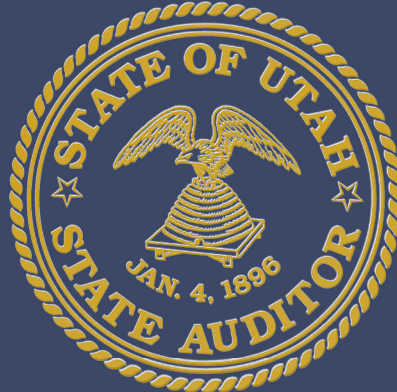


STATE OF UTAH
OFFICE OF THE UTAH STATE AUDITOR



TINA M. CANNON
UTAH STATE AUDITOR

Manufacturing Extension Partnership

Limited Review

For the period between January 1, 2023 to December 31, 2024

Report No. USU25SP

Office of the Utah State Auditor

Project Leadership:

Tina M. Cannon, State Auditor

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TINA M. CANNON
UTAH STATE AUDITOR

Report No. USU25SP

July 29, 2025

To Jefferson Moss, Executive Director of Governor's Office of Economic Opportunity;
Interim President Alan L. Smith of Utah State University; and
President Taylor R. Randall of the University of Utah

The Office of the Utah State Auditor (OSA) offers a hotline program through which we receive complaints with financial or compliance implications related to state or local governments. OSA received a complaint alleging misuse of public funds by iMPact Utah (IU), a nonprofit entity receiving state and federal grant revenue.

To determine the credibility of these allegations, we performed the following procedures:

1. Assessed the nature of federal grant requirements by reviewing federal publications;
2. Assessed oversight activities performed by various state entities involved through interviews with state personnel;
3. Reviewed certain IU financial and operational activity; specifically, we reviewed a judgmental sample of IU's cash transfers, credit card transactions, accounts receivable, accounts payable, and other financial information for calendar years 2023 and 2024, unless otherwise noted; and
4. Interviewed current and former IU employees to gain an understanding of IU operations.

As described in the findings, we believe that a lack of clear delineation of responsibilities and procedures over state grant funds led to insufficient oversight of these funds and resulted in IU misusing state funds without detection for several years.

Our procedures were limited to matters related to the complaint. As such, we did not perform an audit of federal funds in accordance with federal audit requirements.¹ Further, due to time constraints, we did not perform a comprehensive review of all financial activity for the entire period this entity received

¹ Federal audit requirements include Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and general and program specific compliance requirements subject to audit in the OMB Compliance Supplement.

public funds. Had we extended the period of our review, and/or performed additional procedures, other matters may have come to our attention that would have been reported to you.

We appreciate the courtesy and assistance extended to us by IU, the Governor's Office of Economic Opportunity, the University of Utah, and Utah State University personnel during our review. We look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,



Tina M. Cannon
Utah State Auditor

cc: Representative Val Peterson, Executive Appropriations Committee Chair
Senator Jerry Stevenson, Executive Appropriations Committee Chair
Kamron Dalton, Managing Director of Operations, Governor's Office of Economic Opportunity
Bassam Salem, University of Utah, Audit Committee
Steven Phillips, University of Utah, Controller
Steve Black, Center Director, University of Utah Manufacturing Extension Partnership
Stephen Reed, Director, Utah State University Manufacturing Extension Service
Mica McKinney, Utah State University, Senior Vice President & General Counsel
Wendy Keller, Utah State University, Controller
Jodi Bailey, Utah State University, Chief Audit Executive
Stewart Young, Criminal Deputy Attorney General
Sophia DiCaro, Executive Director, Governor's Office of Planning & Budget
Jonathan Ball, Legislative Fiscal Analyst

Background

The federal government created the Manufacturing Extension Partnership (MEP) program in the late 1980s to enhance the competitiveness, productivity, and technological performance of U.S. manufacturing. The University of Utah (U of U) receives and administers federal MEP grant funds.² Since federal MEP grant funds require matching funds, the state legislature appropriated state funding for the Utah-MEP Manufacturing Assistance and Outreach Project (Project).³ The state funds are passed through the Governor's Office of Economic Opportunity (GOEO) and then granted to Utah State University (USU). U of U and USU partner with, and allocate grant funds to, various non-governmental organizations (subrecipients) to help bring about MEP objectives.

