

# **UTAH DAIRY COMMISSION**

## **Limited Review of Certain Financial Activities**

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Findings and Recommendations  
For the Period June 1, 2015 through May 31, 2016

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Report No. MAO-16-OA5



### **OFFICE OF THE STATE AUDITOR**

AUDIT LEADERSHIP:

John Dougall, State Auditor  
Hollie Andrus, CPA, Audit Director  
Nancy Watson, CPA, Audit Supervisor



OFFICE OF THE  
**UTAH STATE AUDITOR**

**Report No. MAO-16-OA5**

September 14, 2016

To the Utah Dairy Commission  
c/o Western AgCredit  
10980 S. Jordan Gateway  
South Jordan, Utah 84095  
ATTN: Jeff Hardy, Chairman

Dear Commissioners:

We have performed the procedures described below to the Utah Dairy Commission's payroll transactions and credit card purchases made between June 1, 2015 and May 31, 2016. The purpose of these procedures is to assist the Dairy Commission (Commission) in evaluating its internal control over these financial activities.

1. We interviewed all Commission employees and reviewed state statutes to gain a more in-depth understanding of its creation, organizational structure, state oversight, and its general control environment.
2. We inquired of the Commission regarding its written policies and procedures that govern the use of credit cards to determine whether they provide adequate internal control over credit card use.
3. We tested monthly credit card purchases to determine who receives the original credit card statement and whether (a) original receipts were maintained for all purchases; (b) original receipts were reconciled to the monthly statement; (c) the monthly statement was signed by the supervisor to indicate charges were reviewed and approved in a timely manner; and (d) purchases were reasonable and proper.
4. We examined the credit card statements provided by the Commission to ensure the statements were original; we then reviewed all credit card transactions for the audit period to determine the reasonableness and appropriateness of (a) purchases made on weekends and holidays; (b) frequent purchases with the same vendor just under the transaction limit and multiple transactions for the same amount; (c) purchases from potentially inappropriate vendors; and (d) the total volume and dollar amount of purchases made with credit cards.
5. We reviewed payroll records for all Commission employees for reasonableness.

Our findings resulting from the above procedures are noted in the Findings and Recommendations section of this report. We feel these findings are key internal control weakness to the Commission.

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

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 the Commission's personnel extended to us during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Hollie Andrus".

Hollie Andrus, Audit Director

[handrus@utah.gov](mailto:handrus@utah.gov)

801-808-0467

cc: Jenn Harrison, CEO, Utah Dairy Commission  
Jeff Hardy, Chairman, Utah Dairy Commission Board  
Travis Waller, Director, Division of Regulatory Services, Utah Dept. of Agriculture and Food

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**BACKGROUND**

The Utah Dairy Commission was created as an independent state agency by the Utah Legislature (*Utah Code*, Title 4, Chapter 22) and is included in the State of Utah's *Comprehensive Annual Financial Report* as an enterprise fund. The purpose of the Commission is to promote the use of dairy products. Its operations are comprised of promotion, advertising, research, and nutritional education regarding dairy products. The Commission is funded by an assessment on milk and cream produced and sold in Utah (*Utah Code* 4-22-7(1)).

**FINDINGS AND RECOMMENDATIONS**

1. **INADEQUATE INTERNAL CONTROLS OVER CREDIT CARDS**

We reviewed the credit card purchases and credit card reconciliations for all nine Commission credit cards in use from June 1, 2015 through May 31, 2016 and noted the following weaknesses:

- The Commission does not have written policies and procedures governing the use of credit cards or purchases in general, nor does it have formal policies and procedures establishing internal controls over credit card purchases. As a result, the Commission incurred 122 credit card charges totaling \$9,213 for which there were either no original receipts or no itemized receipts. Original, itemized receipts or, in rare instances, acceptable substitutes should be retained for all credit card purchases as evidence that purchases are reasonable and proper. In addition, the retention of original receipts is necessary to perform a proper reconciliation.
- The CEO approves her own credit card statement. Although the bookkeeper, a subordinate to the CEO, reviews the detail of the credit card transactions, we do not consider the subordinate's review effective as a subordinate is much less likely to critically review or question purchases made by a superior. A cardholder's supervisor, (e.g., a member of the Board for the CEO) should perform a detailed review of the cardholder's credit card transactions, including a reconciliation of the original receipts to the original credit card statement.
- Twenty-five credit card charges, totaling \$2,498, were made at restaurants but did not have documentation specifying the purpose of the meal or who attended. Five of these charges were made at Starbuck's and could be improper personal expenses. Adequate documentation, including attendees and business purposes of meals, should be kept to ensure transactions are appropriate and serve a business purpose. In addition, the Commission should set restrictions on allowable amounts for business meals.
- Eleven payments, totaling \$2,311, were made to AT&T for one employee's cell phone and internet service. Personal expenses such as these should never be paid directly by the Commission but should be reimbursed based on policies established by the Commission, which should include a "standard maximum" allowance. The

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costs paid to AT&T for these services appear excessive. The Office of the State Auditor, for example, reimburses employees approximately \$58/month for cell phones, which is equivalent to the contract for an office-provided cell phone.

- \$588 was charged for 4 board members to attend the Utah State University annual Ag Day BBQ and football game. The Commission should ensure that expenditures are necessary and are made primarily for the benefit of taxpayers and not for the personal benefit of board members with the cost being borne by the members of the taxpayers.
- Credit cards were used to obtain \$400 in cash advances, \$200 of which was used as petty cash to pay university students for participating in assemblies. The other \$200 advance was used as a change fund for the annual Dairy Convention. As a best practice, cash advances should be prohibited.
- Nine airline charges included upgrades totaling \$193. Under state policies, for example, priority seating upgrade charges are only reimbursed upon pre-approval by a department director or designee. The Commission should establish criteria for determining when, if ever, it is reasonable and appropriate to pay for airline upgrades, the amount(s) permitted for upgrades, and supporting documentation required when upgrades are purchased.
- A personal manicure for \$180 was charged on a Commission credit card. The Commission produced a copy of a receipt indicating the employee reimbursed the Commission; however, we were unable to trace the \$180 to the Commission's bank as the money was reportedly returned to the Commission's petty cash fund. As part of establishing written credit card policies, the Commission should establish consequences for violating the policies, including procedures for reimbursing personal expenses charged to Commission credit cards in error and loss of card use privileges.
- Card fees totaling \$131 were paid for late fees, cash advance fees, over-limit fees and finance charges. We consider these charges to be unnecessary and a waste of public funds.

The term "internal controls" is used to describe processes put in place by the governing body, management, or others, to provide consistent and efficient operations, including reasonable assurance that funds will be properly safeguarded. Proper internal controls include obtaining source documents, such as original receipts from the purchaser and original statements directly from the credit card company, to ensure that documents have not been altered to conceal inappropriate activity. A lack of properly designed internal controls over credit card purchases can result in the inappropriate use of credit cards.

**Recommendation:**

**We recommend the Commission:**

- **Develop written policies and procedures governing the use of credit cards and purchases in general;**

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- **Establish and document internal controls over credit card purchases;**
- **Retain all original, itemized receipts, and reconcile the original receipts to the original credit card statements;**
- **Have a supervisor to a cardholder, e.g., a member of the Commission’s Board, reconcile original credit receipts to original credit card statements every month;**
- **Document attendees and purpose, as well as restrictions on allowable amounts, for business meals;**
- **Pay for expenses, such as cell phones or internet service, on a reimbursement basis only and in accordance with a “standard maximum” allowance;**
- **Ensure expenditures are necessary, made primarily for the benefit of taxpayers, and support the mission of the Dairy Commission;**
- **Disallow the use of credit cards for cash advances;**
- **Establish criteria for determining when, if ever, it is reasonable and appropriate to pay for airline upgrades;**
- **Establish consequences for violating credit card purchasing policies, including procedures for employees to reimburse the Commission, for depositing such reimbursements, and for loss of card privileges; and,**
- **Pay credit card balances timely.**

