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August 19, 2019

Management  
Utah Science and Technology Research Initiative  
c/o Jill Flygare, Managing Director, Internal Operations  
Governor's Office of Economic Development  
60 East South Temple, 3rd Floor  
Salt Lake City, Utah 84111

Ladies/Gentlemen:

In accordance with our engagement letter dated May 20, 2019 (Engagement Letter), we enclose our report relating to the agreed-upon procedures we performed for the Governor's Office of Economic Development (GOED) relating to the Utah Science and Technology Research Initiative (USTAR or the Initiative) to assist GOED management and the Utah State Legislature in assessing compliance with relevant statutory, contractual and procedural requirements with respect to the Initiative for the period from July 1, 2016 through June 30, 2019. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Our procedures included inquiries, analyses, and limited testing based on the information made available to us and were directed to those business activities, operational areas, and financial information that you have identified as being of concern to you. In performing our services, we have relied on the sufficiency, accuracy, and reliability of the information provided by USTAR.

The sufficiency of the procedures we performed is solely the responsibility of GOED. We make no representation regarding the sufficiency of the procedures described above for the purpose for which these services have been requested or for any other purpose.

This report outlines the procedures and our findings resulting from the procedures performed. This report is intended solely for the use of the parties to whom this letter is addressed. This report is not intended to be, and should not be, used by anyone other than the parties specified above.

We were not engaged to, and we did not, conduct an audit, the objective of which would be the expression of an opinion on the financial statements. Accordingly, we do not express such an opinion. If we had performed additional procedures or if we had conducted an audit in accordance with auditing standards generally accepted in the United States of America, matters in addition to any findings that resulted from the procedures performed might have come to our attention and been reported to you.

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to be of service to the Governor's Office of Economic Development.

*Tanner LLC*

Tanner, LLC  
Salt Lake City, Utah

# Independent Report on Agreed-Upon Procedures

## Procedure 1: Validate that USTAR grant recipients met the required thresholds set in the grant contract.

a. We randomly selected and inspected a sample of 20 contracts executed from July 1, 2016 through April 30, 2019.

We obtained a detail of all grantee companies from USTAR management which included the funding round of each grantee. Using a random sample selector, we made 20 random selections from all rounds of funding.

b. For each sample selected, we gathered and inspected information supplied by USTAR to determine whether the grantee met the eligibility requirements relating to the grant.

According to the Technology Acceleration Program (TAP) Announcements, eligibility requirements applicants had to meet were as follows:

- The company must be Utah-based, meaning it is registered with the Utah Division of Corporations as an active for-profit business in good standing, and the primary place of business is located in Utah.
- The proposed technology milestones must fall within Technology Readiness Levels (TRL) 3-5 and final milestones cannot exceed TRL 6. Round 1 applicants were restricted to an initial TRL range of 4-5. (Funding was provided to each company based upon the successful completion of specified milestones, which were determined with the company before any funding occurred. Each company was required to be developing a new technology that had to be within a certain range of development, which USTAR management defined as a “Technology Readiness Level”).
- The technology must fall within one of the targeted industry sectors: Automation and Robotics (including IoT and Smart City technologies), Aerospace, Big Data and Cybersystems, Energy and Clean Technology, and Life Sciences.
- The requirements expanded with the 2018 FY (Rounds 3 and 4) to include the following:
  - at least 90% of employees must be in Utah,
  - less than 50 total employees,
  - raised less than \$5 million in private funding,
  - less than \$1 million in annual revenue, and
  - company must have secured or be in the process of securing relevant licenses to intellectual property (IP) required for project (in Round 4, IP must be in good standing).

To determine whether each applicant company’s business license was active as of the application period and that it is a for-profit business, we used <https://secure.utah.gov/bes/> to look up each business. To determine whether the milestone TRL limits and technology sector eligibility requirements were met for each applicant company, we read through the white paper or application for each company. See Table A for the results of these procedures.

