the end of their life expectancies and need major repairs and replacement. Over the next ten years, \$39.3 million in capital improvement costs will be needed to bring assets up to standards. However, UOLF's Legacy Fund is insufficient to cover these costs. The Legislature should consider funding options outlined in this report because updating these assets is crucial for another Olympic bid, which the Legislature supports, and for the foundation's ability to host premier sporting events. The foundation has been seeking less reliance on Legacy Fund subsidies to cover operating losses and has increased revenues faster than expenses. Even with these improvements, the foundation will continue to be dependent on Legacy Fund subsidies. Overall, UOLF has been meeting goals set by the Legislature and has been fostering an Olympic legacy.

**Audit 2017-07: A Performance Audit of Public Entities' Oversight of the Qualified Health Insurance Statutes**

This audit examined public entities that are statutorily required to oversee whether their construction contractors with large contracts offer qualified health insurance (QHI) to applicable employees. Four public

entities had applicable contracts. However, from 2009 through 2015, only one collected their contractors' compliance documentation. Overseeing subcontractor compliance remains a concern as a public entity relied on inaccurate prime contractor attestation rather than reviewing subcontractor documentation. In addition, validating that employer premium contributions meet actuarial requirements did not always occur. Lastly, two contract types used by the Division of Facilities Construction and Management were circumventing the QHI process.

#### **Audit 2017-06: A Performance Audit of Statewide Investigative Functions**

The Department of Public Safety's State Bureau of Investigation and the Office of the Attorney General's Investigations Division are authorized to investigate criminal activity throughout Utah. Our efforts to compare the efficiency and effectiveness of the offices were limited due to poor case records management. In recent years, disagreements over programs and funding have created tension between the two offices and led some to question their roles and functions. However, our review of case files found no wasteful redundancy in the areas each office is legally mandated to investigate. We also compared the offices to those in other states and found no clear reason to change current structure.

#### **Audit 2017-05: A Review of the Best Practices for Internal Control of Utah's Limited Purpose Entities**

There has been growing concern for frequent reports of fraud, waste and abuse among Utah's limited purpose governmental entities. To determine how widespread the problems might be, we surveyed 27 limited purpose entities throughout the state. We found that poor governance and weak oversight are common among these local government entities. To reduce the risk of fraud, waste and abuse, we recommend that the governing board of each limited purpose entity in Utah consider the best practices for internal control described in this report. The Legislature should also consider adopting several controls aimed at strengthening state level oversight of limited purpose entities.

### ■ Completed Audits with Follow-Up

#### **Audit 2017-04: A Performance Audit of the Sex Offender Treatment Program**

This audit examined the Sex Offender Treatment Program (SOTP) managed by the Utah Department of Corrections (UDC). We found that the SOTP has had poor management and oversight, lacks current evidence-based practices in its treatment model, and can improve program efficiencies. The SOTP treatment model should be updated to ensure the most current evidence-based practices are implemented. We further believe that SOTP can improve program efficiencies to help reduce the treatment waitlist.

*Results of Follow-up:* Fifteen recommendations were made to the UDC; ten have been implemented and five are in process. Two recommendations were made to the Board of Pardons & Parole, which have been implemented.

#### **Audit 2017-03: A Performance Audit of USBE's Aspire Student Information System**

This report found that the Aspire student information system (SIS) cost the Utah State Board of Education (USBE) about \$1.1 million, (\$7 per student) to operate in fiscal year 2016. The cost of requiring local education agencies (LEAs) to find a private SIS is estimated to be \$3.8 to \$8.1 million in the first year (\$23 to \$49 per student). LEAs that use Aspire are generally smaller school districts or charter schools. We recommended USBE consider the pros and cons of different levels of privatization before determining the future of the Aspire program.

*Results of Follow-up:* One recommendation was made to the agency, which has been implemented.

#### **Audit 2017-02: A Performance Audit of Utah Antidiscrimination and Labor Division's Employment Discrimination Unit**

This audit found that both the investigative and mediation processes are insufficient and need improvement. We are concerned by the low rate of

cause findings in employment discrimination investigations and the perceived lack of accountability. UALD also needs to address inadequate performance measures for its employees as well as high turnover. Finally, the UALD budget needs additional oversight.

