

# UTAH LOCAL GOVERNMENTS TRUST

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Findings and Recommendations  
For the Calendar Years 2014 and 2015

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Report No. 15-ULGT-8L



OFFICE OF THE  
UTAH STATE AUDITOR

# UTAH LOCAL GOVERNMENTS TRUST

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Findings and Recommendations  
For the Calendar Years 2014 and 2015

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Report No. 15-ULGT-8L

AUDIT LEADERSHIP:

John Dougall, Utah State Auditor  
Van Christensen, CPA, CFE, Audit Director  
Leslie Larsen, CPA, CFE, Audit Supervisor



OFFICE OF THE  
**UTAH STATE AUDITOR**

**REPORT NO. 15-ULGT-8L**

July 20, 2016

To the Board of Directors  
and  
Steven Hansen, CEO  
Utah Local Governments Trust  
55 S. Hwy 89  
North Salt Lake, Utah

Dear Mr. Hansen and Board Members:

We have performed the procedures described below to certain aspects of the Utah Local Governments Trust (Trust) internal control and compliance for the calendar years 2014 and 2015. The purpose of these procedures was to investigate allegations of mismanagement and noncompliance with policies and statutes. We performed the following procedures at the Trust:

1. We assessed the Trust's procurement policies and procedures for adequacy and completeness.
2. We reviewed and tested a sample of the Trust's credit card transactions for propriety and compliance with policy.
3. We evaluated and tested a sample of the Trust's contracts with other entities for propriety and compliance with policy.
4. We reviewed other controls, procedures, and activities of the Trust and performed other testwork as considered necessary.

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

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report. If you have any questions, please call Leslie Larsen, Audit Supervisor, at 801-538-1348.

Sincerely,

Van Christensen, CPE, CFE  
Audit Director  
[vchristensen@utah.gov](mailto:vchristensen@utah.gov)  
801-538-1394

**UTAH LOCAL GOVERNMENTS TRUST**  
**FOR THE CALENDAR YEARS 2014 AND 2015**

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# UTAH LOCAL GOVERNMENTS TRUST

## FINDINGS AND RECOMMENDATIONS FOR THE CALENDAR YEARS 2014 AND 2015

### BACKGROUND

The Utah Local Governments Trust (Trust) was organized as an “Interlocal Entity” under provisions found in *Utah Code* 11-13, “Interlocal Cooperation Act.” *Utah Code* 11-13-102 states that the purpose of the Interlocal Cooperation Act is “...to permit local governmental units to make the most efficient use of their powers by enabling them to cooperate with other localities on a basis of mutual advantage and ... to provide the benefit of economy of scale.” The Trust’s CEO provided the following explanation regarding the reason the Trust was formed and its original purpose:

*The Trust was formed in 1974 as a response to the commercial markets refusing to insure, or charging exorbitant amounts to insure, governmental entities. ... Initially, the Trust was a sort of group purchaser of insurance on behalf of its Members, leveraging the large numbers to get more reasonable rates of insurance.*

The above explanation is consistent with purposes outlined in the Interlocal Cooperation Act and, in general, those of a cooperative entity (co-op) as outlined in the Overview section below. Ultimately, the Trust has a fiduciary responsibility to manage the resources for the benefit of the taxpayers of its member entities (hereinafter referred to as members).

According to the Trust’s website, there are just over 550 local governments that are members of this interlocal entity. The Trust may solicit additional local governments to join, but may only offer products or services to its members.

### OVERVIEW OF TRUST ACTIVITIES

The Trust appears to be adopting practices that closely mirror those of a private insurance company rather than an interlocal cooperative entity. The following features distinguish a co-op from a private entity:

- *Ownership* – A co-op is owned and run jointly by its members, where a private entity is owned by an individual or investors.
- *Control* – A co-op puts power in the hands of its members, where a private entity is controlled by its owners.
- *Objective* – The objective of a co-op is to provide a high-quality product or service at the lowest cost, where the objective of a private entity is to generate profits for owners.
- *Board Responsibility* – A co-op’s board of directors is responsible for operating the organization for the mutual benefit of its members, where the board of directors of a private entity operates for the benefit of owners.

Because a governmental entity has competitive advantages over private entities—such as favorable tax exemptions—the board should ensure that the activities of the Trust are consistent

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## **FINDINGS AND RECOMMENDATIONS FOR THE CALENDAR YEARS 2014 AND 2015**

with the Interlocal Cooperation Act and those of a co-op, meaning they should operate the Trust for the mutual benefit of its members.

While there is not always a clear line between activities of a co-op and those of a private insurance company, the findings below collectively indicate which practices may need to more closely align with a co-op.

