



To: Administrative Control Board

From: Lisa Hoffman, AGM

Date: November 11, 2024

Subject: Annual Fraud Risk Assessment Questionnaire

Action Requested

No action is required from the Administrative Control Board on the 2024 Fraud Risk Assessment. This is for informational purposes only and to present findings from the annual risk assessment performed.

Background

In February 2020, the Utah Office of the State Auditor, issued Auditor Alert 2020-01 (“Alert”) which adopted a Fraud Risk Assessment Questionnaire (“Assessment”) to help local government board members understand best practices in fraud detection and prevention. The Assessment assigns an overall risk level based on points earned for the implementation of the identified best practices.

The Alert emphasized that the best practices identified in the Assessment are not required, but highly recommended. Additionally, the Assessment is not a replacement or duplication of the internal control assessment performed by the District’s independent auditor as part of the annual financial statement audit. While both are risk assessments, their methodologies and purposes are different.

The Alert establishes that beginning in 2020, all local governments will **annually** complete the Assessment internally and then present the results of the Assessment to the local government board members. The Chief Administrative Officer (Andy Garland) and the Chief Financial Officer (Steve Anderson) must certify the results of the Assessment and submit to the Utah Office of the State Auditor by June 30th of each year.

2024 Risk Assessment

For 2024, the same Assessment was performed as in 2020 -2023 and the following describes the final two questions on the Assessment which the District is not able to answer “Yes” to.



Question #8 (20 points) asks if the entity has a formal internal audit function. As noted, in the Assessment instructions, only the largest of local governments can justify a full-time internal auditor. For smaller organizations, such as MRW with only 31 employees, the following two options have been identified:

1. Contract with an outside audit professional to work a few days each year to perform internal audits. This would be outside of and separate from the firm used to perform the District's annual audit.
2. Coordinate with a local peer entity (potentially SBWRD) to utilize each other's financial staff to act as internal auditors a few days a year. While this likely would be more cost effective than hiring an outside audit professional, the "internal auditors" from the peer entity would need to have a solid understanding of audit principles and should use appropriate audit work programs in order to identify violations of laws or policies.

At this time, District staff is comfortable with the level of risk currently being mitigated and is not recommending a formal internal audit function. Additionally, the District is in the process of hiring a new audit firm to perform the annual financial audit and they will also be reviewing the District's internal controls.

Question #9 (20 points) asks if the entity has a formal audit committee. While the District does not have a formal audit committee, it does have a Finance Committee comprised of the entire membership of the Administrative Control Board. The duties of the Finance Committee are to review the District's budgets and annual audit. District staff is currently not recommending a formal audit committee.

Conclusion

For the size of the District, the internal controls are more than adequate as determined by the Assessment, and a "Low" risk level has been achieved without the need for any additional action. The two remaining items keeping the District from obtaining maximum points of 395, and a "Very Low" risk level, are not recommended by District staff at this time, due to cost and administrative resources.