**Results of Follow-up:** Twenty recommendations were made to the agency; sixteen have been implemented and four are in process. Two recommendations were made to the Legislature and both are in process.

#### **Audit 2017-01: A Performance Audit of Utah's Monetary Bail System**

This audit reviewed the effectiveness of the two types of monetary bail commonly offered in Utah's district courts: cash bail and surety bond. We found that while the use of cash bail is limited, it resulted in better court attendance than the use of surety bonds. However, we do not recommend using cash bail more frequently because our results do not account for defendant risk, which is a significant contributor to court attendance. We also found that pretrial release decisions are made without adequate information. We recommend that the Administrative Office of the Courts work towards the adoption of an evidence-based risk assessment instrument. Finally, we found opportunities for improvement with the surety bond forfeiture process. Specifically, the forfeiture process could be shortened and streamlined to better promote court appearances.

**Results of Follow-up:** Six recommendations were made to the agency; all six are in process but are on hold awaiting legislative input. Three recommendations were made to the Legislature, which are not yet implemented.

#### **ILR2017-C: A Limited Review of the STEM Action Center (AC)**

We found that while the STEM AC's performance measures have improved, it needs better coordination of measures and lacks the ability to measure long-term successes. We validated that most of the STEM AC's funding directly benefitted students in 2016. We found that some statutory requirements may inhibit the STEM AC's effectiveness. Finally, financial controls

over vendor procurements and the STEM AC's financial reporting both appear appropriate.

**Results of Follow-up:** Six recommendations were made; five have been implemented and one is in process.

#### **ILR2017-B: Survey of P-Card Controls in Higher Education**

In this audit, we examined higher education purchasing card (P-Card) administrative controls at five institutions by reviewing their policies, procedures, and practices as they relate to Administrative Rule R765-571. We found that all reviewed institutions follow Administrative Rule, and that no further audit work is warranted. This report also identifies best practices for improvements to the institutions' P-Card programs.

**Results of Follow-up:** Five recommendations were made; the five reviewed institutions have either implemented or are in the process of implementing all recommendations.

#### **ILR2017-A: A Limited Review of Public Education Federal Grants**

USBE was awarded 27 federal grants totaling \$429 million for federal fiscal year 2017. The limited review showed that individual grants for title programs, child nutrition, and special education are difficult to sever. The grants are often tied together with other grants within the same category and share the same objectives. Severing an individual grant would likely create a deficiency in meeting the needs of at-risk students. For most of the grants, the state's maintenance of effort requirements are reasonable, given the significant funding awarded to USBE.

**Results of Follow-up:** One recommendation was made to the Legislature which has been implemented.

#### **Audit 2016-10: A Performance Audit of the University of Utah Athletics Department**

We found the University of Utah Athletics Department (Athletics) needs to fully report the total costs of its operations, implement a strategic plan to strengthen

financial management and controls, and improve performance measuring of sports teams and financial rewards to coaches. We also found that Athletics has not sufficiently accounted for costly assets, or properly accounted for many missing facility keys to restricted areas. Finally, Athletics needs to adhere to university human resource policy, and correctly compensate nonexempt hourly employees for working overtime.

**Results of Follow-up:** To be assigned in early 2018 as an in depth follow-up audit.

#### **Audit 2016-09: A Performance Audit of the DHRM's Field Service Operations**

We found the Department of Human Resource Management (DHRM) needs improved workload measures to ensure fair and adequate support to state agencies. We found that DHRM is consistent with discipline, but should improve its discipline process. Finally, we reviewed DRHM's service fees and found that they are in the process of addressing concerns regarding their legal services fee.

**Results of Follow-up:** Six recommendations were made to the agency; two have been implemented, one is in process, and three have been partially implemented. One recommendation was made to the Legislature which has been implemented.

