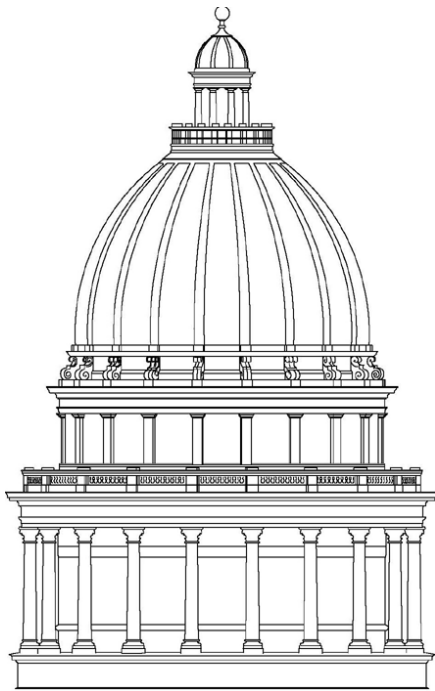


A Review of Best Practices for Internal Control of Limited Purpose Entities



Limited Purpose Entities

Local Districts

241

Special Service Districts

162

Interlocal Entities

65

Independent Entities

13

Sum:

481

Budget:

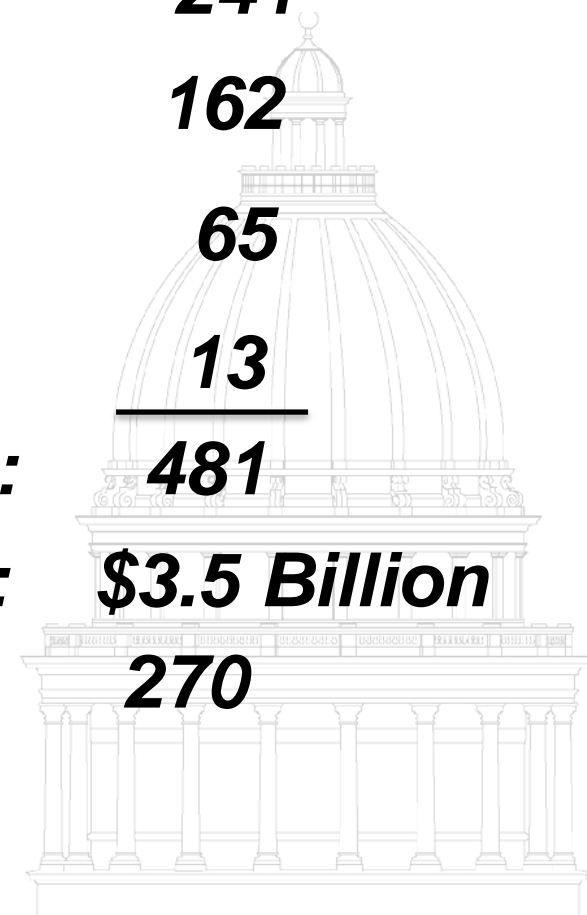
\$3.5 Billion

Governmental Nonprofits

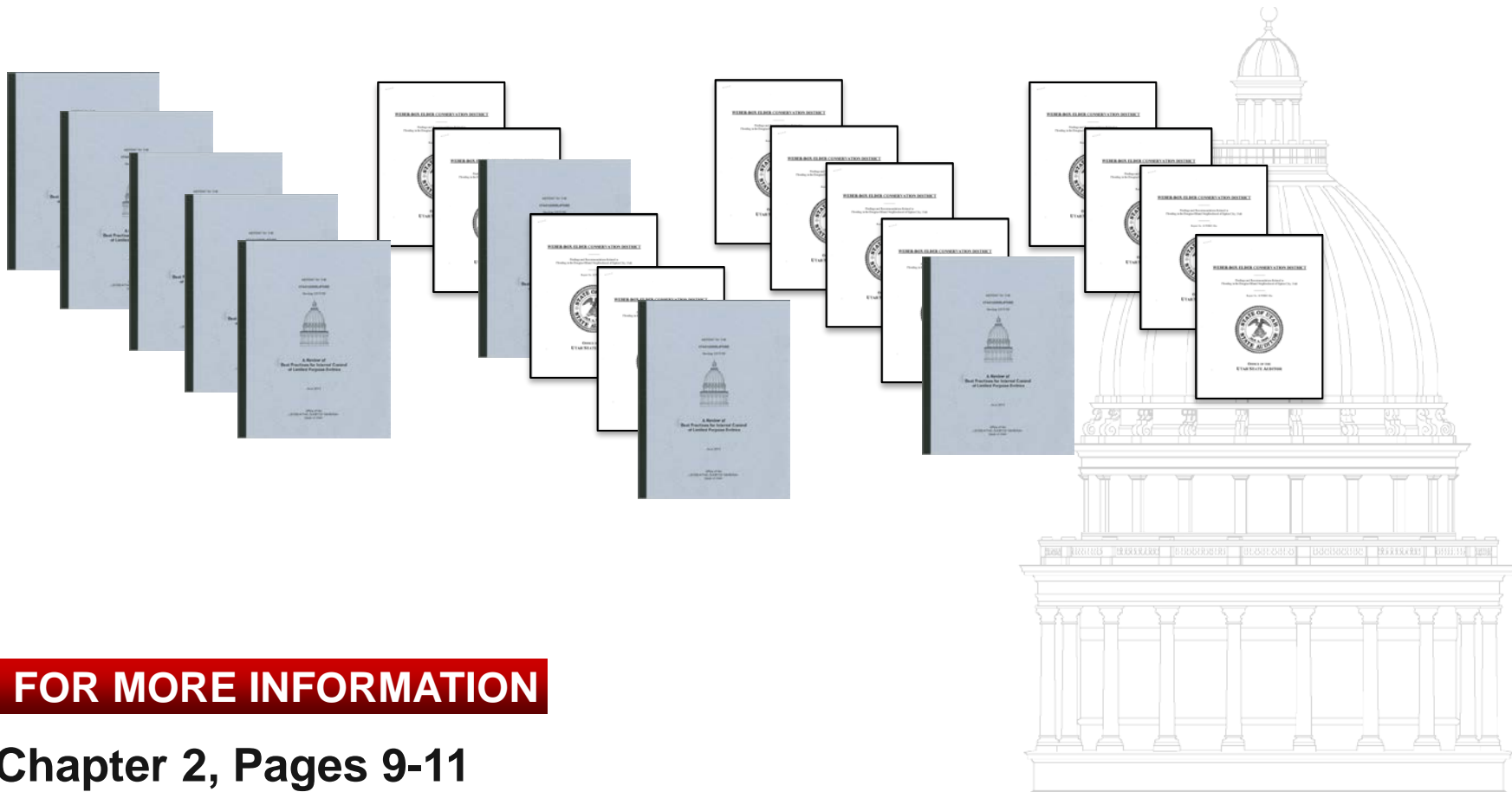
270

FOR MORE INFORMATION

See Chapter I, Page 6



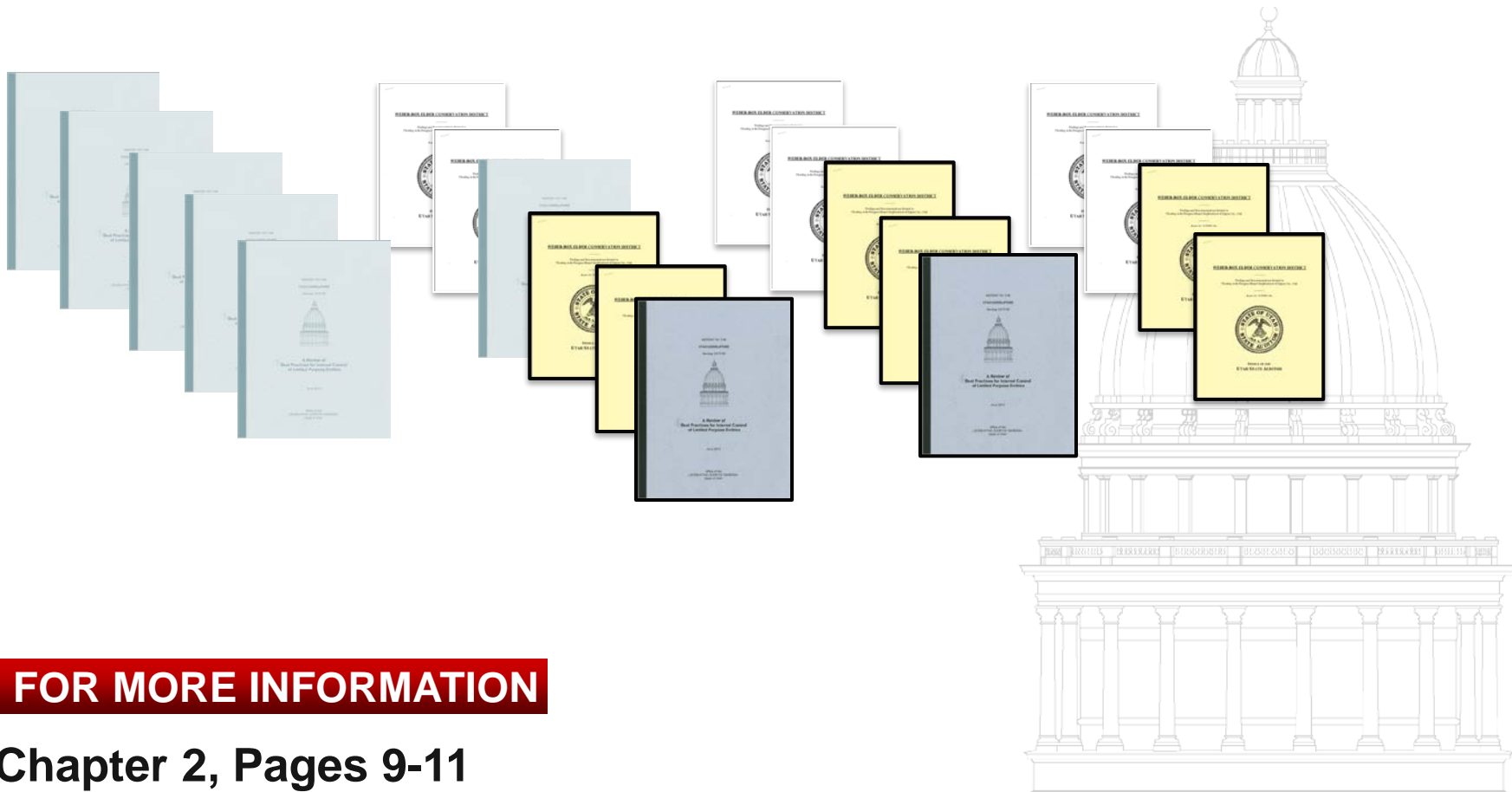
Chapter II: 20 Audits in Three Years



FOR MORE INFORMATION

See Chapter 2, Pages 9-11

Chapter II: 20 Audits in Three Years



