Digest of
Central Utah Water Conservancy District

This audit was initiated in response to a Legislative request for a follow-up of our 1989 audit. Discussions involving replacement of the district's property tax revenue with another source of revenue are going to occur, and a careful review of the districts financing was desired. In addition, we also reviewed issues surrounding the former Spanish Fork-Nephi Irrigation and Drainage System. In our opinion, management oversight and administrative controls within the Central Utah Water Conservancy District (the district) could be significantly improved. First, the district's financial management can be more consistent. Second, district policies and procedures lack sufficiency and enforcement. Third, in addition to these managerial issues, the rejection of the SFN system affords a second opportunity to analyze the district's water efforts. Fourth, allegations which were received during the audit do not appear to have merit, given the information available.

District Financial Management Is Inconsistent. Some financial decisions made by district management have been beneficial to the taxpayer while others have not. Specifically, we found the following:

- Debt pre-payment saved $25.5 million
- Poor cash management has cost $4.4 million
- Poor fund management has cost $9.4 million
- Poor taxing decisions could cost taxpayers $53.3 million by 2012

Central Utah Water Conservancy District, as a taxing entity, has a fiduciary responsibility to properly manage its funds. Management of those funds is a major task of the organization given the enormous size of its projects and the fact that the timing of funding and construction are not congruent. The district must invest its funds and disburse its funds to meet the needs of its projects and to ensure the greatest possible benefit for its constituents. Failing to achieve the greatest possible benefit from financial decisions is unacceptable.

District Policies and Procedures Lack Sufficiency and Enforcement. District management has allowed lapses in administrative controls that have resulted in questionable administrative practices. Disregard for policies and procedures, liberal interpretation of expense policies, and general manager approved violations of policies has resulted in approximately $90,000 of questionable expenses and $200,000 of expenses that violate accepted business practices. Examples of questionable district administrative controls demonstrative of either violated policies or poor controls include:

- District board members indirectly receiving at least $110,000 from district contracts, although specifically prohibited by state code and district policy.

- District management benefits including a $93,750 contracted bonus agreement for future work as well as a $37,000 car for the general manager and inappropriately reported car allowances for another senior manager.

- Travel expenses at least $35,000 in excess of necessary travel costs; because the district failed to use the lowest available rates or follow its own lodging policy.

- Vehicle fleet utilization that does not appear adequate to support the number of fleet vehicles. Further, use of district vehicles for commuting purposes is not controlled well.

- District procurement practices resulting in retention of many services without using a competitive bid process.

Rejection of SFN Project Affords Opportunity to Redirect Efforts. In our opinion, district leadership has maintained a historical perspective in the SFN water allocations. In particular, district leadership appears to be closely tied to delivering an irrigation project to southern Utah County and eastern Juab County. This focus is primarily defended using two political arguments: commitment to the area and growth in the area.

With Utah's rapid urbanization, it is possible that this historical perspective may no longer be relevant. In particular, demographic and economic data indicate that a reallocation of the former SFN water appears appropriate. For example, east Juab County is projected to need 2,506 acre-feet of culinary water by 2050 while Salt Lake County is projected to need 286,133 acre-feet of water. In spite of this need, east Juab was to receive 42,000 acre-feet of water while Salt Lake County was to receive 70,000 acre-feet of water. We believe that the Legislature should form a task force or study committee to independently analyze and possibly recommend a position the Legislature could consider adopting regarding allocation of the former SFN water.

Allegations of Inappropriate District Activities Cause Some Concern. Three allegations were made during the course of this audit concerning inappropriate activities by the district and its affiliates. The first allegation lacks merit and appears to stem from confusion over federal and district financial activity. The second allegation, while appearing to lack substance, generates concern because of the individuals involved. The third allegation remains a concern because the district lacks the information necessary for a review. These allegations include:

- The district may have paid $15 million to the Strawberry Water Users Association (SWUA) in such a way as to benefit certain district employees who held shares in SWUA.

- The district may have formed a political action committee which inappropriately

collected funds for district political furtherance.

- Inappropriate competitive practices may have been employed by the district architectural/engineering firms which increase the cost of work performed for the district.