The matters noted in this report may have been caused by a lack of accountability. Most taxpayers are likely unaware of the Trust's existence because interlocal entities are less familiar than other local governments, such as cities or counties. This lack of accountability may have resulted in board members not effectively fulfilling their fiduciary responsibility to manage the Trust resources for the benefit of taxpayers.

## **FINDINGS AND RECOMMENDATIONS**

### **1. QUESTIONABLE EXPENDITURES FOR THE BOARD**

We noted several Trust expenditures that appear to have been unnecessary and primarily benefit board members rather than the members of the Trust. We selected an initial sample of 29 credit card transactions from January 2014 through March 2015 to test for propriety and compliance with policy. When questions were raised with the original 29 sampled transactions, we selected further transactions. We noted the following:

#### **a. Unnecessary and Extravagant Expenditures**

- The Trust spent \$2,270 to buy five iPads for new board members. The Trust explained that the iPads were necessary in order for board members to electronically read monthly PDF reports. Given the infrequency of board meetings and that board members often already have tools from the entities they represent which enable them to read PDF documents, the purchase of these iPads was likely not necessary. Also, the Trust could have collected iPads from outgoing board members and re-distributed them to new board members rather than gifting them to outgoing board members.
- During a board retreat in Park City, \$430 was spent for 4 board members, 2 spouses, and the CEO to golf.
- During a conference in San Diego attended by board members, \$382 was spent on tickets to a professional baseball game, and \$300 was spent on concessions at the game.
- During the same San Diego conference, \$1,072 (in addition to the other amounts noted in this finding) was spent on food and entertainment for 6 board member spouses.

# UTAH LOCAL GOVERNMENTS TRUST

## FINDINGS AND RECOMMENDATIONS FOR THE CALENDAR YEARS 2014 AND 2015

### b. Excessive Per Diem Expenditures

- During a board retreat in Park City, \$2,508 was spent for 10 room nights for board members and trust employees.
- During a board meeting Christmas event, \$2,118 was spent for 9 room nights for board members at the Grand America Hotel; \$1,274 for 23 meals for board members, employees, and spouses (11 spouse meals); and an additional \$145 for parking.
- During a board retreat in Park City, \$1,664 was spent for 14 board members, trust employees, and spouses (6 spouses) to have dinner at Ruth's Chris Steak House (a high-end steakhouse).
- During a conference in San Diego attended by board members, \$1,339 was spent for board members, trust employees, and spouses (6 spouse meals) to have dinner at Donovan's (another high-end steakhouse).
- During the same San Diego conference, \$318.11 was spent for board members, trust employees, and spouses (6 spouse meals) for lunch.

The transactions noted above were the result of a sample for a limited period of time and should not be interpreted to mean that there are not additional questionable expenditures.

During the 2015 legislative session, House Bill 251 made significant changes to the Interlocal Cooperation Act which became effective May 12, 2015. These changes included clarified and improved transparency and accountability over board member compensation and per diem reimbursement, as well as fiscal procedures over areas such as budgeting and accounting. Prior to this law there was a presumption that interlocal entities were subject to laws of the member entities. However, for an interlocal entity with members from different types of governments (county, city, local and special service district) it was not always clear which member entity's laws applied.

Whether or not the above transactions violated specific laws or entity policies, the transactions certainly indicate the absence of effective oversight. While the laws and rules cited below were not in effect for the transactions we examined, they are a good comparison to what would have been reasonable had effective oversight been exercised.

- R25-7-6 provides for an in-state dinner allowance of \$16 and an out-of-state meal allowance of \$22. As noted above, meals at Ruth's Chris, Donovan's, and the Grand America significantly exceeded these allowances.
- R25-7-8 provides for in-state lodging at specified rates for different cities. For lodging at Park City, the traveler may receive the actual cost up to \$90 per night plus tax and for Salt Lake City up to \$100 per night plus tax and, in either case, individuals traveling less than 50 miles from their home base generally are not entitled to have lodging expenses paid. As noted above, lodging expenses in Park City and at the Grand America Hotel in Salt Lake City exceeded these amounts.

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## FINDINGS AND RECOMMENDATIONS FOR THE CALENDAR YEARS 2014 AND 2015

We also noted the Trust paid lodging expenses for individuals who did not travel more than 50 miles from their home base.

- Neither *Utah Code* 11-13-403 nor R25-7 make any allowance for payment of per diem, travel expenses, or entertainment to spouses of board members or employees who attend business trips.

The Trust should ensure that expenditures are necessary and are made primarily for the benefit of Trust members and not for the personal benefit of board members with the cost being borne by the members of the Trust.

