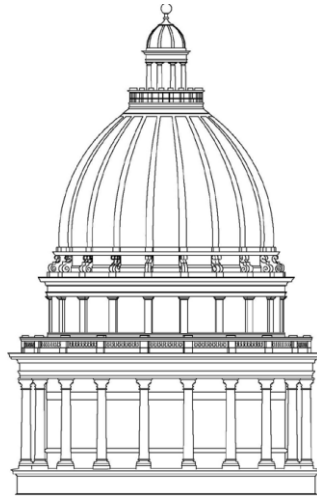


REPORT TO THE
UTAH LEGISLATURE

Number 2022-07



A Limited Review of the Utah Inland Port Authority

September 2022

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah



September 20, 2022

The Utah State Legislature

Transmitted herewith is our report, **A Limited Review of the Utah Inland Port Authority** (Report #2022-07). An audit summary is found at the front of the report.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Please let me know if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Kade minchey". The signature is written in a cursive, slightly slanted style.

Kade R. Minchey, CIA, CFE
Auditor General
kminchey@le.utah.gov



Limited Review Audit

► AUDIT REQUEST

For this limited review, we were asked to focus on three primary areas for UIPA: 1) organizational structure 2) contracts and use of consultants; and 3) its process for issuing a \$150 million bond. We were asked to provide answers to these questions and initial direction on potential risk areas as quickly as possible.

► BACKGROUND

UIPA was created by the Legislature in 2018. It is a quasi-governmental entity focused on supply chain logistics, a legally separate entity from the state. As an independent development authority, UIPA is exempt from many state administrative laws and rules. UIPA has access to both governmental and non-governmental funding sources. In this environment, oversight of UIPA activities rests mainly on its board.

UIPA is still developing as an organization. In late 2021 it hired several key staff. Significantly, UIPA's board was restructured and sworn-in in May 2022. A considerable undertaking by the new board is the creation and hiring of a new executive director position for UIPA.

Additionally, UIPA's board created a public infrastructure district (PID) in 2021. The PID then authorized the issuance of a \$150 million bond for UIPA projects.



KEY FINDINGS

- ✓ UIPA is still developing but needs greater focus on planning.
- ✓ Increased board involvement needed for UIPA.
- ✓ Stronger oversight and management of procurement and contracts needed for UIPA.
- ✓ \$150 million bond proceeds largely unspent with the master development plan in beginning stages.
- ✓ Uniform reporting requirements needed for UIPA.

Pending Lawsuits Complicate Progress at UIPA

A 2019 Salt Lake City lawsuit against UIPA has resulted in bond proceeds going unspent. However, a recent Utah Supreme Court ruling in June 2022 has potentially paved the way for spending bond proceeds on UIPA-related projects.



RECOMMENDATIONS

- ✓ We recommend that the Utah Inland Port Authority complete its master development plan prior to any major expenditures from bond proceeds, unless the board approves an exception.
- ✓ We recommend that UIPA implement all best practices from the 2017 report, **A Review of Best Practices of Internal Controls of Limited Purpose Entities.**
- ✓ We recommend that the Board of the Utah Inland Port Authority appoint an audit committee to enhance internal controls and accountability.
- ✓ We recommend that the board of Utah Inland Port Authority appoint a board member to serve as treasurer.
- ✓ We recommend the Legislative Audit Subcommittee direct us to conduct additional audit work on the Utah Inland Port Authority or the board should ensure that a contract and risk management review takes place.



REPORT SUMMARY

The Utah Inland Port Authority requires greater focus on planning and business development

In June 2020, UIPA released its strategic business plan for 2020-2024 setting out the vision, mission, strategy, and value proposition for the port. This is important, however, a master development plan is a dynamic planning document that lays out long-term goals and objectives and is a guide for development decisions. The inland port needs to develop this document before spending the sizable bond it has taken out, with the exception of approval from the board.

Increased board involvement needs to continue for UIPA

Leading, setting goals and expectations, and monitoring and holding staff accountable for results are areas the board, and future boards should continue to

ensure. In addition to appointing an audit committee and treasurer, the board should work with UIPA's compliance director to continue strengthening their internal control program. The budget review process is another area that deserves more attention. Staff should make more information publicly available for board members and the public to understand UIPA's budget.