#### **Audit 2016-08: A Review of the Distribution and Use of Local 911 Surcharge**

We reviewed the local 911 taxes and found that they only receive intermittent attention from the Tax Commission. We also reviewed the Department of Public Safety's (DPS) involvement with five consolidated Public Safety Answering Points (PSAPs) and looked at the state's portion of the expenses. We made recommendations to ensure there is equitable cost sharing. Finally, we reviewed DPS's dispatching rate to local PSAPs and made recommendations including the need for DPS to create contracts with the local PSAPs.

**Results of Follow-up:** Seven recommendations were made to agencies: Four recommendations were made to DPS; one has been implemented and three are in

process. One recommendation was made to the Tax Commission which has been implemented. Two recommendations were made to all counties, cities, and towns that receive 911 funds; both have been implemented. Two recommendations were made to the Legislature and both have been implemented.

#### **Audit 2016-07: A Performance Audit of the Economic Development Corporation of Utah**

Economic Development Corporation of Utah (EDCU) is a contractor for the Governor's Office of Economic Development (GOED) that provides business recruitment services. EDCU receives the majority of its funding from state and local sources. We identified improper personal purchases, missing computer hardware, and questionable purchases that lacked receipts and documentation of legitimate business purposes. In addition, we question the appropriateness of providing meals and gifts to GOED staff. EDCU also failed to file its 2010 through 2013 tax returns, thus losing its tax-exempt status. EDCU is addressing the poor financial management that allowed problems to occur by making organizational changes.

**Results of Follow-up:** Six recommendations were made; all have been implemented.

#### **Audit 2016-04: A Performance Audit of the Department of Financial Institution's Regulation of the Payday Loan Industry**

The Department of Financial Institutions (DFI) oversees the payday lending industry. We found state limits may not effectively prevent overuse of payday loans, and that DFI can take a stronger approach to regulating the payday lending industry. Furthermore, better data can help DFI strengthen its oversight of the industry. We recommended the Legislature consider placing additional limits on payday lending, and authorizing DFI to gather more industry data.

**Results of Follow-up:** Six recommendations were made to the agency; five have been implemented, and one is in process (as the DFI waits for rules from the federal Consumer Financial Protection Bureau to take effect which will prevail over Utah law). Five

recommendations were made to the Legislature which have been implemented by virtue of consideration.

**Audit 2016-03: A Performance Audit of USOR's Case Management Controls**

This report found that the Utah State Office of Rehabilitation had weak case controls and poor adherence to its own policy. Weak controls were the result of management neglect allowing a weak case review system, and policies that were insufficient to provide control and consistency.

**Results of Follow-up:** Eight recommendations were made to the agency; seven were implemented, and one was partially implemented.

**ILR 2016-G: A Survey of Allegations Involving Utah State University's Anthropology Program**

This report found that conflicts of interest existed and persist between USU faculty and a Logan-based cultural resource management firm called the Utah State University Archaeology Services (USUAS). USU managed those conflicts poorly. Those conflicts raise concerns about universities statewide and whether their procurement processes are in-line with state statute. USU also did not adequately ensure compliance with its licensing agreement with USUAS. Finally, USU failed to adequately document the extent to which the arrangement met the anthropology program's goals.

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

**ILR 2016-F: UCA Improving Controls After Fraud Discovered**

We found that while the financial statement audit showing missing credit card receipts was conducted according to generally accepted standards, the Office of the State Auditor should have conducted a more thorough review, given its broader responsibilities. Although the Utah Communications Authority (UCA) management and Board were ultimately responsible for not detecting and preventing the fraud, they have taken quick action to resolve the control weaknesses.

**Results of Follow-up:** Two recommendations were made to the agency; both have been implemented.

**ILR 2016-E: A Limited Review of the Division of Risk Management (DRM)**

Our review of DRM's claims program shows that it appears to be well managed for the risk areas we examined. However, we found that formal inspection schedules are needed for DRM-insured properties. Policies are also needed to provide structure to recording loss prevention activities in DRM's case management system. In addition, DRM's self-inspection program policies need to include special exemptions and formal recordkeeping. Finally, a shortfall in ISF funding for FY 2017 needs to be addressed to actuarially protect the Risk Fund.