### Recommendation:

**We recommend that the Trust:**

- **Reduce board member expenditures to only those that are necessary.**
- **Ensure that current meal and lodging expenses do not exceed maximum amounts allowed by state law or rule.**
- **Avoid actual or perceived extravagance in its spending.**
- **Discontinue the practice of paying for meals, entertainment, and other costs for spouses of board members and employees.**

## 2. WEAKNESSES RELATED TO COMPENSATION TO BOARD MEMBERS AND PER DIEM FOR MEETINGS ATTENDED

We noted several weaknesses related to the Trust's oversight of compensation and per diem to its board members. As stated previously, while the laws and rules cited below were not yet in effect for some of the weaknesses noted, they are a good comparison as to what would have been reasonable had effective oversight been exercised.

### a. Nonidentification of Board Member Compensation in the Trust's Annual Budget

*Utah Code* 11-13-403 allows board members to receive compensation but requires the compensation amount for each board member to be specifically identified in the Trust's tentative budget. However, the Trust did not specifically identify each board member's compensation in the 2016 budget adopted in December 2015. This law also requires entities who appoint a board member to annually approve the compensation after an analysis of the duties and responsibilities of service to the Trust; however, it appears this approval did not take place. Therefore, compensation paid to board members in 2016 has not yet been legally authorized.

### Recommendation:

**We recommend that the Trust amend their 2016 budget to define board member compensation.**

# UTAH LOCAL GOVERNMENTS TRUST

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### **b. Payments to Board Members not Identified as Compensation vs. Per Diem**

The Trust's Interlocal Agreement provides for board members to receive compensation and be reimbursed for expenses. An email from the Trust CEO indicated to us that board members receive \$300 for board meetings attended and \$150 for executive committee meetings attended. However, because there is neither an indication in the Agreement nor an outline of board member compensation amounts in the Trust's annual budget (see a. above), we could not determine whether the amounts paid were for compensation or for per diem, or whether proper per diem amounts were paid for meetings attended by board members. The Trust should clarify whether amounts paid to board members are for compensation or per diem in order to ensure that the payments conform to applicable laws.

#### **Recommendation:**

**We recommend that the Trust clarify whether amounts paid to board members are for compensation or per diem and ensure that the payments conform to applicable laws.**

### **c. Possible Per Diem for Board Meetings in Excess of Amounts Set by Administrative Rule**

We noted several \$300 payments to board members for attending board meetings. If these payments were for per diem, they were in excess of those set by Administrative Rule. R25-5-4(1) states that "Each member of a board ... shall receive a taxable \$60 per diem for each official meeting attended that lasts up to four hours and a taxable \$90 per diem for each official meeting that is longer than four hours." We reviewed meeting minutes and found that nearly all meetings were less than four hours and, as such, board members would have received \$60 for per diem rather than \$300. Once again, we recommend that the Trust clarify whether amounts paid to board members are for compensation or per diem and ensure that per diem payments conform to applicable laws and rules.

#### **Recommendation:**

**We recommend that the Trust ensure that per diem payments conform to applicable laws and rules.**

### **d. Compensation for Board Members Who are Possibly Being Paid by Other Governmental Entities**

According to *Utah Code* 63A-3-106(4)(b) "...a board member may not receive per diem or travel expenses under this Subsection (4) if the board member is being paid by a governmental entity while performing the board member's service on the board." Trust board meetings are generally held during regular business hours; thus, it is possible that some board members are being compensated by the governmental entity they represent.

# UTAH LOCAL GOVERNMENTS TRUST

## FINDINGS AND RECOMMENDATIONS FOR THE CALENDAR YEARS 2014 AND 2015

### Recommendation:

We recommend that the Trust not pay per diem and travel expenses to board members who are being paid by a governmental entity while performing the board member's service on the board.

### 3. IMPROPER INFLUENCE OVER PUBLIC OFFICERS AND EMPLOYEES THROUGH QUESTIONABLE PROMOTIONAL ACTIVITIES

#### a. Improper Gifts to Local Government Officials and Employees

The Trust often provides various forms of food and entertainment at both individual and group local government events. For example, the Trust sponsored a golf event for 75 individuals, 60 of whom were either public officials or employees of Trust members. This event, which included greens fees, golf carts, and lunch, cost the Trust \$4,350, or \$58 per attendee. *Utah Code* sections 10-3-1304, 17-16a-4, and 67-16-5 prohibit public officers and employees from accepting "...an economic benefit tantamount to a gift...that would tend improperly to influence a reasonable person ...to depart from the faithful and impartial discharge of the person's public duties." The law does provide an exception for gifts valued at less than \$50.