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Table A

Selection		Requirement			
#	Round	1	2	3	4
1	FY16	X	X	X	N/A
2	FY16	X	X	X	N/A
3	FY16	X	X	X	N/A
4	FY17 Fall	X	X	X	N/A
5	FY17 Fall	X	X	X	N/A
6	FY17 Fall	X	X	X	N/A
7	FY17 Fall	X	X	X	N/A
8	FY17 Fall	X	X	X	N/A
9	FY17 Fall	X	X	X	N/A
10	FY17 Fall	X	X	X	N/A
11	FY17 Fall	X	X	X	N/A
12	FY17 Fall	X	X	X	N/A
13	FY17 Spring	X	X	X	N/A
14	FY18 Fall	X	X	X	A
15	FY18 Fall	X	X	X	A
16	FY18 Spring	X	X	X	A, B
17	FY18 Spring	X	X	X	A
18	FY18 Spring	X	X	X	A
19	FY18 Spring	X	X	X	A
20	FY18 Spring	X	X	X	A

**Legend:**

1 - The business must be Utah-based, meaning it is registered with the Utah Department of Corporations as a for-profit business and is in good standing.

2 - The technology falls within one of the targeted technology sectors.

3 - The Technology Readiness Level (TRL) of the technology falls within the specified range.

4 - The company has less than 50 employees, \$1 million in annual revenue, and \$5 million in funding. At least 90% of employees reside in Utah. Any patents the company has are in good standing.

X - We viewed documentation showing this requirement had been met.

A – Management was unable to provide documentation that showed that this requirement was fulfilled. Management represents that candidate companies are expected to self-police and that no signs of non-compliance were observed.

B - The whitepaper for this candidate company indicated that it had already received \$13 million in private funding but that an exception should be made. We inquired of management, who represented: "Eligibility requirements were set up to target startup deep-tech companies in the 'valley of death' region of funding and maturity. Although [the candidate] had raised \$13 million, they were by all other measures an eligible and lean startup. The proposed technology represented a new direction for the company for which no money had been raised to date. An exception was made to allow review of their application."

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c. For each sample selected, based upon information supplied by USTAR, we determined whether USTAR complied with statutory, contractual and procedural requirements, as applicable, in contracting with the grant recipients.

We obtained documentation from USTAR management to support each milestone that was completed. The funding provided to a company under a USTAR contract is divided into milestones (generally 3 to 5 milestones depending on the nature of the technology being developed). The funding schedule differs from company to company but usually involves an initial payment of 50% of certain milestones. Afterwards, a company had to provide evidence that the objectives for the milestones had been met in order to receive the remaining funding amount. For the 20 selected contracts, USTAR management provided the documentation furnished by the companies as evidence of the milestones being completed. This evidence ranged from PowerPoint presentations to schematic designs to reports that described how the milestone objectives were met. USTAR management did not keep a record of which USTAR employee had reviewed the milestone documentation nor a record that USTAR management had authorized, based upon the milestone documentation reviewed, the next milestone amount to be funded. USTAR management represented that its practice was to review the milestone documentation provided by the companies and at times hold face-to-face meetings with a company's team to verify the completion of the milestone. However, as stated, USTAR management was not able to provide any record to substantiate this.

We reviewed the milestone documentation for each milestone selected, comparing the milestone objectives per the contract to the documentation. See Table B below for a summary of our findings.

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Table B

Selection #	Round	Milestone									
		1	2	3	4	5	6	7	8	9	10
1	FY16	X	X	X	A	A					
2	FY16	X	X	X	X						
3	FY16	X	X	X							
4	FY17 Fall	X	X	X	X	X					
5	FY17 Fall	X	X	X	X	X					
6	FY17 Fall	X	X	X	X	X	X				
7	FY17 Fall	X	X	X	X	X					
8	FY17 Fall	X	X	X							
9	FY17 Fall	X	X								
10	FY17 Fall	X	X	P	P	P					
11	FY17 Fall	X	X	X	X	X	X	X			
12	FY17 Fall	X	X	X	X						
13	FY17 Spring	X	X	X							
14	FY18 Fall	P	P	P	P	P					
15	FY18 Fall	X	X	X	P						
16	FY18 Spring	X	X	X	X	P	P				
17	FY18 Spring	X	X	X							
18	FY18 Spring	P	P	P	P						
19	FY18 Spring	X	P	P	P	P					
20	FY18 Spring	P	P	P	P	P	P	P	P	P	P

**Legend:**

**X** - We obtained documentation showing this milestone had been met. We also reviewed evidence that the funds disbursed to the company were in accordance with the contract.