The Business Training & Resource Center, a non-profit corporation doing business as iMPact Utah (IU), was the subrecipient of the majority of federal and state MEP grant funds in Utah for the past several years. After OSA's receipt of the complaint, IU's executive director resigned, and IU will reportedly cease business operations in early fiscal year 2026.

IU and other subrecipients offer training and other services to manufacturers in Utah for a subsidized fee (Program Income⁴). We noted that IU appeared to generate a limited amount of revenue unrelated to the MEP program, however, we could not readily distinguish the amount and deemed it insignificant. Since federal MEP grant funds, required matching funds, and any Program Income (MEP Funding) are all subject to federal grant requirements, we did not consider it necessary to distinguish which funding source was used for IU's various expenditures. Therefore, due to the negligible revenue IU generated unrelated to the MEP program, we viewed any inappropriate expenditures as a misuse of public funds.

Effective July 1, 2024, Utah Code §63G-6b created a statutory framework for state grants that imposed additional oversight requirements on the administering agency over state grants, including direct award grants. Consequently, prior to July 1, 2024, this statutory guidance did not exist and was effective only for the last six months of the period tested.

² Federal MEP grant funding was \$1,492,598 per year for federal fiscal years 2023, 2024, and 2025.

³ Since FY22, the state legislature has appropriated \$2.8 million in matching funds annually.

⁴ IU reported Program Income of \$963,143 in 2023 and \$1,273,473 in 2024.

Findings and Recommendations

Finding 1. Lack of Oversight for MEP Funding

The Governor’s Office of Economic Opportunity (GOEO) and Utah State University (USU) did not exercise adequate oversight of Project funds, which allowed subrecipient iMPact Utah (IU) to misuse Project funds and related Program Income without detection for several years.

The Utah Industry Resource Alliance (UIRA) was created in April of 2020 and is comprised of U of U, USU, and iMPact Utah. In appropriation bills the state legislature designated GOEO as the administering agency for MEP Project funds and directed GOEO to pass-through the funds to the UIRA. GOEO signed a series of pass-through funding agreements with USU to govern the use of these funds. As the administering agency of MEP Project funds, GOEO should have either performed or ensured its grantee, USU, performed appropriate and reasonable oversight of its subrecipients.⁵ Aside from requiring an annual status report, GOEO did not perform any substantive oversight activities.

Likewise, USU did not perform sufficient financial oversight of Project funds given to IU or of the resulting Program Income. While each pass-through agreement we reviewed included language requiring USU to “ascertain that expenditures made are for the purposes appropriate to and related to the request presented to the Legislature,” USU personnel did not interpret language in their pass-through agreements with GOEO as requiring them to conduct subrecipient oversight.

Instead of active monitoring of Project funds, USU entered into agreements with IU that state, “Funds will be spent by the parties in support of the program the parties presented to the state.” These agreements did not include any process for USU to perform oversight or otherwise ensure funds were spent as intended.

We identified additional factors that contributed to the lack of adequate oversight:

- GOEO interpreted the direct appropriation language as a mandate to facilitate the transfer of funds without empowerment to oversee the usage of Project funds. House Bill 4 of the 2025 General Session stated, “The Legislature intends that the Governor’s Office of Economic Opportunity provide a direct award grant of \$2,800,000 to the Utah Industry Resource Alliance⁶ in FY2026 for economic opportunity.”
- Though both GOEO and USU were involved in distributing funds to IU, it appears that neither entity assumed responsibility for overseeing how the funds were used.

⁵ §63G-6b-201(1)(c) effective July 2024, codifies that the administering agency must ensure accountability

⁶ The Utah Industry Resource Alliance (UIRA) was created in April of 2020 and is comprised of U of U, USU, and IU.