### Recommendation:

In order to avoid the possibility of violating the law by improperly influencing the actions of public officials and employees, we recommend that the Trust ensure that benefits/gifts given to Trust members and/or potential members are kept at a minimum, but always below \$50 per person.

#### b. Excessive Promotional Activities

We reviewed Trust expenditures and noted that the Trust spent a total of \$73,603 for "Promotional" activities during calendar year 2015, which included payments for food, beverages, sporting events, candy, etc. Because these expenditures are aggregated, it is unclear if they are attributable to specific individuals, which would also violate the law, as noted in a. above. However, providing promotional activities may also improperly influence public officials and local governments to purchase insurance from the Trust.

Given the purpose and mission of the Trust, we question the necessity of more than minimal amounts of promotional expenditures. As a comparison, we reviewed promotional expenditures incurred by the State of Utah Division of Risk Management (Risk Management) and found that they were very minimal. Risk Management administers insurance coverage for state agencies and institutions of higher education, as well as school districts and charter schools who choose to participate. We averaged revenues for both the Trust and Risk Management for 2014 and 2015 and found them to be comparable.

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We would also expect promotional activities to be targeted at the solicitation of new members and not at existing members. These expenditures may indicate a perceived need to compete with others, including private insurance providers; however, as previously noted, this is not appropriate given the competitive advantages which governmental entities have over private entities.

### **Recommendation:**

**In order to avoid the possibility of violating the law by improperly influencing the actions of public officials and employees, we recommend that the Trust reduce promotional expenditures to a minimum, targeting those expenditures exclusively to soliciting new members to join the Trust.**

#### **c. Competitive Quotes for Insurance Not Generally Obtained by Local Governments**

Because of our concerns related to the large amount of promotional activities sponsored by the Trust, we surveyed 586 local governments regarding their purchase of insurance and found that the prevailing practice for these local governments is to *not* obtain competitive quotes for insurance. The law does not require members to obtain quotes for insurance when participating with an interlocal co-op entity, likely due to the anticipation that the co-op will obtain these quotes on the member's behalf. However, we recommend that local governments periodically obtain quotes, even if they are members of the Trust, to ensure the Trust's prices are competitive.

### **Recommendation:**

**We recommend that members periodically obtain quotes even if they purchase products from the Trust.**

The Trust's focus should be on providing the best value for the taxpayers rather than providing benefits or incentives to public officers or employees. These benefits/incentives potentially create a conflict between the personal interests and public duties of the public officials/employees. In addition, given that most local governments do *not* obtain competitive quotes, we question whether the nature and level of the Trust's promotional expenditures are an appropriate use of taxpayer funds and whether they fit within the purpose of the Interlocal Cooperation Act.

#### **4. THE BOARD FAILED TO FORMALLY ADOPT PURCHASING PROCEDURES**

We requested copies of all fiscal policies and procedures for the Trust and were provided with a policy adopted in 2000 which referred to outdated practices, a *draft* procurement policy, and other informal policies in email or memo formats. The memo and email policy amendments had not been approved by the board. It is the board's responsibility to establish policy and oversee management, and management's responsibility to carry out board policy

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and oversee operations. When management has the ability to adopt policies it periodically creates a conflict between the manager's personal interest and public duties.

Subsequent to the beginning of our audit, the board did formally adopt policies, dated August 21, 2015. It is unclear whether these policies would have been adopted had we not questioned them during our audit. Regardless, the board should ensure that they are fulfilling their proper role by adopting entity policies.

*Utah Code* 11-13-516 states that "An interlocal entity shall make an expenditure or incur an obligation according to the purchasing procedures established by an interlocal entity by resolution..." As previously noted, this law was not applicable when our audit work began; however, the law at a minimum provides a good comparison for what should have been the practice, and certainly shows that during the time between the effective date of the law (May 12, 2015) and the formal adoption of policies by the Board (August 21, 2015), management and employees of the Trust were not legally authorized to make purchases since the Board had not adopted purchasing procedures by resolution.

The lack of formally adopted purchasing procedures may have been due to the Board failing to understand their role and inappropriately allowing management to set and apply policies regarding financial activity of the Trust.

### **Recommendation:**

**We recommend that the Board exercise appropriate oversight over the financial activity of the Trust by formally adopting purchasing procedures, as required by *Utah Code*.**

## **5. EXCESSIVE CEO COMPENSATION**

For 2015, the Trust's CEO earned a salary of \$297,340 and benefits of \$134,891, for a total compensation of \$432,231. This salary is 86% higher than the average CEO salary according to a 2014 executive compensation survey of similar entities. In addition, the CEO's total compensation is approximately 130% higher than the Director of the State of Utah Division of Risk Management.