**2. EXCESSIVE ISSUANCE OF CREDIT CARDS AND INADEQUATE SEPARATION OF DUTIES**

The Commission currently issues credit cards to all full-time employees and the Chairman of the Dairy Commission, regardless of the employee’s job duties. For example, the bookkeeper recently converted from a part-time to a full-time status, upon which the Commission issued him a credit card, indicating that the bookkeeper’s new, additional duties required him to have a credit card. The CEO and the Chair had charges typically for personal cell phones and personal internet service—neither of which should be charged directly to the Commission but should be paid by the employee and then reimbursed to him/her. They also had restaurant charges for which the business purpose and attendees were not documented. The criteria for issuing a credit card should be based on the individual’s job duties and needs, not on the individual’s full-time status. Using this criteria, the CEO and Chair do not need Commission-issued credit cards.

When credit cards are issued to all full-time employees, the Commission cannot adequately separate duties. Currently, the bookkeeper downloads all monthly credit card statements, prepares a summary of all monthly purchases for review and approval, and records credit card purchases on the general ledger. Proper internal controls include separating certain responsibilities or incorporating compensating reviews so that no one person has the ability

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to improperly use money without detection. An employee responsible for paying credit card bills who also has access to the general ledger should never have access to a credit card.

**Recommendation:**

**We recommend the Commission:**

- **Issue credit cards to an employee only when pertinent to the employee’s job duties;**
- **Avoid issuing credit cards to individuals whose purchases should be on a reimbursement basis only;**
- **Separate the duties related to credit card reconciliation, review, and approval; and,**
- **Ensure the individuals performing these duties are not issued credit cards.**

**3. INSUFFICIENT TRAINING ON CREDIT CARD USE**

The Commission does not formally train its employees on the proper use of credit cards. We interviewed all 9 credit card holders; two reported receiving no training on the proper use of their credit card, and seven reported having an informal discussion about appropriate purchases. All employees should be formally trained on the proper use of business credit cards, as well as general purchasing procedures.

**Recommendation:**

**We recommend the Commission formally train all credit card holders on the proper use of credit cards, including providing them with a copy of the written credit card and general purchasing policies and procedures.**

**4. INADEQUATE REVIEW OF CREDIT CARD PURCHASES**

The Commission does not perform adequate reviews of credit card purchases, as follows:

- The CEO’s review of the monthly credit card statements appears to be a high-level review of a summary page of all the credit card expenditures for the month, which is prepared by the bookkeeper. A detailed review of credit card purchases, including a reconciliation of the original receipts to the original credit card statements, should be performed each month.
- The CEO documents her review of the statements by initialing the summary page only, and no date of the review is recorded; therefore, we were unable to determine the timeliness of the reviews. Review and approval should be documented on each statement with signature or initials and the date.



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**Recommendation:**

**We recommend Commission supervisors perform detailed monthly reviews and approvals of all credit card purchases, including reconciliations of the original receipts to original credit card statements, documented by a signature or initials and a date.**

**5. IMPROPER RECORDING OF EMPLOYEE GIFTS**

In five instances, the Commission used credit cards to purchase gift cards, totaling \$900, given to employees as birthday and holiday gifts; however, the Commission did not include these holiday and birthday gifts in the employees' taxable earnings. Per IRS rules on De Minimis Fringe Benefits, cash or cash equivalent items (including gift cards/certificates) provided by an employer to an employee must be included in the employee's taxable income and be subject to income tax withholding. As a result, both the Commission and the respective employees did not appear to comply with payroll tax and withholding requirements.