- Prior to the enactment of Utah Code §63G-6b in July 2024, there was no specific statutory guidance governing the administration of direct award grants, though federal and professional standards for grant management did exist.

Proper oversight would have included activities such as:

- Reviewing expenditures to ensure compliance with program requirements;
- Reviewing audited financial statements;
- Performing basic due diligence on the subrecipient, including verification that IU had a functioning board; and
- Ensuring IU was compliant with state reporting requirements to the Office of the State Auditor (see Finding 3).

The lack of oversight enabled the President of IU to misuse public funds in multiple ways, as detailed in Finding 2 below. This misuse of Project funds and Program Income may expose the state to federal scrutiny, including potential cost disallowances and reimbursement requirements.

Recommendations:

We recommend that GOEO, as the administering agency:

- Develop and implement measures to “ensure accountability and responsible oversight of the use of the grant funds” in compliance with Utah Code §63G-6b and incorporate additional established professional oversight standards as appropriate. (See Appendix A for links to resources that could be considered.)
- Adopt an accountability structure and monitoring requirements that recipients of MEP Project funds and other state pass-through grant funds must apply to subrecipients. (See Appendix A for links to resources that could be considered.)
- Ensure the FY26 appropriation is not distributed to an entity that may be subject to clawback under Utah Code §63G-6b-201(4)(e) and/or may no longer exist

We recommend that USU, as sub-grantee:

- Develop more robust procedures to ensure compliance with grant requirements and perform due diligence over its subrecipients to ensure funds are spent appropriately and in compliance with federal and state reporting requirements.
- Coordinate with U of U as the recipient of federal MEP funds, to ensure oversight and monitoring of subrecipients is sufficient and satisfies federal grant requirements related to Project funds and Program Income.

Finding 2. Misuse of Public Funds

As indicated in Finding 1, there was inadequate oversight of IU's use of MEP Funding. In addition, IU did not have a functioning board of directors to oversee its activities. This lack of oversight allowed the President of IU (President) to use IU funds for personal benefit including:

- **Use of IU funds on behalf of a Private, For-Profit Corporation (up to \$2,147,822)** – President was the majority shareholder in the for-profit corporation, Vereo Impact, Inc. (Vereo). Financially, Vereo and IU were treated like two divisions of the same company, rather than two separate legal entities. We identified the following instances in which IU funds were transferred to or expended on behalf of Vereo:
 - A net total of \$1,968,305 in cash was transferred from IU to Vereo between April 28, 2022, and March 19, 2025, including \$400,000 that Vereo used to purchase another business entity;
 - IU funds were used to directly pay Vereo debt of \$103,409;
 - IU funds were used to purchase \$26,165 of assets for Vereo; and
 - IU funds were used to directly pay Vereo operating expenses of at least \$23,007 in 2023 and at least \$26,936 in 2024.

Reportedly, some Vereo employees performed work for IU, and therefore, it would have been reasonable for Vereo to bill IU for the cost of these services; however, costs were not tracked and we found no billing records. IU employees also performed services on behalf of Vereo that did not appear to be billed to Vereo.

Due to a lack of detailed record keeping and significant comingling of funds, it is impossible to determine the exact amount of IU funds inappropriately used on behalf of Vereo; however, we estimate it would be between \$1 million and \$2 million.