**Results of Follow-up:** Four recommendations were made to the agency; two have been implemented and two are in process. One recommendation was made to the Legislature and has been 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:

- Our audit of five education programs and three accountability systems found that programs exhibited overlap, duplication, irregular implementation, and lacked outcomes. As a result of the audit, USBE has agreed to incorporate oversight principles in their strategic plan to improve the effective implementation and administration of education programs.
- After our 2017 audit raised concerns about the Utah Antidiscrimination and Labor Division (UALD) investigators' subpoena power, and discrepancies between statute and investigative processes, the Labor Commission worked with legislative staff and the Business and Labor Interim Committee to produce a committee bill. HB30 will be presented at the 2018 General Session. The bill addresses our concerns with the UALD investigators' subpoena power and investigative procedures. In addition, UALD has also internally addressed concerns which will provide investigators and mediators with more needed guidance.

### ■ 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:

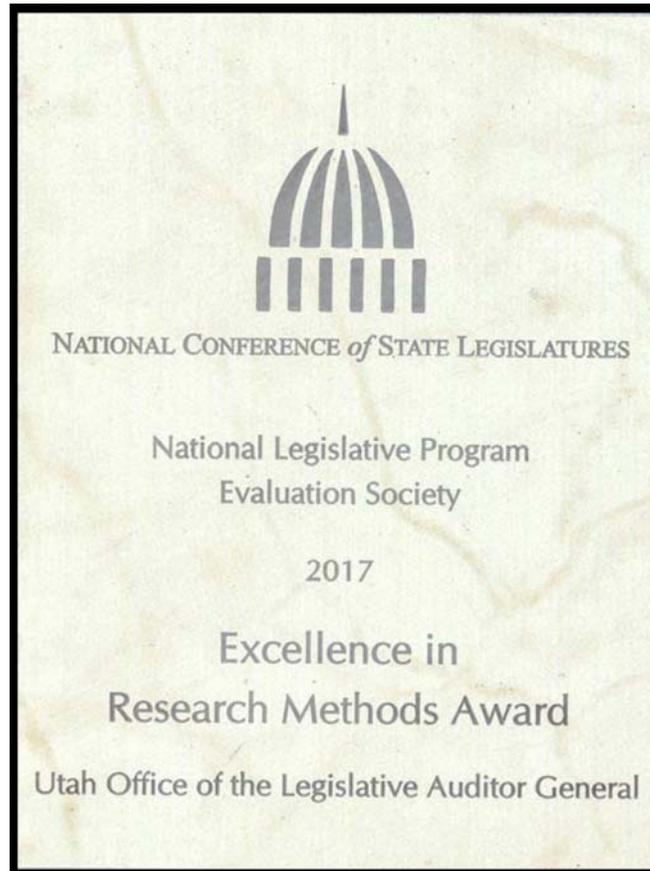
- Our recent series of water audits contain recommendations aimed at reducing water consumption. Implementation of these recommendations by local water entities has helped communities avoid or postpone the high cost of developing new water sources. Specifically, by installing meters on their secondary water systems several communities are reporting a reduction in water demand. Also, by adopting a tiered rate structure, many communities report that residents are more concerned about wasteful water use. As the cost of developing new water sources continues to increase, these conservation measures will provide even greater cost savings.

### ■ Promoting Accountability

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

- Our audit of the Economic Development Corporation of Utah (EDCU) improved the financial accountability of EDCU staff to EDCU's board and stakeholders. Better oversight and control of state and local government funds is in place after EDCU implemented the audit's recommendations. The Legislative Audit Subcommittee has prioritized an audit that will have our staff further look at nonprofits and evaluate their governance and financial oversight.

## Legislative Auditor's Office Receives National Award



The Utah Office of the Legislative Auditor General (OLAG) received the 2017 Excellence in Research Methods Award from the National Legislative Program Evaluation Society (NLPES), a professional staff organization 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 Department of Financial Institution's Regulation of the Payday Loan Industry* (Audit 2016-04).

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. OLAG also received this award in 2012 and 2010.