**Recommendation:**

**We recommend that the Commission properly include in employees' taxable earnings all cash and cash equivalent gifts and subject those gifts to income tax withholding requirements.**

**6. INCREASED RISK BY USING CREDIT CARDS VERSUS PURCHASE CARDS**

The use of credit cards can be an efficient method of making purchases, especially small dollar purchases or "micro-purchases." However, credit cards by their nature have a high risk of improper use because few controls exist over the creation of credit card accounts. Purchase cards, or p-cards, can effectively mitigate some of these risks, as the organization has more control in establishing p-card accounts. For example, organizations can mandate transaction limits unique to each p-card and, depending upon the p-card service provider, can limit purchases to certain merchant categories. Because p-cards are linked to an organization's bank, only authorized employees may create p-card accounts.

In addition, p-card transaction details are electronically transmitted to the purchasing entity, allowing an organization to review the purchases timelier. Transmitted information typically includes the amount, the vendor's name and address, and the date of the transaction. In some instances, p-card service providers may be able to transmit descriptions and quantities of items purchased; however, such line-item detail is only available from some merchants. Since p-cards accounts are more difficult to create and allow establishment of unique restrictions, the Commission could minimize potential inappropriate purchases by using p-cards rather than credit cards. Sound controls, such as

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those recommended above, are still critical for ensuring proper use of any “micro-purchase” cards, be they credit cards or p-cards.

**Recommendation:**

**We recommend the Commission consider replacing its credit cards with p-cards.**

**7. COMMISSION EMPLOYEES MISUNDERSTAND STATE OVERSIGHT**

During the course of our review and in discussions with Commission employees, we perceived a general misunderstanding as to the Dairy Commission’s relationship with the State of Utah (State), the State’s oversight responsibilities, and that the Commission operates using public funds. *Utah Code*, Section 4-22, created the Dairy Commission. It also authorizes an assessment to be charged and collected on “all milk or cream produced and sold, or contracted for sale, through commercial channels in this state.” This assessment, or tax, is to be used for administration of the Commission and for the promotion of the state’s dairy industry. Because the state legislature created the Commission and authorizes this tax, the Commission should consider all revenues collected through the assessment as “public funds.”

**Recommendation:**

**We recommend the Commission employees improve their understanding of the Commission’s relationship to the State and its responsibilities regarding oversight of public funds.**



OFFICE OF THE  
**UTAH STATE AUDITOR**

**AUDITOR'S CONCLUDING REMARKS**

While the Office of the State Auditor (OSA) rarely writes concluding remarks to our audits, at times we are compelled when an audit response (1) shows a basic lack of understanding of certain issues identified within the audit or (2) contains statements with serious factual errors. The Utah Dairy Commission (the Commission) response causes us to respond on both counts.

When we encounter difficulty contacting a governmental entity, such as mail being returned undeliverable, we are naturally concerned with the public's access. If during the audit we are required to use the State Auditor's subpoena power to compel timely production of necessary information or we detect indications of possible attempts to hide information, our level of concern increases as we question the entity's reasonable understanding of its public duties. Finally, when we see questionable purchases (such as public funds being spent on the CEO's manicure) we begin to question the adequacy of the oversight of the organization.

**UDC still fails to understand its own structure and duties**

During the course of the review, the OSA noted a general misunderstanding at the Commission regarding its role and the State's oversight (see Finding #7). While the Legislature has exempted the Commission from certain administrative and reporting duties, it is clear that (1) the Commission is a public entity, (2) the Commission operates on public funds, and (3) the Commission is subject to certain public duties, including compliance with the Open and Public Meetings Act (OPMA) and receiving approval from the State Auditor for its selection of a financial statement auditor.

