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# Utah State Legislature

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TO: ALL BOARD MEMBERS OF UTAH'S LIMITED PURPOSE ENTITIES

We recognize the valuable services provided by Utah's limited purpose entities, which include our local districts, special service districts, interlocal agencies and independent entities. We also appreciate the important role that you play in guiding the work of these governmental units.

Unfortunately, concerns have arisen with many limited purpose entities. Several audits have documented occurrences of fraud, waste, abuse, and poor management among Utah's special purpose entities. In response to these concerns, we asked the Legislative Auditor General to conduct a survey of the internal controls used by a sample of these entities.

The Auditor General has recently completed the survey and found significant control weaknesses were common among these limited purpose entities. We are very concerned with these findings. The Auditor General has developed a list of best practices for internal control and governance that describe each best practice at length. The report can be found at [http://le.utah.gov/audit/17\\_05rpt.pdf](http://le.utah.gov/audit/17_05rpt.pdf). We ask that you carefully review each of the best practices identified in the report and ensure they are implemented within your organization. Attached to this letter is a checklist of each of these best practices.

Because of the serious nature of the problems and concerns identified we will continue to aggressively review limited purpose entities for compliance with this best practices list. We intend to assign the Auditor General annual follow-up reviews to verify that these best practices have been successfully implemented.

Thank you for all you do to serve the people of the State of Utah.

Sincerely,

Wayne Niederhauser  
President of the Senate  
Co-Chair Legislative Audit Subcommittee

Greg Hughes  
Speaker of the House  
Co-Chair Legislative Audit Subcommittee



# Checklist of Best Practices for Board Members Of Special Purpose Entities

<b>Roles of Board and Staff</b>	
See report pages 23 to 27.	
1. The board takes ultimate responsibility for governance of the entity by (a) appointing an executive staff, (b) providing broad policy guidance, (c) authorizing the use of resources, (d) setting goals and expectations, and (e) monitoring results.	<input type="checkbox"/>
2. The board members recognize their role is to be more than just a ceremonial body. They have a responsibility to lead and hold staff accountable for results.	<input type="checkbox"/>
3. The board chair reviews and approves the agenda before each meeting, inviting other board members to propose additional agenda items, if desired.	<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. To protect against fraud, staff duties are segregated such that no one person has control over all parts of a financial transaction.	<input type="checkbox"/>
6. The board appoints 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, board members serve as treasurer, and clerk.	<input type="checkbox"/>
8. The board approves a staffing policy that defines the responsibilities of all those who handle different aspects of the entity's finances.	<input type="checkbox"/>
9. The board is solely responsible for hiring and directing the audit function.	<input type="checkbox"/>

<b>Internal Controls</b>	
See report pages 28 to 33.	
10. The board approves policies that govern the organization and addresses each best practice described in the best practice audit. This would include policies such as a personnel policy, a procurement policy, and records retention policy. A procurement policy is of particular importance with the recent instances of fraud, waste, and abuse that have occurred.	<input type="checkbox"/>
11. 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"/>
12. To control credit purchases, purchase cards (or "p-cards") are 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"/>
13. 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"/>
14. The board requires its formal approval of any expenditure above a certain dollar amount.	<input type="checkbox"/>

15. 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"/>
16. The board verifies that the entity has complied with applicable state laws including: certification and filing of annual budget (Utah Code 17B-1-614), notice of public meetings (Utah Code 52-4), notice of board member contact information (Utah Code 17B-1-303), participation in Utah public finance website (Utah Code 63A-3-405.4), and financial statement reporting requirements (Utah Code 51-2a-202).	

<b>Recruiting Qualified Personnel</b> Report pages 33 to 37.	
17. Staff avoid recruiting individuals to serve as board members.	<input type="checkbox"/>
18. Local entities publicize the opportunity to apply for any elected board seats that will soon be coming available and any vacant staff positions.	<input type="checkbox"/>
19. Local entities follow an open and objective recruiting process when filling staff positions and hiring outside contractors. Hiring relatives or business associates of the board and management is avoided.	<input type="checkbox"/>
20. Board and staff regularly receive the required training in open and public meetings, board governance and other matters applicable to the entity's mission. Training can be obtained online at <a href="https://auditor.utah.gov/training/local-district/">https://auditor.utah.gov/training/local-district/</a> , through in-house seminars, and at conferences such as those offered by the Utah Association of Special Districts.	<input type="checkbox"/>
21. When in-house expertise is not available to perform special tasks, the entity hires or appoints qualified outside experts.	<input type="checkbox"/>

<b>Tone at the Top</b> Report pages 38 to 40.	
22. The board adopts a code of ethics that clearly states the organization's values and standards of behavior.	<input type="checkbox"/>
23. The board and management seek opportunities to reinforce the organization's ethical standards during staff meetings, training, and newsletters.	<input type="checkbox"/>
24. The board holds everyone accountable, including management, to high standards of performance.	<input type="checkbox"/>
25. The board and executive director avoid using a compensation system and other incentives that encourage employees to take unnecessary risks.	<input type="checkbox"/>
26. The board provides an ethics hotline and adopts a whistleblower policy.	<input type="checkbox"/>
27. The board adopts a conflict of interest policy (based on Utah Code 10-3-13) describing how members should respond when their personal interests have the potential to conflict with their public duty.	<input type="checkbox"/>