OFFICE OF THE
UTAH STATE AUDITOR

January 29, 2016

Reginald Williams,

Dear Mr. Williams:

Enclosed you will find the following records as requested in your letter dated January 14, 2016:

Report No. 13-JSSD-8L – Jordanelle Special Service District
Report No. 15-SIT-8 – School and Institutional Trust Lands Administration

Please be aware that all GRAMA requests are posted on our website as a matter of office practice. We do this to provide transparency and accountability to the public at large.

Sincerely,

Linda Siebenhaar
Records Officer

SCHOOL AND INSTITUTIONAL TRUST LANDS ADMINISTRATION

Departmental Review
For the Period July 1, 2013 through December 31, 2014

Report No. 15-SIT-8

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SCHOOL AND INSTITUTIONAL TRUST LANDS ADMINISTRATION

Departmental Review
For the Period July 1, 2013 through December 31, 2014

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AUDIT LEADERSHIP:
Jason Allen, CPA, CFE, Audit Supervisor
Nancy Watson, CPA, Audit Supervisor

OFFICE OF THE
UTAH STATE AUDITOR

REPORT NO. 15-SIT-8

June 9, 2015

Kevin S. Carter, Director
School and Institutional Trust Land Administration
675 East 500 South, Suite 500
Salt Lake City, UT 84102-2818

Dear Mr. Carter:

We performed procedures to evaluate the School and Institutional Trust Land Administration's (SITLA) compliance with the sections of *Utah Code* Title 53C which govern the allocation of revenues to various funds, as well as the distribution of those revenues, for the period July 1, 2013 through December 31, 2014.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of SITLA's internal control or any part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit of the effectiveness of SITLA's compliance or internal control, other matters might have come to our attention that would have been reported to you.

Our finding resulting from the procedures is included in the attached Finding and Recommendation section of this report. We feel that this finding is a key internal control weakness and important compliance issue to SITLA.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by SITLA's personnel during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,

Jason Allen, CPA, CFE
Audit Supervisor
801-808-0716
jasonallen@utah.gov

cc: Lisa Y. Schneider, Finance Director

SCHOOL AND INSTITUTIONAL TRUST LANDS ADMINISTRATION
Departmental Review

FINDING AND RECOMMENDATION
FOR THE PERIOD JULY 1, 2013 THROUGH DECEMBER 31, 2014

NONCOMPLIANCE WITH ALLOCATION OF REVENUES FROM FEDERAL LAND EXCHANGE PARCELS

The School and Institutional Trust Lands Administration (SITLA) did not calculate correctly the allocations of revenues from certain federal lands and did not distribute the allocations in a timely manner as required by *Utah Code* 53C-3-202 and 203. SITLA collects revenues from federal land exchange parcels and allocates them to the United States, the Land Grant Management Fund (LGMF), and the Land Exchange Distribution Account (LEDA) based on percentages outlined in *Utah Code* 53C-3-202 and 203. SITLA is allowed to retain 3% of the money collected to cover the cost of administering federal land exchange parcels; however, any unused balance that exceeds $2,000,000 (hereinafter referred to as "excess admin revenue") at the end of a fiscal year is also to be allocated to the above beneficiaries. The revenue allocable to the LGMF in excess of SITLA's administrative costs is distributed to the Permanent School Fund.

We reviewed SITLA's fiscal year 2014 (FY14) allocations, including the allocations made for each quarter as well as the year-end allocation of excess admin revenue. Errors noted during our review prompted us to review the year-end allocation made for FY13 as well. We noted the following errors:

a. Untimely Distribution of Allocations – SITLA did not distribute some of the FY14 allocations in a timely manner. *Utah Code* 53C-3-202(2) requires the distributions to be made by the last day of the second month following each calendar quarter. However, SITLA made only one distribution to the United States for all FY14 allocations, resulting in the payments for the first three quarters of FY14 being 65 – 247 days late. In addition, SITLA's year-end distribution of excess admin revenue to LEDA was 81 days late.

b. Lack of Distributions – SITLA had four leases set up in the Business System (SITLA's internal accounting system) with the incorrect beneficiary coding. As a result, $174.32 of revenue collected in FY14 was not distributed to the United States or the Permanent School Fund. At the time of our testwork, SITLA had not determined the correct beneficiary for these distributions.

   Further, SITLA did not distribute any FY13 excess admin revenue to the United States or the Permanent School Fund (see finding c.2 below), and due to an oversight, SITLA did not distribute any of the FY14 excess admin revenue to the United States or the Permanent School Fund.

c. Incorrect Calculations of Allocations – SITLA made a series of errors–each one leading to the next–related to the calculation and distribution of excess admin revenue as follows:

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Departmental Review

FINDING AND RECOMMENDATION
FOR THE PERIOD JULY 1, 2013 THROUGH DECEMBER 31, 2014

1) In SITLA's calculation of the excess admin revenue for FY13, they mistakenly doubled the amount available for distribution. The actual amount available for distribution was $123,123.77.

