



**A Performance Audit Of Utah Communications Authority
Financial Management And Transparency**

Improved Oversight And Transparency Will Improve Authority Accountability

Insufficient financial oversight and transparency limits the Utah Communications Authority's (UCA) accountability to stakeholders. The UCA Board (Board) should improve oversight, financial management, and adhere to state transparency statutes to improve authority accountability. Due to the concerns cited in this report, *we recommend that the legislature review UCA's status as an independent state entity.*

**Section 1: Improved Financial Management Would
Reduce Susceptibility To Misuse Of UCA Resources**

Insufficient internal controls, financial review, and management oversight provided opportunities to misuse UCA credit cards. UCA, and the predecessor to the Radio Division—the Utah Communications Agency Network (UCAN)—employed several practices that subjected the entities to an abnormal susceptibility to the misuse of public funds due to inadequate financial controls and insufficient oversight.

Finding 1: Inadequate internal controls allowed alleged fraud to continue undetected. Internal control deficiencies include (1) unchecked credit card access, (2) inadequate receipt verification and reconciliation, (3) insufficient management oversight, and (4) noncompliance with individual and monthly transaction limits. Accounting reconciled receipts to credit card statements for only 55 percent of sampled transactions, and did not reconcile any receipts to credit card statements for eight consecutive months. The figure below shows examples of three transactions included in our sample that would have likely been detected in a thorough review and reconciliation, as required by assumed UCA policy.

Transaction	Receipt Date	Statement Date	Transaction	Amount
A	04/13	04/31	The Home Depot	\$144.67
B	04/13	04/13	America's Best Vaule	\$111.58
C	06/25	06825	Crystal Inn Cedar	\$83.48

Source: UCA credit card statements reviewed by former UCA accountant

It is unlikely that a credit card company would include two invalid transaction dates ("4/31" and "06825") on an official monthly statement, or misspell a merchant's name ("vaule"). Additionally, the amount on the statement for transaction B was twice the amount on the receipt. All three transactions were initialed by the former accountant, signifying review. Approximately 5 percent of sampled transactions had errors that call into question the legitimacy of either the credit card statement or the receipts.

Finding 2: Compliance with procurement policies will improve UCA financial management. UCA could improve internal controls over credit cards by adopting state purchasing policies and replacing credit cards with purchasing cards.

Additionally, UCA could limit non-business purchases on entity credit or purchasing cards by restricting merchant category codes (MCC) inconsistent with UCA’s mission. The figure below shows purchases made on three UCA credit cards to five MCCs restricted on state purchasing cards.

Merchant Type	Total Amount
Grocery Stores	\$37,000
Gas Stations	\$21,000
Restaurants	\$21,000
Liquor Stores	\$8,000
Travel	\$8,000

Source: UCA Credit Card Statements (July 2009 – January 2016)

A former employee had access or custody to all three credit cards. Additional transactions totaling more than \$800,000 to retail vendors, money transfers (such as PayPal), home improvement, pet care, legal services, medical care, furniture, home utilities, and government fees, do not appear to serve a business purpose and should be restricted.

We recommend that UCA Management:

- Comply with applicable purchasing policies.
- Cancel unassigned credit cards.
- Refrain from issuing unassigned credit cards or purchasing cards.
- Block all merchant category codes that do not serve a business function.

Section 2: Increased Transparency Will Improve Accountability

The Board does not always adhere to the state’s *Open and Public Meetings Act (OPMA)*, limiting authority transparency and individual Board member accountability. Adhering to transparency statutes and reporting transactions on the Utah Public Finance Website (UPFW) will increase the Board’s accountability.

Finding 3: UCA does not always comply with the OPMA. The Board issued timely notices for only 74 percent of meetings, did not include individual Board member votes in its meeting minutes, did not include almost half of the votes of the Board in meeting minutes, and posted only 5 percent of open meeting minutes within the time required by the OPMA. Additionally, UCA does not have complete, unedited meeting recordings for 25 percent of its open meetings from July 2014 through February 2016.

Finding 4: The Board did not comply with most transparency requirements for closed meetings. Insufficient documentation exists to determine the nature of discussions for most closed Board meetings. The Board only provided three of the ten closed meetings recordings, complicating a full review of determining the appropriateness of closing some meetings. It appears that some of the

meetings may have been improperly closed. The three recordings that exist for closed meetings exclude key information required by OPMA.

Finding 5: Financial reporting to the UPFW would increase UCA financial transparency. UCA is one of only three independent entities that does not report financial transactions to the UPFW, as shown below.

Entity	Report to the UPFW?
Military Installation Development Authority	Yes
Utah Energy Infrastructure Authority	No
Heber Valley Historic Railroad Authority	Yes
Utah State Fair Corporation	Yes
Utah Communications Authority	No*
Utah Housing Corporation	Yes
Dairy Commission	No

**UCA began reporting after being notified by OSA in April 2016
Source: OSA Analysis*

Reporting to the UPFW will improve stakeholder awareness of UCA revenues and expenditures.

We recommend that the UCA Board:

- Comply with OPMA for open and closed meetings.
- Upload written meeting minutes to the UPNW, as required by OPMA.
- Create and publicly post complete, unedited recordings of each meeting, as required by OPMA.
- Receive annual transparency training, as required by OPMA.
- Record closed meetings, when required by the OPMA.
- Sign the required sworn statement when not recording a closed meeting, as necessary.
- Publicly announce and document all information required by OPMA.
- Report financial information to the UPFW.

We recommend that the legislature:

- Clarify the UPFW reporting requirements for independent entities.

Section 3: UCA Board Should Improve Oversight

The Board did not adequately oversee UCA finances and did not formally adopt authority policies and procedures, as required by statute and Board bylaws. Additionally, the Board consists of more than twice the number of members of any other independent state entity, convoluting Board oversight.

Finding 6: The Board did not adequately oversee financial management. Contrary to statute and its bylaws, the Board did not appoint members to an audit committee that should review UCA finances at least once per quarter. The absence of the audit committee decreased the Board’s participation in financial oversight, increasing risks of misuse or mismanagement of UCA funds.

It is possible that a functioning audit committee would have detected abnormal credit card spending, unreconciled credit card transactions, insufficient purchase authorization and review, and the absence of assets in exchange for UCA funds that were allegedly used for a former

employee’s personal use. Furthermore, this committee might have identified internal control weaknesses that allowed the alleged fraud to continue for at least 80 months.

Finding 7: The Board has not formally adopted authority policies and procedures. UCA has operated under the assumed policies of the predecessor to UCA’s Radio Network Division—UCAN—since UCA’s inception in July 2014. Though accepted by UCA as its policies, UCA regularly disregarded many of the assumed policies, contributing to weak controls over credit card purchases.

Finding 8: UCA has more board members than other independent state entities. The Board currently has more board members (27) than UCA employees (24). The figure below compares the Board composition with boards for other independent state entities.

Entity	Board Size
Military Installation Development Authority	7
Utah Energy Infrastructure Authority	9
Heber Valley Historic Railroad Authority	7
Utah State Fair Corporation	13
Utah Communications Authority	27
Utah Housing Corporation	6

Source: Independent state entities defined in Utah Code 63H

We recommend that the UCA Board:

- Create an audit committee to oversee the entity’s financial management, as required in its bylaws.
- Review, update, and formally adopt entity policies and procedures.
- Regularly follow up to ensure its office and employees follow policies and procedures.

We recommend that the legislature:

- Reevaluate the Board composition to ensure the desired level of oversight and accountability.