- **Excessive Executive Compensation (approximately \$750,000)** - We compared the total salary and benefits received by President to the salaries and benefits of executives of other similarly sized nonprofit (NFP) entities. While President's base salary and benefit package was only marginally higher than compensation received by the other executives, bonuses received by President were exorbitant compared to other NFP entity executives. President received bonuses of \$200,000 in 2022, \$200,000 in 2023, and \$125,000 in 2024. The total average salary and benefits, including bonuses, received by President from 2022 to 2024 was \$518,823 per year, which is more than double the average total compensation received by executives in similarly sized NFP entities we reviewed. President's total pay and benefits also likely exceeded "reasonable compensation" as defined by the IRS.⁷

⁷ The IRS defines reasonable compensation as the value that would ordinarily be paid for like services by like enterprises under like circumstances. (2024 Instructions for Form 990 Return of Organization Exempt From Income Tax)

- **Personal Vacations (at least \$35,715)** – President used the IU corporate credit card to pay for several vacations with his wife during 2023 and 2024. Vacations included trips to Hawaii, Las Vegas, Florida, and other destinations. Airfare, meals, lodging, rental cars and excursions (helicopter tour, snorkel cruise, luaus, shows in Las Vegas, etc.) were all charged to IU. We could see no legitimate business purpose for these trips.
- **Other Personal Expenses (approximately \$2,563)** – President used his IU credit card to pay for other personal expenses, including massage, personal subscriptions, Amazon purchases, a haircut, exercise equipment, etc.
- **Political Donations (\$9,958)** – IU made donations to three state campaigns and one federal campaign during 2023 and 2024. The IRS prohibits 501(c)(3) entities from directly or indirectly participating in, or intervening in, any political campaign on behalf of (or in opposition to) any candidate for elective public office.⁸

All MEP funding was subject to the governing requirements of the federal and state grants and should have been used to accomplish authorized grant purposes. The transfers and expenditures above did not appear to further grant purposes. As a result, we estimate that between \$1.8 million and \$2.8 million in MEP Funding was used inappropriately.

Recommendation:

We recommend that GOEO and USU:

- Determine whether actions to recover any misused MEP Funding would be appropriate or feasible; and
- Consider referring this matter to appropriate law enforcement entities.

We recommend that U of U coordinate with GOEO and USU to determine potential federal impact of this misuse on the Federal MEP program and communicate with Federal MEP administrators to determine an appropriate resolution.

Finding 3. Violation of Financial Audit and Reporting Requirements

Utah Code §51-2a-201.5(4) indicates that a state agency that disburses federal pass-through money or state money to a NFP corporation must require the NFP to disclose when the NFP has received at least \$25,000 in public funds. When the NFP discloses to the state agency that the NFP has met or exceeded statutory thresholds, the state agency must notify the Office of the Utah State Auditor (OSA) and, per

⁸ <https://www.irs.gov/charities-non-profits/charitable-organizations/restriction-of-political-campaign-intervention-by-section-501c3-tax-exempt-organizations>

Utah Code §51-2a-201.5(2), the NFP must submit the applicable financial reporting depending on the dollar amount received to the OSA.

Neither USU nor U of U included the above requirement in their agreements with IU. Further, neither notified the OSA that they had disbursed more than \$25,000 to IU. Nor did they ensure that IU provided the required financial reports to OSA. Since IU received over \$1 million of public funds per year, they should have engaged an independent certified public accountant to audit its financial statements and submitted those statements to OSA for the past several years.

It appears that IU was unaware of these reporting requirements. Since OSA had not been notified that IU was required to submit, OSA was unable to enforce the provision. Had IU's financial activity been subjected to financial audit and reported to OSA as required, misuse of public funds detailed in Finding 2 may have been prevented or detected sooner. Further, had USU and/or U of U reported they provided IU more than \$25,000 of public funds, OSA would have been aware of IU and could have addressed IU's noncompliance with reporting requirements.

Recommendation:

We recommend that USU and U of U comply with *Utah Code* §51-2a-201.5(4) and:

- Inform NFP subrecipients of public funds of reporting requirements to OSA and monitor compliance; and
- Inform OSA of NFPs to which they disburse more than \$25,000 of public funds annually.