### **Recommendation:**

**We recommend that the Board analyze appropriate benchmarks and reduce the CEO's total compensation accordingly.**

## **6. TRUST'S DIRECT PAYMENT OF CEO'S PERSONAL CREDIT CARD CREATES AN UNNECESSARY RISK OF LOSS**

We selected 29 credit card transactions made during January 2014 through March 2015 and noted two charges made by the CEO, totaling \$2,353.88, for personal lodging expenses.

# UTAH LOCAL GOVERNMENTS TRUST

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Upon further review, we found that the personal charges appear to be made on a personal card of the CEO, in spite of the monthly credit card statement being addressed to the Trust. The CEO pays for personal charges on the account and the Trust pays the remaining balance directly to the credit card company.

This risk appears to exist because the Board failed to consider risks related to directly paying for Trust purchases made using the CEO's personal credit card. The Trust's direct payment of the CEO's personal card for Trust purchases creates an unnecessary risk of loss because personal expenses, such as lodging, are not unusual business expenses and a reviewer may not easily identify these as personal expenditures. As such, we question whether it is appropriate for the Trust to directly pay for any transactions on the CEO's personal credit card.

### Recommendation:

**We recommend that the Trust discontinue directly making payments on the CEO's personal credit card and instead reimburse the CEO for any charges incurred on his personal credit card for valid Trust expenses.**

## 7. IMPROPER EXCLUSION OF COMMUTE VEHICLE USE FROM GROSS COMPENSATION

The Trust allows certain employees to use vehicles for commuting. The Trust calculates the value of the fuel used by these vehicles for commuting and deducts the amount from the employees pay check. Because the cost of fuel usually represents less than half the cost to operate a vehicle, the remaining difference would meet the definition of "Gross Compensation" found in *Utah Code* 63G-2.

*Utah Code* 63G-2-103(12) defines gross compensation as "...every form of remuneration payable for a given period to an individual ... including ... payments in kind, and any similar benefit received from the individual's employer." The commute use of Trust-owned vehicles appears to meet the definition of gross compensation. As such, the Trust should determine the value of its employees' commute use of Trust-owned vehicles and publicly disclose the value of this compensation on the Utah Public Finance Website.

The failure to determine and publicly disclose this information appears to be caused by the Trust's failure to consider what should be included in employee gross compensation. Excluding this information from gross compensation impairs transparency.

### Recommendation:

**We recommend that the Trust determine the value of its employees' commute use of Trust-owned vehicles and publicly disclose the value of this compensation on the Utah Public Finance Website.**

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## **FINDINGS AND RECOMMENDATIONS FOR THE CALENDAR YEARS 2014 AND 2015**

### **8. FAILURE TO ADEQUATELY JUSTIFY VEHICLE COMMUTE AND TAKE HOME PRIVILEGES**

The Trust grants commute and take home privileges to employees and justifies this use because the employees frequently travel from home directly to a member's location. However, we question this justification because of the high percentage of Trust employees granted this privilege. This privilege may be more of an employee benefit rather than a justifiable business need.

The State of Utah Division of Fleet Operations has adopted policies regarding circumstances when commute and personal use of state vehicles may be allowed and what information must be tracked to validate the justification. The Board should adopt similar policies to ensure that commute and personal use of Trust vehicles is justifiable and an efficient use of taxpayer funds.

#### **Recommendation:**

**We recommend that the Board evaluate the justification and appropriate use of Trust vehicles and adopt or modify policies to ensure the efficient use of taxpayer funds.**

## UTAH LOCAL GOVERNMENTS TRUST

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July 11, 2016

The Utah Local Governments Trust (the “Trust”) appreciates the opportunity to provide a response to the State Auditor’s Findings and Recommendations for its audit of the calendar years 2014 and 2015 (the “Audit”). The Trust recognizes the diligent efforts of the audit staff as they conducted this Audit over the past thirteen months, and believes that this Audit has resulted in helping the Trust identify and improve certain weaknesses in its procedures and policies. The Trust will be a better organization and will be even more effective in providing its members with the greatest value because of the Audit.

The Trust is an interlocal government agency formed under Utah’s Interlocal Cooperation Act. It has more than 526 governmental entity members which include 41% of Utah’s counties, 88% of its cities and 72% of its special service districts—from the largest and most complex to the smallest of government entities. The Trust is what is commonly referred to as risk pool and is owned by its government members. It is not an insurance company, although it serves a similar function. More than (85%) of all governmental entities in the United States participate in pools rather than purchasing insurance through private markets.