We also note the following confusions within the Commission:

- Failure to recognize that the Commission is subject to OPMA.
- Failure to recognize that the Commission operates using public funds.
- Attempts to claim the Commission was not subject to oversight of the State Auditor.
- Employees typically refer to the "Council" rather than the "Commission." *Utah Code 4-22* created the Utah Dairy Commission, not the "Utah Dairy Council" and certainly not the "Dairy Council of Utah & Nevada."
- Employees indicated they use the word "Council" because the public responds better to "Council" rather than "Commission." It has been our experience that an entity's use of another name (or nickname) creates additional confusion for both the public and government oversight.

- All correspondence from the Commission is on “Dairy Council” letterhead.
- “Utah Dairy Commission” is the employer reported on all employees’ W-2 forms.
- The Commission currently refuses to report on the Utah Public Finance Website (UPFW) even though it is clearly the intent of the Legislature for the Commission to do so. While an inadvertent drafting error accidentally exempted the specific requirement for both the Commission and the Utah Communications Authority (UCA) to report on the UPFW, UCA has voluntarily complied, while the Commission has not.

We recommend the Legislature increase public oversight of the Commission.

### **The Commission created various<sup>1</sup> roadblocks to our audits**

As a result of the recent UCA theft, in late spring 2016, the OSA began two projects related to 1) compliance with OPMA and financial transparency and 2) internal controls over credit card purchases and other financial matters. From the outset of these two projects, the OSA encountered several roadblocks with the Commission that it did not encounter with other independent state entities. The following are a few examples:

- Initial OSA correspondence sent to the Commission’s main office (as listed on its website) was returned as “undeliverable.” After several phone calls attempting to reach the Commission and being told the address listed on the website was the correct mailing address, the State Auditor drove to the address provided and identified that the offices were vacant. The Commission then admitted to the OSA that the Commission had vacated its main offices in preparation to occupy a new building in Draper. We were informed that all employees were working remotely from their homes while the building was under construction. Later, the OSA learned the part-time bookkeeper had office space at the Western Ag Credit Union which he was using to perform the Commission’s accounting functions.
- The Commission chose not to respond to our report “A Limited Performance Audit of Independent State Entity Transparency,” identifying the Commission’s blatant disregard for complying with OPMA.
- The OSA audit supervisor spoke with the CEO on June 23, 2016, after multiple attempts to contact the CEO by phone. The audit supervisor explained the scope of the second review, and met the CEO’s immediate resistance to the review. The CEO explained that the independent auditor responsible for the financial statement audit had performed a similar review with no issues and that a review by the OSA was not necessary. Subsequently, the OSA contacted the independent auditor, reviewed his audit documentation, and determined that his work did not cover the scope of the OSA’s planned review.

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<sup>1</sup> One might use the word ‘multitudinous’ which Webster defines as ‘very many.’ But some might misunderstand that usage.

- The OSA audit director spoke with the CEO on July 6, 2016 to again explain the scope of the planned review and again met immediate resistance. The CEO said the Commission did not receive state funding, implying that the State Auditor did not have authority to review the Commission’s records and the independent CPA could perform the work. After it was explained to the CEO that 1) the State Legislature created the Commission, 2) the State Legislature mandates the surcharge fee on dairy products to fund the Commission, 3) the Commission is included as an enterprise fund in the State of Utah’s financial report, and 4) the State Auditor can audit “*the accounts of any department of state government or any independent agency, as the auditor determines is necessary*” (*Utah Code 67-3-1(3)(a)(i)*), she still insisted the independent CPA could perform this work. The director stated the OSA would be performing the review and asked when the audit could start. The CEO then agreed to start the review the week of July 18, 2016—almost one full month after the OSA’s first successful contact with the CEO.
- The OSA audit team arrived at Western Ag Credit Union on July 22, 2016 to interview the Commission’s full-time personnel and review financial records, initially communicating to the CEO to expect the team on-site for approximately four hours. When the review took more than the estimated four hours, the CEO indicated her dissatisfaction with the team.
- The OSA audit supervisor requested payroll information for all full-time Commission employees while visiting the Commission on July 22, 2016. Stating it was outside the scope of the OSA review, the CEO refused to provide this information. The CEO questioned the State Auditor’s authority to review those records.
- The State Auditor issued a subpoena on July 28, 2016 demanding immediate production of the requested 2015 W-2s for all Commission employees, to which the CEO responded promptly.