FOR MORE INFORMATION

See Chapter 2, Pages 9-11

Figure 2.3. Past Audits of Limited Purpose Entities Often Described Similar Problems. The most common problems found in our review of the past 20 audits of limited purpose entities are shown in order of frequency.

- 1) Weak transparency and accountability
- 2) Weak board oversight and control
- 3) Lack of adequate planning, policies and procedures
- 4) Lack of adequate accounting and financial controls
- 5) Lack of in-depth and regular cost analysis to aide management in decision making
- 6) Lack of adequate training and understanding of applicable laws
- 7) Questionable expenditures by board and/or management

FOR MORE INFORMATION

See Chapter 2, Page 12

Review of 27 Limited Purpose Entities

1. Internal Controls?
2. Qualified Personnel?
3. Supportive Organizational Culture?



FOR MORE INFORMATION

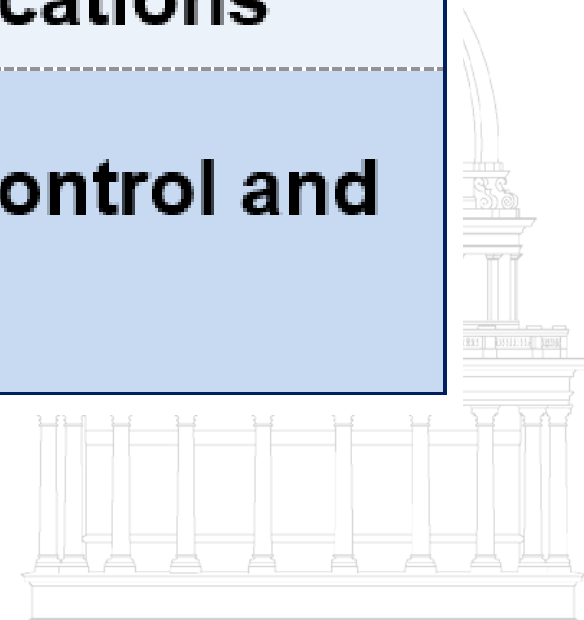
See Chapter 2, Page 13

Figure 2.4 Results of Review of 27 Entities

16	Weak or Missing Internal Controls
13	Board and Staff Lacking the Needed Training/Qualifications
17	Weak Commitment to Control and Accountability

FOR MORE INFORMATION

See Chapter II, Page 14



“I’d rather build a fence at the top of the cliff
than park an ambulance at the bottom.”