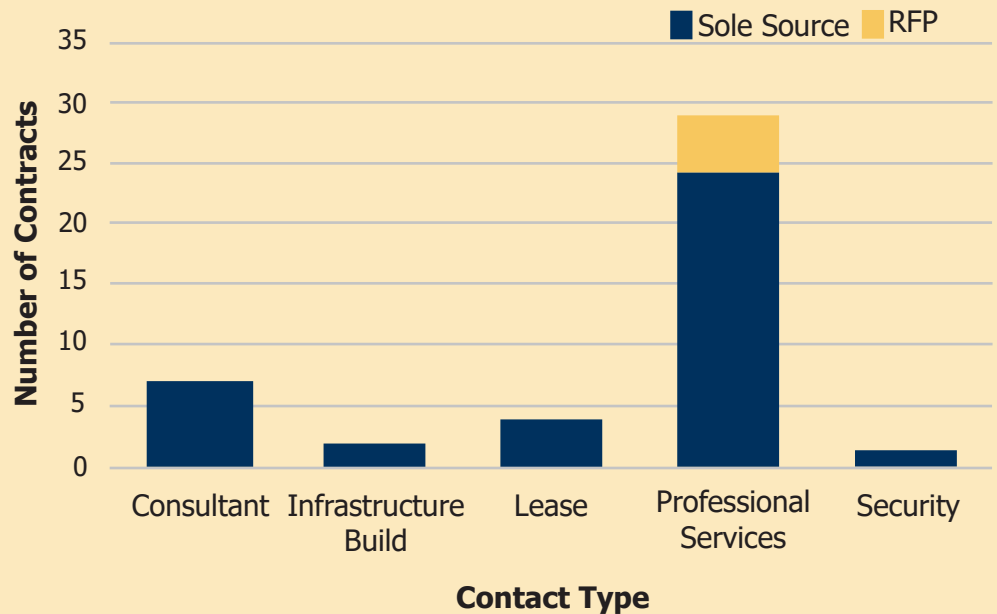
UIPA Contract Management Function Needs Enhancement, Greater Priority

UIPA has sole sourced nearly all its contracts to date. However, in our limited review, our audit found that they did not have adequate measurable metrics and timelines in contracts to provide structure and accountability with contractors. Greater board involvement is needed to solidify contract management best practices. We are encouraged to see that the port has been responsive to this and is working on improvements to their process.

UIPA's Contract Procurement is Largely Staff Driven and Heavily Sole Sourced

UIPA's procurement policy allows them to sole source contracts of a specialized or unique nature. In total, 81% of their contracts were obtained through the sole source method.

With such a slant toward sole source contracting, the port leans heavily on the exception to a normal procurement process. This reduces transparency and can foster an environment where public resources are not adequately safeguarded.



REPORT TO THE UTAH LEGISLATURE

Report No. 2022-07

A Limited Review of the Utah Inland Port Authority

September 2022

Audit Performed By:

Audit Manager	Brian Dean CIA, CFE
Audit Lead	Zackery King CFE
Audit Staff	Clint Yingling

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah

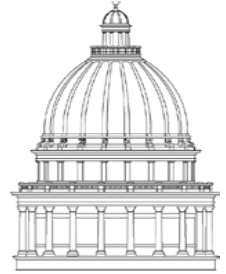
Report Number 2022-07
September 2022

A Limited Review of the Utah Inland Port Authority

The Utah Inland Port Authority (UIPA, or the port) is a quasi-governmental entity focused on logistics-dependent industries. UIPA is a legally separate entity from the state and is subject to multiple provisions of *Utah Code* for independent entities. It is exempt from many administrative rules a state agency is subject to, such as procurement rules. Due to UIPA's multifaceted organization, it engages with many different levels of government. This, coupled with UIPA's multiple revenue sources, both governmental and nongovernmental, creates a unique operational environment. For more information regarding UIPA's structure and related governmental entities, see Appendix A of this report.

Legislation passed in the 2022 Legislative General Session altered the makeup of the port's board. In May 2022, UIPA's new board was reorganized and sworn in. On May 11, 2022, the new board held its first meeting, which coincided with the beginning of this audit. The board asked if the audit team could provide direction and potential risk areas as quick as possible. This limited review fulfills that request, and additional audit work is recommended as a follow-up to this report. In this limited review, we address the port's expenditures, governance, internal controls, policies, contracts, and the issuance of a \$150 million bond in December 2021.