2) SITLA then made a distribution to the LEDA; however, the amount of the distribution was double what it should have been ($123,123.77 instead of $61,561.88) because of the miscalculation of the excess admin revenue noted in 1) above. SITLA discovered the miscalculation error before any other distributions were made; however, the over-distribution to the LEDA left no money to distribute to the United States or the Permanent School Fund, as noted in b. above. SITLA corrected the FY13 duplicate distribution to the LEDA by reducing the FY14 amount allocated to the LEDA.

3) When SITLA recorded the distribution to the LEDA of the FY13 excess admin revenue into the accounting system, they coded it to the wrong account. As a result, even though a distribution had been made to the LEDA, the account where the excess admin revenue was deposited was still showing the funds as being available.

4) Because the FY13 excess admin revenue distributions were not coded to the correct account, as noted in 3) above, SITLA's calculation of FY14 excess admin revenue was incorrect because it added the already distributed FY13 balance of $123,123.77 to the actual FY14 available balance of $201,169.69 for a total distribution of $324,293.46. Because of this error, SITLA over-allocated funds to all beneficiaries in FY14 even though they had reduced the FY14 allocation to the LEDA by the amount of the FY13 duplicate distribution noted in 2) above.

   Because of the multiple errors affecting multiple years, we were unable to determine the specific allocations that should have been made to each beneficiary, but we do not expect the total error to exceed $123,123.77.

5) Per *Utah Code* 53C-3-203(i), a portion of the deposits to the LEDA are to be paid to counties in amounts proportionate to the total acreage of federal land exchange parcels and the mineral revenue generated from this land within each county. Not all counties have these kinds of lands or mineral interests; however, SITLA was unable to provide to us support for the amounts allocated to counties. As a result of our questions about these allocations, SITLA subsequently revised the allocations. The total amount allocated did not change, but the amounts allocated to the individual counties changed. The allocation to Carbon County and Sevier County changed most significantly, with the allocation to Carbon County increasing by $20,784.33 and the allocation to Sevier County decreasing by $17,951.13. SITLA acknowledged that allocations made to counties in prior years could include similar errors.

The errors described above occurred because the employee who performs the various allocations has not been adequately trained and the reviews of the allocations were not performed in sufficient detail to detect errors. As a result of these errors, the distribution of some of the revenues described in *Utah Code* Sections 53C-2-202 and 203 have been calculated incorrectly and have not been distributed in a timely manner.

Recommendation:

We recommend that SITLA comply with *Utah Code* 53C-3-202 and 203 by correctly calculating the allocation of revenues from certain federal lands and distributing such allocations in a timely manner. We also recommend that SITLA design and implement internal controls to ensure compliance with *Utah Code* 53C-3-202 and 203 and adequately train the individual performing the allocations.

SITLA's Response:

We agree that the distributions to the United States were not made in compliance with the statute. The Deputy Assistant Director determined it would be prudent to distribute the earnings to the federal government on an annual basis to save time and money, however, that decision was made without full knowledge of the statute. These funds will be distributed quarterly in the future.

The discrepancy of $174.32 was a result of an incorrect suffix being used on the lease. The accounting was done correctly but the report included these amounts erroneously. The reports have been adjusted to reflect the proper beneficiary, which was School.

As outlined in the findings, the distribution of the excess management fees collected in FY 2013 and FY 2014 were not handled correctly. There were a series of errors made that resulted in an incorrect distribution in FY 2013 (a doubling of the amount available and incorrect coding on the entry to transfer the LEDA portion). The coding error produced an inflated balance appearing to be available for FY 2014. In FY 2013 the excess available for distribution was $123,123.77, which was sent in total to the state for LEDA distribution rather than being split between the LEDA account, School and the United States. The net result was that the LEDA account received an excess of $61,561.88. The reallocation of this overpayment will occur with the distribution of the FY 2015 excess.

The original FY 2013 entry was made using the wrong subaccount code which made the excess balance at the end of FY 2014 appear to be $324,293.46 when in reality only $201.169.69 was available. The FY 2014 portion of the excess fees was made properly to the LEDA accounts in the amount of $100,584.84. The remaining balance that should have been distributed to School and the United States was not made until April, 2015 when it was discovered these balances were still being held. Again, this issue has been discussed with *the Deputy Assistant Director and it has been stressed these entries need to be made in a timely manner.*

Concerning the issue regarding the allocation of the excess fees to the three parties (LEDA, School and the United States), we have developed a new spreadsheet to properly account for the source of all revenue associated with these transactions. We will recalculate the distribution of excess monies from FY 2010 through FY 2014 and compare those results with what was actually distributed. If there are adjustments than need to be made they will be done in conjunction with the FY 2015 excess distribution.