Utah Senate President Wayne Niederhauser



Chapter III: Checklist of Best Practices

Checklist of Best Practices for Board Members Of Special Purpose Entities

Roles of Board and Staff

1. The board chair reviews and approves the agenda before each meeting, inviting other board members to add any additional agenda items, if desired.	<input type="checkbox"/>
2. The board takes ultimate responsibility for governance of the entity by (1) appointing an executive staff, (2) providing broad policy guidance, (3) authorizing the use of resources, and (4) monitoring results.	<input type="checkbox"/>
3. The board members recognize they are more than just a group of cheerleaders for entity staff but have a responsibility to hold staff accountable for results.	<input type="checkbox"/>
4. The Executive Director (a) helps the board draft a set of internal control policies and (b) guides staff as they carry out the board's policies.	<input type="checkbox"/>
5. Staff duties are segregated such that no one person has control over all parts of a financial transaction.	<input type="checkbox"/>
6. The board has appointed a board chair, a treasurer and a clerk.	<input type="checkbox"/>
7. For organizations with an insufficient number of staff to achieve a proper separation of duties, a board member fills the role of treasurer or clerk.	<input type="checkbox"/>
8. The board has approved a staffing policy that defines the responsibilities of all those who handle different aspects of the entity's finances.	<input type="checkbox"/>

Internal Controls

9. The board regularly reviews a report of entity disbursements. The report includes the date, vendor and amount of each expense since the last board meeting.	<input type="checkbox"/>
10. The board requires that two people sign all local entity checks. Before signing, both signers will review and approve the attached requisition sheet.	<input type="checkbox"/>
11. To control credit purchases, P-cards can be issued to a limited number of staff. Limits are placed on the dollar amount, type and number of charges made to each card.	<input type="checkbox"/>
12. An independent person with no book keeping responsibilities is assigned to reconcile the bank statement each month with that month's receipts and expenses.	<input type="checkbox"/>

13. The board requires its formal approval of any expenditure above a certain dollar amount.	<input type="checkbox"/>
14. The board approves personnel policy, a purchasing policy, and records retention policy. The board approved policies also include many of the best practices described in this report. The policies are made readily available to staff or board members wishing to review them.	<input type="checkbox"/>

Recruiting Qualified Personnel

15. The district staff should avoid any involvement in the selection of board members.	<input type="checkbox"/>
16. Local entities should publicize the board seats that will soon be coming available.	<input type="checkbox"/>
17. Local entities should follow an objective recruiting process when filling staff positions and hiring outside contractors.	<input type="checkbox"/>
18. Board and staff regularly receive the required training in open and public meetings, board governance and other matters applicable to the entity's mission.	<input type="checkbox"/>
19. When in-house expertise is not available to perform special tasks, the entity hires or appoints qualified outside experts.	<input type="checkbox"/>

Tone at the Top

20. Adopt a code of ethics that clearly states the organization's values and standards of behavior.	<input type="checkbox"/>
21. Include some aspect of the ethics policy in the annual training provided to the board and staff.	<input type="checkbox"/>
22. Hold everyone accountable, even managers, to high standards of performance.	<input type="checkbox"/>
23. Avoid creating a compensation and reward structure that leads employees to take unnecessary risks.	<input type="checkbox"/>
24. Provide for an ethics hotline or whistleblower policy.	<input type="checkbox"/>

FOR MORE INFORMATION

See Appendix A

Chapter III: Roles of Board and Staff



FOR MORE INFORMATION

See Pages 23-27

Chapter III: Internal Controls

SEWER DISTRICT Payment Approval Report Page: 17
 Report dates: 10/8/2016-11/7/2016 Nov 10, 2016 09:44AM