Risk pools are better able to cover the unique risks of government entities that may not be covered by commercial insurance or that may be prohibitively expensive to cover. Government risk pools are not subject to the whims of the private markets, which are driven by profit and have abandoned the market when it has become unprofitable. For example, the commercial markets are currently pulling back coverage in some areas and are even eliminating coverage, such as for Law Enforcement Liability. We are currently seeing a trend in commercial markets of providing less coverage for greater cost, while the trend of the Trust is just the opposite—more coverage for less cost. Pools are also more efficient than commercial insurance because there is no profit motive. The Trust also provides significant training to its members to minimize exposures to risk, reduce costs and save lives. Protecting against the risks of public agencies is an inherently governmental function. For these and many other reasons, pools are the preferred method to protect governmental entities because they increase protection, reduce costs, and reduce liability, ultimately saving taxpayer money.

While commercial insurance rates have been volatile and coverage terms and conditions have become more restrictive, because of the Trust’s skillful management, it has not only been able to provide more than \$5 million in rate stabilization for its members over the past five years, but has also returned more than \$6.5 million to the members over that same period in the form of dividends. The Trust’s 3-year expense ratio, measuring operational efficiency for Auto/Property, Liability, and Workers Compensation, insurance is 35% less than the insurance industry average, 29% less than the average for the Top 25 insurance carriers, and 27% less than the average for comparable governmental public entity pools (Analysis provided by Aon Risk Solutions | Actuarial & Analytics Practice). Despite a shrinking insurance market, the Trust continues to grow. During the past six years, Trust membership has expanded by more than 17%, with member retention at 99.2%. Growing and maintaining membership is critical to the

performance of the Trust, because it is only through large numbers that self-insurance risk coverage works to the benefit of the members and ultimately taxpayers.

The Trust's recent impressive performance is not by accident. It is a result of running a lean operation with some of the lowest costs and highest performance of any organization of its kind, not just in Utah, but throughout the United States. Not coincidentally, this period of growth and high performance coincides with the hiring of Mr. Steven Hansen as the chief executive officer of the Trust in 2010. One simple measure of Trust management's performance under Mr. Hansen's tenure is the return of \$6.5 million to Trust members. Prior to hiring Mr. Hansen as CEO, the Trust had never paid a dividend in its previous 36-year history.

The Board of Directors is proud of the Trust's accomplishments. We recognize that there is always room for improvement, and since meeting with the auditors, the Trust has proactively made the necessary changes recommended in the Audit. We will continue to take all steps necessary to make sure the Trust complies with all laws and operates as efficiently as possible for the benefit of its members and the citizens of Utah.

The following are the Trust's specific responses to the Audit findings.

1. **Questionable Expenditures for the Board.** We agree with the Audit's finding and recommendation that there have been some board expenses that can and should be minimized or avoided. While we maintain that the Trust did not violate any laws relating to board expenditures, the Trust recognizes that it has an obligation to avoid even the appearance of impropriety and that it should rigorously seek transparency. The Board has adopted an appropriate policy for the issuance and return or purchase of electronic reading devices to Board members. Expenses for meals and lodging will be limited to the newly enacted per diem rates. Furthermore, the Trust will no longer pay any expenses of board member spouses.
2. **Weaknesses Related to Compensation to Board Members and Per Diem For Meetings Attended**
  - a. **Nonidentification of Board Member Compensation in the Trust's Annual Budget.** As noted in the Audit, in 2015, the Utah Legislature passed a number of changes to the Interlocal Cooperation Act, which became effective in the middle of 2015. One of those requirements was that preliminary budgets of interlocal agencies specifically identify the board compensation of each board member. The Trust was unaware of this new requirement and therefore did not comply with the requirement. It is worth noting that only two of the dozens of other interlocal agencies attempted to meet this requirement, one of which was the agency that prompted the legislation. The Board has already adopted a revised budget identifying the individual compensation of each board member. Newly enacted section 11-13-403(1)(e) states that if a member of an interlocal entity appoints someone to the interlocal entity's board, that appointing entity must annually approve of the board member's compensation. Members of the Trust's Board are not appointed. They are elected by the membership at large.

Requiring all 526 members of the Trust to annually approve the compensation of the Trust's Board is not a workable policy. Since the specific board compensation is now required to be reported on the state transparency website, the members will be informed of the compensation, so the primary concern of the statute will be satisfied. Nevertheless, the Board has adopted a policy going forward of having each Board Member's respective entity approve of the Board Member's compensation annually in an open meeting.