Appendix A

Articles in the links below include sound principles that should be considered in the development of an accountability structure and subrecipient monitoring process:

- https://www.ojp.gov/tfsc/subrecipient_monitoring_guide_sheet_508
- <https://www.baldwincpas.com/insights/subrecipient-risk-assessments-and-monitoring-for-federal-grant-recipients-best-practices>
- <https://grants.maryland.gov/SiteAssets/Pages/Conference/Subrecipient%20Risk%20Assessment%20and%20Monitoring.pdf>
- <https://info.amplifund.com/blog/grant-recipient-monitoring-best-practices>
- <https://dallascityhall.com/departments/budget/communitydevelopment/DCH%20Documents/City%20of%20Dallas%20TA%20Workshop%20-%20Subrecipient%20Monitoring%20Best%20Practices.pdf>

Agency Responses



07/22/2025

Attn: Office of the Utah State Auditor

Please find below The Governor's Office of Economic Opportunity's responses to the Manufacturing Extension Partnership Audit recommendations pertaining to our office. We appreciate the opportunity to collaborate on this matter and look forward to implementing the recommendations.

We recommend that GOEO, as the administering agency:

- ***Develop and implement measures to "ensure accountability and responsible oversight of the use of the grant funds" in compliance with Utah Code §63G-6b and incorporate additional established professional oversight standards as appropriate. (See Appendix A for links to resources that could be considered.)***
- ***Adopt an accountability structure and monitoring requirements that recipients of MEP Project funds and other state pass-through grant funds must apply to subrecipients. (See Appendix A for links to resources that could be considered.)***
- ***Ensure the FY26 appropriation is not distributed to an entity that may be subject to clawback under Utah Code §63G-6b-201(4)(e) and/or may no longer exist***

GOEO accepts this recommendation.

For context, GOEO's ability to create monitoring requirements was constrained because:

- GOEO historically had limited legal authority to place requirements on pass-through funds, and
- GOEO has a contractual relationship with its recipients, not its recipient's subrecipients.

GOEO's recipients were contractually obligated to conduct oversight on their subrecipients; however, GOEO will increase its oversight of its recipients' oversight of their subrecipients.

Finally, Utah Code §63G-6b-201(4)(e) requires that GOEO's agreement with its recipient include "the grant recipient's consent to follow-up audit and clawback of the grant funds if an audit shows that the grant funds were inappropriately used." GOEO has not, and will not, distribute funds to an entity after an audit shows grant funds were inappropriately used.

We recommend that GOEO and USU:

- ***Determine whether actions to recover any misused MEP Funding would be appropriate***

- or feasible; and*
- **Consider referring this matter to appropriate law enforcement entities.**

GOEO dedicates significant time and resources across the agency to prevent fraud, waste, and abuse. We recognize, however, that no system is infallible and that nationally, whistleblower tips are the most frequent way this sort of misconduct is uncovered (more than three times higher than the next leading detection method). GOEO received the tip that initiated this audit concurrently with OSA, and GOEO appreciates OSA's diligent work in investigating the complaint.

GOEO takes all accusations of fraud, waste, or abuse seriously, and therefore accepts this recommendation.

Thank you,

Jefferson Moss

Jefferson Moss
Executive Director

CC: Kamron Dalton, Managing Director, Operations
Greg Jeffs, Audit Director
Mandy Teerlink, Office of the Utah State Auditor



**Official Response to the Manufacturing Extension Partnership Audit from
State of Utah, Office of the State Auditor**

7/16/25

Utah State University appreciates the opportunity to respond to audit findings for the Manufacturing Extension Partnership regarding iMPact Utah. Below are our responses to the audit recommendations.

Finding 1. Lack of Oversight for MEP Funding

Recommendation:

- Develop more robust procedures to ensure compliance with grant requirements and perform due diligence over its subrecipients to ensure funds are spent appropriately and in compliance with federal and state reporting requirements.
- Coordinate with the U of U as the recipient of federal MEP funds, to ensure oversight and monitoring of subrecipients is sufficient and satisfies federal grant requirements related to Project funds and Project income.