Vendor Name	Invoice Number
NAPA AUTO PARTS	956325



H DIG	100.00	11/08/2016
IGESTION	100.00	11/08/2016
	200.00	
& GORDON	2,537.80	10/26/2016
	32.20	10/26/2016
YOYES	10,294.28	10/26/2016
	111.07	10/26/2016
	12,975.35	
	16.14	10/17/2016
	27.06	10/17/2016
	112.46	10/17/2016
	2.97	10/17/2016
	158.63	

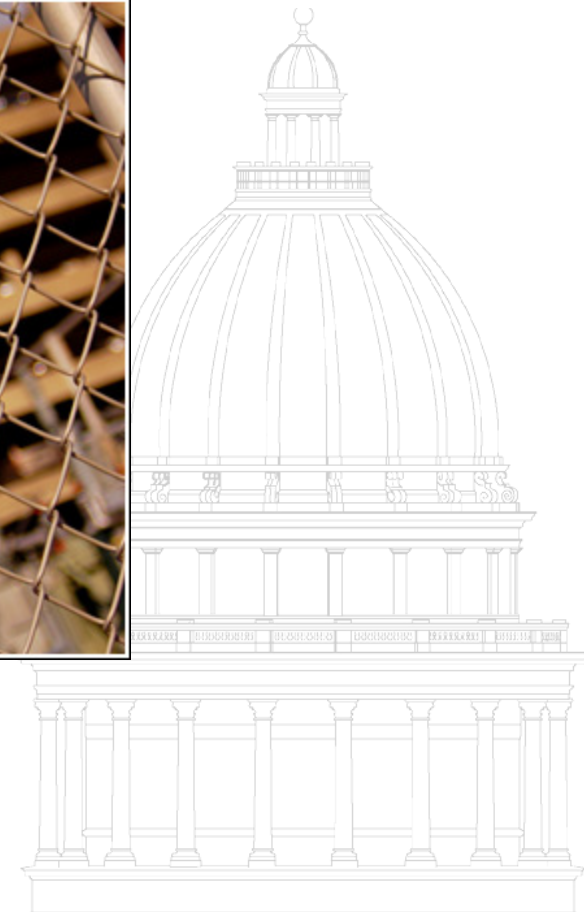
Total 5321:					
5341	OFFICE DEPOT	868887529001	BLACK UNIBALL 207 PENS	16.14	10/17/2016
	OFFICE DEPOT	868887529001	BLACK ENERGEL PENS	27.06	10/17/2016
	OFFICE DEPOT	868887529001	TONER CARTRIDGE MEGHAN	112.46	10/17/2016
	OFFICE DEPOT	868887529001	PUSH PINS	2.97	10/17/2016
Total 5341:				158.63	

5412	OPEN AIRE SCREEN PRI	8204	SVSD 2016 UNIFORMS	5,210.29	10/26/2016
	OPEN AIRE SCREEN PRI	8204	JBWRF 2016 UNIFORMS	3,966.05	10/26/2016
	OPEN AIRE SCREEN PRI	8204	PRETREATMENT 2016 UNIFORMS	733.70	10/26/2016

FOR MORE INFORMATION

See Pages 28-33

Chapter III: Qualified Board and Staff



FOR MORE INFORMATION

See Page 33-37

Chapter III: Ethical Organizational Culture



FOR MORE INFORMATION

See Page 38-40

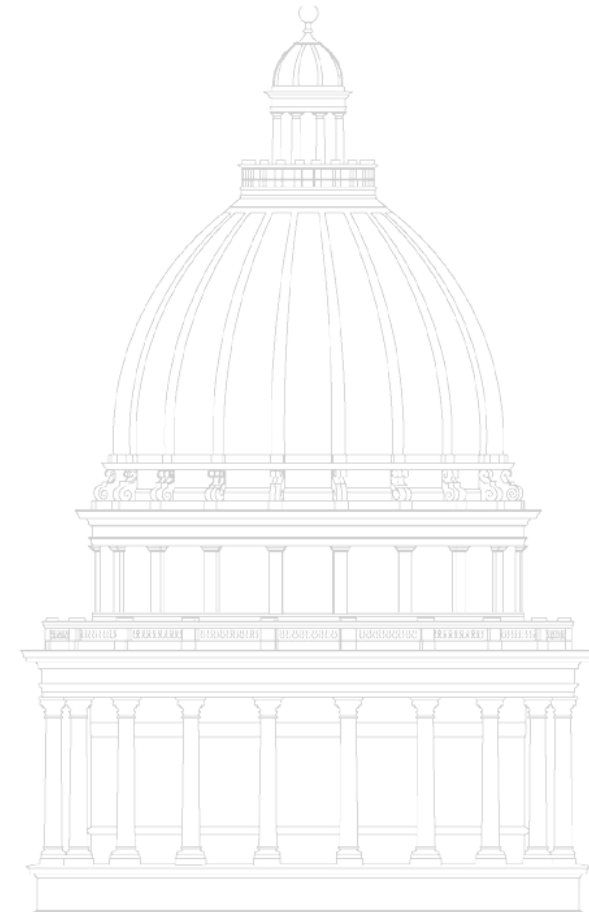
Chapter III: Review Best Practices Checklist