- b. Payments to Board Members not identified as Compensation vs Per Diem.** The Trust provided the auditors with minutes of its December 19, 1996 board meeting, in which the Board explicitly approved the payment of \$300 in compensation to the Board Members for each meeting. That compensation has not changed in twenty years. While there appears to be little room for confusion as to what the \$300 payments to Board Members were for, the Trust will clarify the policy pertaining to Board compensation and per diem expenses so there is no opportunity for confusion going forward. The Trust agrees that the Executive Committee meeting compensation was not approved in the minutes and agrees that under current law, the Executive Committee Meeting compensation must be set by the Board. The Trust will adopt a specific resolution for all Board compensation at its next Board meeting.
  - c. Possible Per Diem for Board Meetings In Excess of Amounts Set by Administrative Rule.** As mentioned above, since the \$300 was clearly identified as compensation in the official minutes of the Board, there were no issues with excessive per diem payments. Furthermore, the rule cited was not in effect during the reviewed periods.
  - d. Compensation for Board Members Who Are Possibly Being Paid by Other Governmental Entities.** The Trust will ensure that to the extent per diem payments are made in addition to approved compensation, such per diem amounts will conform to applicable laws and rules.
- 3. Improper Influence over Public Officers and Employees Through Questionable Promotional Activities.**
- a. Improper Gifts.** The Trust was unaware that any specific event it held exceeded the statutory safe harbor \$50/per person "gift." The Trust of course does not want to put any governmental employee or official in the position of even appearing to violate the law, and will work diligently to ensure the laws cited in the Audit are being followed. Going forward, the Trust will not hold any events in which the value attributable to any one governmental official or employee exceeds \$50.00. It is important to note that none of the Trust's "promotional" activities were or are intended to improperly influence a government employee for official action taken. The fact that the cited golf tournament exceeded the \$50 safe harbor, does not mean the tournament violated the law. The Trust is a non-profit governmental entity itself and exists only to serve the

needs of its members; it does not stand to gain anything by influencing other governmental entities to self-insure through the Trust.

- b. Promotional Activities.** Most of the promotional activities conducted by the Trust are tied to increasing safety in the workplace and minimizing liability exposure and other training. Given the size and reach of the Trust's membership, we do not believe that \$73,603 in expenses is out of line with the mission of the Trust. Unlike State Risk Management, the Trust is not funded by the legislature and none of its members are required to participate with the Trust, which is the case with many of Risk Management's participants. Therefore, it is not surprising that Risk Management would spend little on educating public entities about the benefits of participating in its pool. However, we do believe it is important to carefully review these expenses to ensure they are properly reported and properly targeted for the benefit of the members. The Trust agrees that truly promotional expenses should be targeted at new potential members. However, the Trust also recognizes the benefits of continuing to educate its existing members of the benefits of self-insuring through the Trust and believes that some of those expenditures should continue.
  - c. Competitive Quotes.** The Trust does not know which governmental entities were surveyed to determine how regularly those entities obtained quotes. The Trust frequently participates in bidding processes with existing members. Furthermore, the Trust has encouraged members to obtain quotes and has even facilitated entities researching other options for covering their risk, including helping members determine whether switching to stand-alone self-insurance would make sense. Ultimately, the Trust wants what is best for its members. Having said that, to the extent members do not regularly obtain outside bids, there is a good reason for that — the members own the Trust. Furthermore, commercial insurance cannot replicate what self-insuring through the Trust can in coverage, in training, and, most importantly, in the ability to receive cash dividends if the Trust is run efficiently. We agree with the Audit's recommendation that members should periodically obtain other bids to ensure they are getting the best coverage at the best rates, even though members are not likely to be able to replicate the value and performance of self-insured pool membership with the private market or even other pools.
- 4. The Board Failed to Formally Adopt Purchasing Procedures.** The Board formally adopted purchasing procedures in 2000, although it was not required by law to do so at the time. We agree with the Audit's finding that the purchasing procedures adopted in 2000 could have been more robust. While we respect Mr. Hansen's independent efforts to mandate better purchasing controls, the Board also recognizes that setting such policies should be through Board action. When Section 11-13-516 was enacted in 2015, requiring interlocal agencies to formally adopt a purchasing policy, the Trust's legal counsel made us aware of the change in the law. The law became effective as of May 12, 2015, and the Board adopted the new, comprehensive purchasing policy on August 21, 2015. No further action is necessary.