**P** – The milestone is currently in progress. We did not identify that USTAR had provided funding for the next milestone, which is in accordance with the contract.

**A** - We were unable to review documentation to support the completion of MS 4 and 5. Per inquiry of Andrew Sweeny, Emerging Technology Lead, MS 4 funds were disbursed, and he believes that, based on the nature of that MS, an employee most likely verified the completion of the MS in person. MS 5 was never completed, and Andrew represented that these funds were never disbursed.

**d. For each sample selected, we will gather and inspect information supplied by USTAR to determine whether any money is owed to the state.**

We reviewed the 20 contracts for the companies selected for testing and determined whether each contract contained contract provisions that allows USTAR to recapture any distributed funds from the grantee. We identified the following four provisions in each contract that dictated in which circumstances USTAR could recapture distributed funds.

**Payment Recapture:** “The State shall recapture and Grantee shall repay any Grant Money disbursed to Grantee that is not used by Grantee for the project identified or if the money is used for any illegal purpose.”

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**Milestone Requirements:** “Failure to successfully complete the milestones may result in a recapture of all or part of the grant funding.”

**Breach of Agreement:** “USTAR reserves the right to require Grantee to refund the full amount of the grant or a portion thereof, or to terminate this contract and pay no further funds, in the event that Grantee breaches any of the terms of this contract.”

**Audits:** “Grantee must refund to USTAR any funds spent that did not meet the requirements of this contract, if determined by an audit to be ineligible under the terms hereof or in accordance with State and Federal law.”

We inquired of management whether any company (not just those within our sample of 20) used USTAR funds in any way that would be a breach of contract, and members of USTAR management responded that they were not aware of any. We did not find evidence that funds were owed to the State of Utah in our review of 20 selected contracts.

## Procedure 2. Inspect all leases currently held by USTAR:

a. We obtained a detail of all leases held by USTAR and made inquiries regarding the completeness of the schedule.

We obtained copies of the lease agreements and amendments for the three leases below. We viewed on a website for USTAR that a location also exists in Sandy, UT at the Salt Lake Community College (SLCC) campus. We inquired of USTAR management who indicated that USTAR has a month-to-month rental agreement (verbal) with SLCC. To validate this agreement, we viewed an invoice from SLCC for monthly rent: Invoice #: BIC19-698; dated April 1, 2019; total due \$200. USTAR management represented that these 4 leases represent the complete population of leases held by USTAR.

b. For each lease on the schedule, we obtained lease contracts to identify the status, current obligation of the state, current occupancy and transfer options.

Based on the lease agreements we inspected, below is a summary of the current obligations and capacity of leased office locations:

Office Location	Occupancy /		As of June 30, 2019		
	Capacity	Lease End Date	Monthly Payment	Total Lease Obligation	
111 S Main St, SLC	2 / 11	November 30, 2025	\$ 15,638	\$ 1,307,216	
Falcon Hill	3 / 3	October 31, 2026	41,948	4,029,323	
St. George	0 / 2	February 28, 2021	2,140	42,800	

*Note: Lease obligations and monthly payments do not include Common Area Maintenance (CAM) fees.*

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The lease obligation by year are as follows:

FY	111 S Main St.	Falcon Hill	St. George	Total
2020	\$ 187,656	\$ 499,695	\$ 25,680	\$ 713,031
2021	193,284	514,710	17,120	725,114
2022	199,080	530,145		729,225
2023	205,056	546,000		751,056
2024	211,212	562,433		773,645
2025	217,548	579,338		796,886
2026	93,380	596,663		690,043
2027		200,340		200,340
Total	\$ 1,307,216	\$ 4,029,323	\$ 42,800	\$ 5,379,339

We reviewed each lease agreement and identified that each contained the following provision which allows USTAR to exit the lease upon giving 90 days' notice:

### **Tenant's Option to Terminate Lease for Non-funding**

Tenant and Landlord both acknowledge that Tenant cannot contract for payment of funds not yet appropriated by the Utah State Legislature and that the space requirements of this Lease Agreement may be altered by a federal act or an act of the Utah State Legislature occurring before the expiration of this Lease Agreement. Tenant, therefore, reserves the right for the above reasons to terminate the Lease Agreement by giving ninety (90) days' notice in the manner heretofore stated in this Lease Agreement.