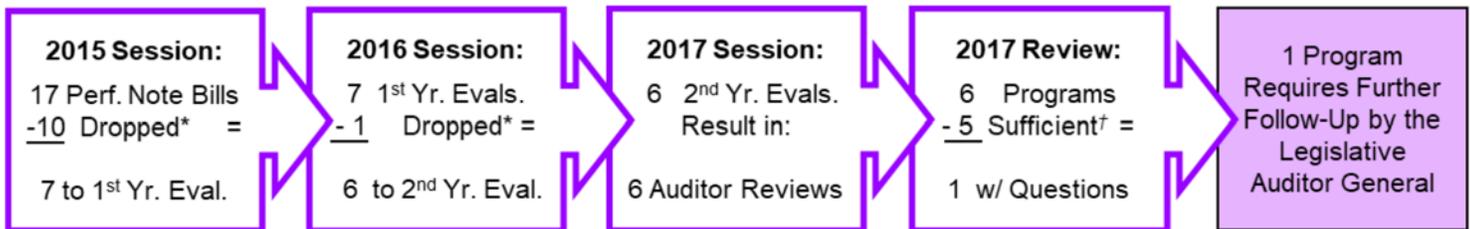


The Auditor General has statutory responsibility to review all new government programs (programs that have received a performance note required by legislative rule) and provide the new program (or agency) with information on management best practices. Since 2000, the Auditor General has published *Best Practices for Good Management* (found at [www.le.utah.gov/audit/BP\\_2009.pdf](http://www.le.utah.gov/audit/BP_2009.pdf)) as a guide for new programs.

In 2011, the Legislature implemented a legislative rule requiring some bills to include performance notes that identify program goals, objectives, outcomes, and performance measures. The Auditor General is charged with reviewing such programs according to program self-evaluations and the performance note contents. The best practices and performance note processes mesh well and are pursued in tandem.

### ■ New Programs with Performance Notes Enter Two-Year Review Process

This is the fourth report on our review of programs that completed the two-year self-evaluation and performance note follow-up process. Last year's progress report indicated that we were following 6 new 2015 programs. The flowchart below summarizes the work conducted for the 2015 new programs, ending with one programs needing additional follow-up, as will be discussed in the section following the chart:



\* *Dropped: Not a program or insufficient risk level to merit further work*

† *Sufficient: Auditor opinion is there was sufficient program documentation/progress under Best Practices & Performance Note parameters*

### ■ One 2015 Program Is Recommended for An Additional Year of Follow-Up

After reviewing the evaluations submitted by program directors, OLAG will recommend that one program be followed for an additional year.

- **House Bill 199: Pilot Program For Assistance for Children with Disabilities and Complex Medical Conditions** received \$3.3 million of on-going funds in 2015 and an additional \$1 million in the 2017 Legislative Session to increase caseload. After reviewing self evaluation surveys and a report submitted to the Health and Human Services Interim Committee, we recommend the program for an additional year of follow-up. Although the Department of Health has reported this pilot will end in 2018, we believe there a need to follow this program through its completion to ensure best management practices are implemented.

### ■ 2016 and 2017 New Programs Now in the Follow-Up and Review Process

In 2016, 23 bills requiring performance notes passed. Of those, 16 were not new programs or did not meet OLAG requirements for follow-up. Five first-year evaluations were sent out and two follow-ups have been delayed.

- **House Bill 436: Housing and Homeless Reform Initiative** was delayed do to a limited scope legislative audit that was completed in October 2017. It may be subject to be removed from further follow-up due to a pending legislative audit request of a homeless funding.
- **House Bill 437: Health Care Revisions** follow-up has been delayed while DOH awaited federal approval. DOH received federal approval and we will be the follow-up process in June 2018.

The 2017 Legislature passed 12 bills with performance notes. Of these, six bills did not create new programs or did not meet OLAG requirement for follow-up. In August 2017, we sent the six new programs' administrators information about the best practices and performance note review processes. First-year self-evaluation surveys will be sent out in June 2018.

Going forward, we will continue to report on new programs' progress and any programs about which we have concerns.