**5. Excessive CEO Compensation.** As stated above, the Board selected Mr. Steven Hansen to act as its CEO in 2010, after conducting a national search for the position. Mr. Hansen has a long and impressive resume both in the private and public sector and brings a unique skill-set to the Trust. At the time Mr. Hansen was hired, the Trust conducted a compensation study and set his salary accordingly. The Board is aware of the NLC Risk salary survey referred to in the Audit. That study is not scientific or comprehensive, nor are the positions and responsibilities of the voluntary respondents adequately compared. Of the voluntary respondents to that survey, only three of the organizations generally compare in terms of responsibilities and size of organizations. Of those three, two have greater compensation than Mr. Hansen and one has a lower total package. The Board recently commissioned a professional compensation survey. That survey places Mr. Hansen's salary plus bonus slightly above the middle of the pack of similarly situated professionals. Additionally, the Board is aware that the salaries of a number of CEO's of similarly situated pools are much higher than Mr. Hansen's.

The Board is not insensitive to the fact that Mr. Hansen's compensation is significant. The Board annually sets performance standards for the CEO, which he has always exceeded. Furthermore, because of his background, he is able to fill the role of several different employees resulting in significant savings to the Trust. One example of this is that he personally runs the treasury management for the Trust, rather than outsourcing that function to a third party or hiring another individual, saving the Trust hundreds of thousands of dollars. This is a function he performed for the Trust prior to being hired as CEO, and that CFO/treasury position was eliminated at the Trust after he became the CEO. Mr. Hansen had extensive treasury experience in the private sector prior to joining the Trust. He restructured global treasury and risk management for Autoliv ASP, Inc., a Fortune 500 company. During his 5-year tenure there, he managed an \$850 million commercial paper facility and 23 banking relationships, cutting seven basis points from daily funding costs, amounting to \$3,000,000 in savings. Mr. Hansen was also responsible for Autoliv's risk management and was instrumental in reducing workers compensation costs by 55%. He has also been the director of risk management for Salt Lake City Corporation and West Valley City Corporation, and also worked in the claims department of the Utah Division of Risk Management. In short, Mr. Hansen is uniquely qualified for his position, and has performed at the highest levels that could be expected.

We believe that the CEO's performance speaks to the incredible value he has brought to the trust. The fact that he and his team have been responsible for rate stabilization and returning dividends to the members of the Trust over the past five years, when there had never been a dividend in the preceding 36-year history of the Trust, is just the tip of the iceberg. He has streamlined operations, maintained or reduced coverage costs, increased coverage terms, acquired and retained talented employees, and placed the Trust in the position of being one of the most efficiently and successfully run pools in the country.

The Board does not believe that the Trust's CEO position is comparable to the State Risk Director. The two entities have some similarities, but are very different organizations. For example, the Utah State Risk Management is mostly funded by captive State agencies and

colleges and universities and many of its members are required by law to participate in the fund. Furthermore, the head of State Risk Management does not perform treasury functions, nor is she responsible for obtaining and retaining members to the same extent required by the Trust. The Trust services a complex array of members and insurance needs and must deliver the best product at the lowest cost to retain its members. No member is required to self-insure through the Trust and members can leave the Trust without any strings attached.

The Board believes that Mr. Hansen's compensation is in line with the market compared to similarly situated government risk pools. The Board understands the Audit's concern regarding the Trust's CEO compensation. We will continue to set performance standards and compare the CEO's compensation with industry standards moving forward and make any adjustments necessary to ensure the Trust is run in the most efficient manner possible for the benefit of its members.

- 6. Trust's Direct Payment of CEO's Personal Credit Card.** While neither this Audit nor any previous annual audit conducted by the Board has revealed any instances of inappropriate reimbursements for Trust charges to a personal credit card, the Board agrees that all Trust purchases should be made on Trust issued credit cards and that personal credit cards should not be used for Trust purchases.
  
- 7. Improper Exclusion of Commute Vehicle Use from Gross Income.** Because of the Trust's vehicle purchasing policy, the actual non-fuel cost of operating one of its vehicles (approximately \$1,600/year) is far less than the fuel costs of the vehicle. Nevertheless, the Trust agrees that absolute transparency is important and will determine the possible benefit to Trust employees and ensure that benefit is properly reported.
  
- 8. Failure to Adequately Justify Vehicle Commute and Take Home Privileges.** The Board will review the Trust's existing policy and the State Fleet Operations policy and adopt policies to ensure efficient use of taxpayer funds. However, the Board does believe the current policy is beneficial to the Trust's members given the geographic area Trust employees must cover throughout the entire State of Utah.

Again, the Board appreciates the efforts of the State Auditor's office. We are committed to bringing the best value to our members possible and we are grateful for the Auditor's recommendations.



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Mayor Joe L. Piccolo  
Chairman of the Board of Directors