FOR MORE INFORMATION

See Appendix A

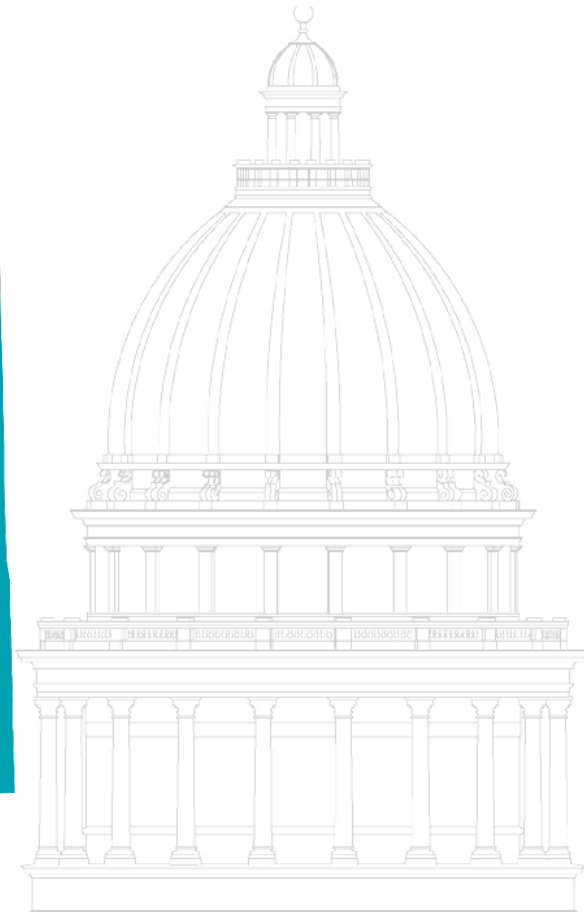
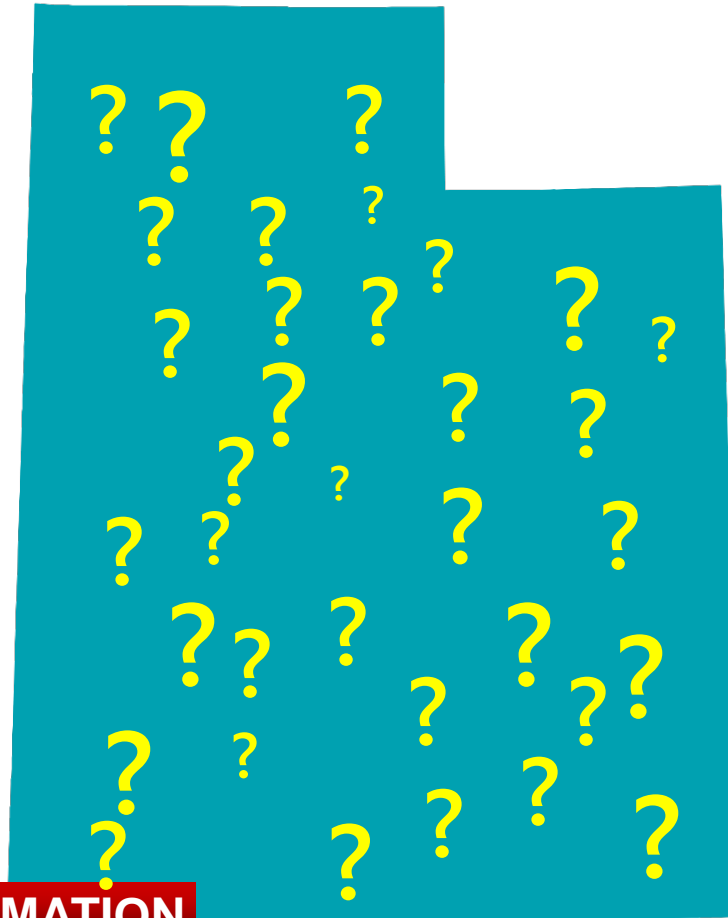
Chapter IV: Best Practices for State Oversight