USU Response:

Improved state award documentation will properly trigger USU's monitoring procedures for subrecipients. USU will collaborate with the appropriate state entities to ensure state awards identify direct awardees as subrecipients, include terms for expected oversight tasks, and include prime award agreements for reference.¹ Improvements in these areas will assist USU with ensuring proper subaward setup and monitoring. USU will review its existing due diligence and monitoring procedures to ensure they are aligned with best practices.

Finding 2. Misuse of Public Funds

We recommend that GOEO and USU:

- Determine whether actions to recover any unused MEP Funding would be appropriate or feasible;
- Consider referring this matter to appropriate law enforcement entities.

¹ In this instance, nothing in the MEP contract from the State of Utah, which directed payment to iMPact Utah, indicated that the award was connected with federal flow-through dollars, that the funds were associated with required cost share on a federal project, or that subaward set-up and monitoring for the directed payment was required.

USU Response:

USU will coordinate with GOEO and the Utah Attorney General's office to evaluate whether there are feasible steps to recover unused MEP Funding. USU will also coordinate with GOEO to make appropriate referrals to law enforcement agencies.

Finding 3. Violation of Financial Audit and Reporting Requirements

We recommend that USU and U of U comply with *Utah Code 51-2a-201.5(4)* and

- Inform NFP subrecipients of public funds of reporting requirements to OSA and monitor compliance, and
- Inform OSA of NFPs to which they disperse more than \$25,000 of public funds alliance.

USU Response:

As stated above, USU will work with the appropriate state entity to ensure flowthroughs of direct appropriations are properly flagged in award documentation and setup as subrecipients and that its subaward agreements include language regarding the requirements of Utah Code 51-2a-201.5(4).



Official Response to the Manufacturing Extension Partnership Audit from State of Utah, Office of the State Auditor

7/22/2025

The University of Utah appreciates the opportunity to respond to audit findings for the Manufacturing Extension Partnership with regard to iMPact Utah. Below you will find our responses to the audit recommendations.

Finding 2. Misuse of Public Funds

Recommendation:

We recommend that GOEO and USU:

- Determine whether actions to recover any misused MEP Funding would be appropriate or feasible; and
- Consider referring this matter to appropriate law enforcement entities.

We recommend that U of U coordinate with GOEO and USU to determine potential federal impact of this misuse on the Federal MEP program and communicate with Federal MEP administrators to determine an appropriate resolution.

University of Utah response:

The University of Utah MEP center has been in constant contact with NIST MEP as this situation has unfolded, including direct consultation with its chief compliance officer. Under their guidance, Impact Utah was issued a Stop-Work order on March 26th. In May 2025, the UofU MEP Center received full marks in its Federal Annual Review, including sections on financial records and reports.

Finding 3. Violation of Financial Audit and Reporting Requirements

Recommendation:

We recommend that USU and U of U comply with *Utah Code* 51-2a-201.5(4) and:

- Inform NFP subrecipients of public funds of reporting requirements to OSA and monitor compliance; and
- Inform OSA of NFPs to which they disburse more than \$25,000 of public funds annually.

University of Utah response:

The University of Utah appreciates the clarification provided regarding the requirements under Utah Code 51-2a-201.5(4). We acknowledge that the State Auditor's position is that the University is required to comply with the statute. The University of Utah is committed to supporting the State's efforts to ensure transparency and accountability in the use of public funds by nonprofit entities.

Corrective Actions:

To fulfill the requirements outlined in 51-2a-201.5(4), the University will conduct a thorough assessment of its internal systems and processes to identify any necessary updates or enhancements that would be required to comply with the statute. This includes establishing mechanisms to both inform nonprofit subrecipients of their reporting obligations and to ensure timely notification to the Office of the State Auditor (OSA) when disbursements exceed the \$25,000 threshold.

In parallel, the University will engage in discussions with the OSA and relevant legislative stakeholders to better understand the intent and applicability of the statute and to collaboratively address any implementation challenges or areas requiring clarification.

We are committed to working in good faith with all parties to meet the requirements of the law and ensure effective stewardship of public resources.