### **Procedure 3. Read the audit reports issued on USTAR's financial statements for the years ended June 30, 2016, 2017 & 2018 and compare them to documents and schedules received to determine whether any information gathered from the above procedures is inconsistent with the audited financial statements.**

To perform this procedure, we requested that USTAR's management provide USTAR's financial statements for the fiscal years ended June 30, 2016, 2017, and 2018. Management responded that USTAR does not have any financial statements according to accounting principles generally accepted in the United States of America (US GAAP) and that USTAR is not under a requirement to have audited, reviewed, or compiled financial statements for its fiscal years. However, management did provide Agreed-upon Procedures (AUP) reports for those years. The AUP reports were performed by Squire & Company, PC (Squire), a public accounting firm based in Utah. We reviewed the reports and compared the findings to the results of our procedures. The AUP procedures performed by Squire included procedures such as selecting cash disbursements and employee reimbursements and determining whether they had been properly supported, approved, and recorded; determining that a budget was approved prior to August 1<sup>st</sup>, obtaining a list of USTAR funding sources and amounts for the fiscal year and agreeing legislative appropriations to the legislation authorizing the appropriation, selecting grants issued by USTAR and determining that the disbursement of funds was made in accordance with the grant award documents, and determining whether USTAR had written policies and procedures for purchasing, conflicts of interest, and responding to GRAMA requests. We did not identify any inconsistencies between the AUP performed by Squire and our AUP procedures.

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## Procedure 4. Read the existing research conducted by TEconomy and other third parties. Provide feedback on recommendations and conclusions regarding best practices for technology commercialization programs.

When performing our procedures under this Agreed-Upon Procedures engagement, we identified certain controls, policies, and procedures that would strengthen the control environment of any future technology commercialization program.

1. Documentation – in our review of whether a grantee met the eligibility requirements relating to a grant, USTAR was not able to provide documentation in all instances that a specific eligibility requirement had been met. In addition, in our review of whether USTAR complied with statutory, contractual and procedural requirements in disbursing funds to grantees, we reviewed the documentation provided by the grantees to show achievement of a milestone objective. However, there was not documentation in USTAR’s records of how USTAR employees determined that the grantee’s documentation was sufficient and that the grantee had in fact met the milestone objective to be eligible to receive the next round of funding. Any future program by the state of Utah should require documentation to show how program employees determined that required eligibility requirements and milestones had been met. The documentation should be detailed enough to allow an individual outside the organization but with comparable experience to understand how the determination was made.
2. Segregation of Duties – Internal controls are intended to safeguard assets and help prevent losses, errors, or fraudulent acts. A fundamental concept in an adequate system of internal control is the segregation of incompatible duties. Proper segregation dictates that the same individual generally should be involved only once in the authorization, recording, asset custody, and reconciliation of a transaction. We recommend that in any future technology commercialization program that an evaluation of internal controls be conducted and, wherever possible, the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets should be segregated. In particular, we recommend that special attention be paid to the disbursement of program funds to ensure that the individual that authorizes a disbursement is not also able to execute the transaction. This will strengthen internal controls and reduce the opportunity for any one person to be in a position to both perpetrate and conceal errors or irregularities in the course of his or her duties.
3. Conflicts of Interest – when evaluating potential grantees in a future technology commercialization program, we recommend that the application process and internal review process be designed to identify potential conflicts of interest between program employees and employees of the potential grantee. In addition, we recommend that a conflicts of interest policy be utilized, such that employees know their responsibilities when a conflict exists and that such conflicts of interest are disclosed with appropriate counter-controls put in place. This will help protect the future program from accusations of impropriety.

## Procedure 5. We will report all departures that we encounter, during the performance of our procedures, by USTAR and any departures from ethical, statutory, contractual, or procedural requirements in administering the Initiative that come to our attention while performing these procedures.

See the above report.