FOR MORE INFORMATION

See Page 41

Chapter IV: Number of Entities is Unknown



FOR MORE INFORMATION

See Page 42

Chapter IV: Compliance can Improve

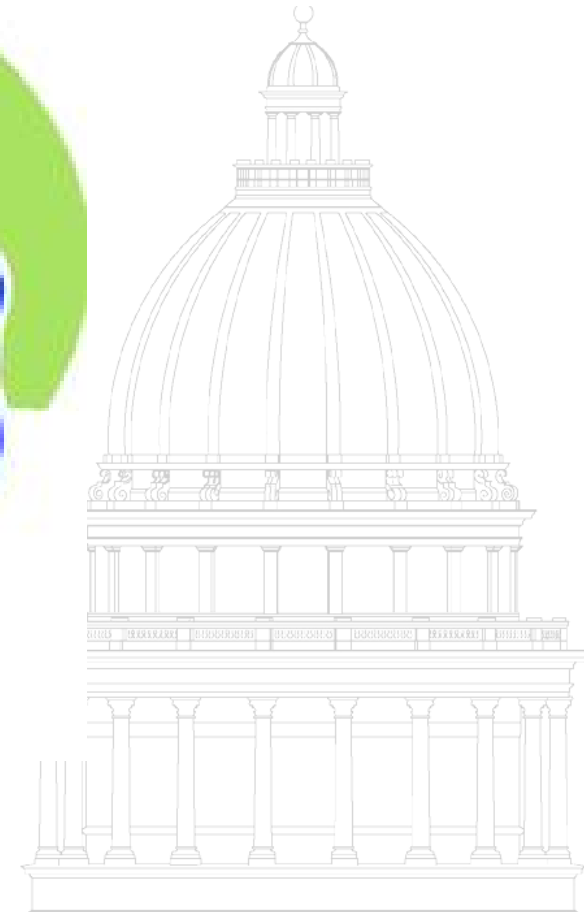
1. Annual Budget to State Auditor
2. Notice of Public Meetings
3. Notice of Board Contact Information
4. Financials to Transparency Utah
5. Annual Financial Statements to State Auditor

FOR MORE INFORMATION

See Page 43



Chapter IV: Difficulty Filling Board Seats



FOR MORE INFORMATION

See Pages 45-46

Chapter IV: Best Practices for State Oversight

- 1. Create a Registry***
- 2. Take Action When Entities Do not Follow the Law***
- 3. Require Counties to Take a Greater Role in Promoting Compliance.***
- 4. Counties Should Promote Greater Public Awareness.***



FOR MORE INFORMATION

See Page 47

Chapter IV: Best Practices for State Oversight

Governmental Nonprofit Corporations:

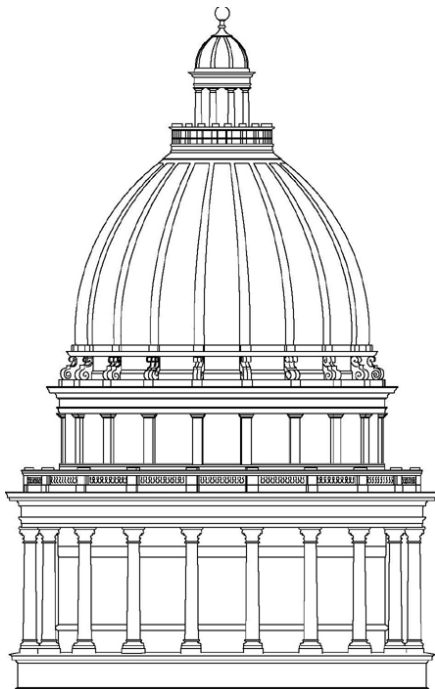
- Weber Human Services Foundation
- Granite Schools Foundation
- Southeastern Utah Economic Development District



FOR MORE INFORMATION

See Page 55

A Review of Best Practices for Internal Control of Limited Purpose Entities



Presentation to the
Legislative Audit Subcommittee

June 20, 2017