### **The Commission makes statements designed to mislead the reader**

The Commission enumerated five discrepancies and errors found during the course of the review. We question those statements.

*#1: The Commission: “During this audit, multitudinous errors were made by the five-member auditing staff regarding the totals of statements and credit card transactions and their relationship to payments made by UDC. This resulted in an excessive amount of personnel time on behalf of UDC correcting their erroneous mistakes.”*

The OSA audit team initially visited the Commission July 22, 2016. At this time, the team reviewed all cardholders’ credit card statements, worked to agree those statements to original receipts, and identified 128 transactions, totaling \$9,548.29, with no supporting original receipts. The Commission’s records were extremely disorganized, making it difficult to perform our work.

After receiving an email summarizing the report findings and their details, the CEO requested time to further investigate the missing receipts, insisting it was impossible that 128 receipts did not exist. She requested the additional time on August 24, 2016. Two auditors returned mid-afternoon August 26, 2016 to review any additional “found” receipts. The Commission

discovered 6 original receipts, totaling \$335.36 and the OSA adjusted its report based on this new information. As the Commission had 2 days to search for receipts and only found six receipts, this is neither “an excessive amount of personnel time spent” nor “multitudinous errors” in the OSA’s procedures.

#2: *The Commission: “Conflicting information was provided to UDC by the audit supervisor.”*

The audit supervisor on this review communicated with the Commission via email, phone calls, and visits to the Commission’s office space at Western Ag Credit Union. Since the Commission failed to provide specific details regarding “conflicting information,” the OSA considers this an unfounded statement of opinion.

#3: *The Commission: “A gross misunderstanding, regardless of support and explanation, of specific items in question was used in the final findings of this credit card audit.”*

The report cover letter enumerates the detailed procedures performed by the audit team during the review which included a review of *Utah Code*; interviews with Commission personnel; and reviews of receipts, card statements, and payroll records. As mentioned above, the audit team initially met with the Commission July 22, 2016 and identified multiple transactions that were either missing receipts or appeared unreasonable (such as the CEO’s \$180 manicure). The OSA provided ample opportunity for the Commission to explain these transactions, as follows:

- The Commission received a list of questionable transactions and was asked to investigate these transactions and to provide tangible evidence supporting the transactions (week of July 25, 2016).
- Auditors communicated with the CEO, bookkeeper, and office manager to review evidence for said transactions (from July 25 to August 16, 2016).
- The OSA sent details for proposed findings to the Commission, requesting further discussion of the finding details (August 17, 2016). The CEO responded that she was out of town and would not be able to respond till mid-week after her return.
- The OSA and CEO discussed the findings and the CEO asked for time to find the receipts (August 24, 2016). See #1 above for further discussion.

#4: *The Commission: “Weekend and holiday purchases are made throughout the entire year, as UDC participates in numerous community events that are held on Saturday’s and holidays, therefor [SIC], those purchase dates are not out of the norm.”*

The OSA identified four transactions, totaling \$177.32, made on weekends or holidays. Although the Commission lacked written policies and procedures regarding credit card purchases, the audit team did not question these four transactions—citing the Commission’s attendance at weekend events to support the purchases’ reasonableness. However, the Commission did not maintain receipts for these weekend purchases, so the OSA included these transactions in Finding #1 as part of the 122 transactions with no supporting receipts or documentation.

#5: *The Commission: “During the course of the state audit, UDC perceived a general misunderstanding that the state auditor’s office has in relation to who and what UDC is.”*

The OSA has an understanding of the Commission's duties and mission. We expect the Commission to come into compliance with state statutes, to improve its operational oversight, and to increase its public transparency.