# Released Audits and Informal Reports • 2014 - 2016

## ———— 2016 ————

2016-10 University of Utah Athletics Department  
 2016-09 DHRM's Field Service Operations  
 2016-08 Distribution and Use of Local 911 Surcharge  
 2016-07 Economic Development Corporation of Utah  
 2016-06 Utah Department of Transportation (UDOT)  
 2016-05 In-Depth Budget Review of UDOT  
 2016-04 Department of Financial Institution's Regulation of the Payday Loan Industry  
 2016-03 Utah State Office of Rehabilitation's Case Mgt Controls  
 2016-02 Administration of 911 Surcharges  
 2016-01 Utah Board of Pardons and Parole  
 ILR2016-G Allegations Involving USU's Anthropology Program  
 ILR2016-F UCA Improving Controls After Fraud Discovered  
 ILR2016-E Division of Risk Management  
 ILR2016-D State Building Management Practices and Cost of Investment Methodologies  
 ILR2016-C Timely Issuance of Warrants  
 ILR2016-B Use of Cash Bail in Utah District Courts  
 ILR2016-A USTAR Annual Report: Performance Outcome Reporting Remains Under Development

## ———— 2015 ————

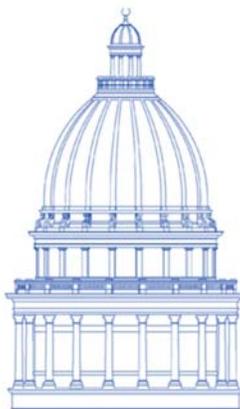
2015-12 Culinary Water Improvement Districts  
 2015-11 CTE Completion and Job Placement Rates  
 2015-10 Utah State Office of Rehab Budget and Governance  
 2015-09 CTE Coordination & Duplication: Public Ed. & UCAT  
 2015-08 Utah Poison Control Center  
 2015-07 Allegations Concerning DFCM Construction Mgt.  
 2016-06 In-Depth Budget Review of Office of Attorney Gen.  
 2016-05 Performance Audit of Office of the Attorney Gen.  
 2015-04 Follow-up: Higher Ed. O&M Funding Mgt. Practices

2015-03 URS' Management and Investment Practices  
 2015-02 DWS Customer Service and Follow-up  
 2015-01 Projections of Utah's Water Needs  
 ILR2015-E Use of Controlled Substance Database by Law Enforcement  
 ILR2015-D Follow-Up: DSPD Response to Audit 2014-10  
 ILR2015-C Allegations Regarding UDOT Noise Walls, Farr West  
 ILR2015-B Review of Communication of the State's Liability Protection for School District Employees  
 ILR2015-A Provider Rates for DSPD

## ———— 2014 ————

2014-14 Follow-Up of USTAR  
 2014-13 Div. of Drinking Water's Min. Source Sizing Reqs.  
 2014-12 Dept. of Technology Services Rates, Customer Service and Staffing  
 2014-11 Utah's Purchasing Interaction with WSCA-NASPO  
 2014-10 Division of Services for People with Disabilities  
 2014-09 In-Depth Budget Review of Dept. of Human Services  
 2014-08 Utah Funds of Funds (UFOF)  
 2014-07 Interlocal Entities  
 2014-06 Utah Transit Authority  
 2014-05 Allegations Concerning the Math Textbook Procurement  
 2014-04 Bureau of Emergency Medical Serv. and Preparedness  
 2014-03 Governance of Conservation Districts  
 2014-02 Best Practices in Utah School Districts  
 2014-01 Utah High School Activities Association (UHSA)  
 ILR2014-E Follow-up of Selected Legislative Recommendations for Higher Education O&M  
 ILR2014-D Risk Survey of the Office of the Attorney General  
 ILR2014-C Follow-Up of the Utah Funds of Funds (UFOF)  
 ILR2014-B DABC Warehouse and Retail Operations  
 ILR2014-A Utah State Fairpark's Financial Oversight and Controls

Full Reports are available online at [www.le.utah.gov/audit/olag.htm](http://www.le.utah.gov/audit/olag.htm)



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