According to the American Society of Civil Engineers' *Report Card for American Infrastructure*, the "nation's more than 300 coastal and inland ports are significant drivers of the U.S. economy." While UIPA has the potential to deliver significant economic benefits to Utah, our review found the need to improve control and governance in some areas of port operations. Several risk areas are highlighted throughout this report. Specific concerns include financial commitments without



On May 11, 2022, the new UIPA board held its first meeting, which coincided with the start of this audit. The new board has been active in governance and oversight.

While UIPA has the potential to deliver significant economic benefits to the state, we found opportunities for improved governance in several areas.

We believe that with continued oversight and review, the port can move forward in a positive direction.

adequate planning, gaps in organizational structure that reduce internal controls, and the need for stronger procurement and contract management. We believe that with continued oversight and review, the port can move forward in a positive direction.

UIPA Is Still Developing, Has Multiple Revenue Sources, But Needs Greater Focus on Planning

UIPA has multiple revenue sources available to fulfill its mission. These revenues are realized from state and local government, as well as the private sector. A main funding source for the port is tax differential revenues, derived from the incremental increase of property taxes in its jurisdictional area. Although UIPA is still developing organizationally, we believe improved planning can help maximize the use of port funds. Additionally, staying up to date on market conditions and economic variables that impact port development will be crucial to minimizing risk in analyzing future port projects.

UIPA Is Still a Developing Organization

Established in 2018, UIPA's first board was sworn in on July 30, 2018. The then governor, Gary R. Herbert recommended that the new board select a chair and hire an executive director. On June 5, 2019, the board hired an executive director. UIPA then hired a chief operating officer, a managing director of business development, and an executive assistant later that year. In 2020, UIPA hired two more employees, and in 2021 and 2022 it hired 12 additional employees. Accounting for turnover, UIPA currently employs 14 individuals.

UIPA Has Many Current and Potential Revenue Sources

Statute allows UIPA to obtain financing through public and private sources. State appropriations, tax differential revenues, and bond proceeds have been main sources of funding to date. However, other revenue sources can include sales and use taxes collected from businesses within its jurisdictional area, interest earnings from investments, operational revenues from port facilities and functions, leases, federal assistance, and incurring debt through borrowing.

Compiling UIPA's revenues and expenditures is a complex task because of the port's varying revenue sources. For example:

The port receives interest revenue from tax differential and legislative appropriations that are statutorily required to be invested.

Legislative appropriations are made to GO Utah and then passed through to the port. Most of these indirect appropriations are used for UIPA's operating expenses.

- The port is a budget line item in the Governor’s Office of Economic Opportunity (GO Utah). General Fund is appropriated to GO Utah and then passed through to UIPA.
- Additionally, a privately issued bond and property tax differential are sources of the port’s revenue, raised from private investors and local government property taxes, respectively.
- The Legislature also appropriates funds for infrastructure projects. A source of these funds is the allocation of Utah Department of Transportation Highway Bonds.

Greater Focus on Planning Is Needed for UIPA

A best practice of good government is to set clear objectives for the development of a legislatively established program. A plan that defines the ways and means to achieve those objectives should then be established. After reviewing the port’s planning documents provided, we believe UIPA needs to prioritize additional planning, specifically in the form of a master development plan.

We credit the port for developing a strategic business plan for fiscal years 2020–24. The plan sets out a vision, mission, strategy, and value proposition for the port.¹ This is important, however, UIPA’s strategic business plan states, “This is not intended to be a master development plan nor a listing of development projects.” A master development plan is a dynamic planning document that lays out long-term goals and objectives and provides a conceptual layout to guide development decisions. A master development plan should have stated goals and purposes that define a clear road map.

A request for proposal (RFP) is in process to obtain consulting services for creating a master development plan for UIPA. Initiating

Although UIPA has a strategic business plan, it needs to create a master development plan.

An RFP is in process to obtain consulting services for creating a master development plan for UIPA

¹ UIPA’s strategic business plan states the following:

Vision: Utah will be a leader in revolutionizing global logistics for the next generation. **Mission:** Promote sustainable, equitable, and smart logistics investments through partnerships, policies, and programs. **Strategy:** Responsibly manage public resources to increase utilization of existing assets, repurpose outdated assets, and develop new assets to enable improved statewide logistics. **Value Proposition:** Improve reliability, increase efficiency, and reduce costs in the statewide logistics system.

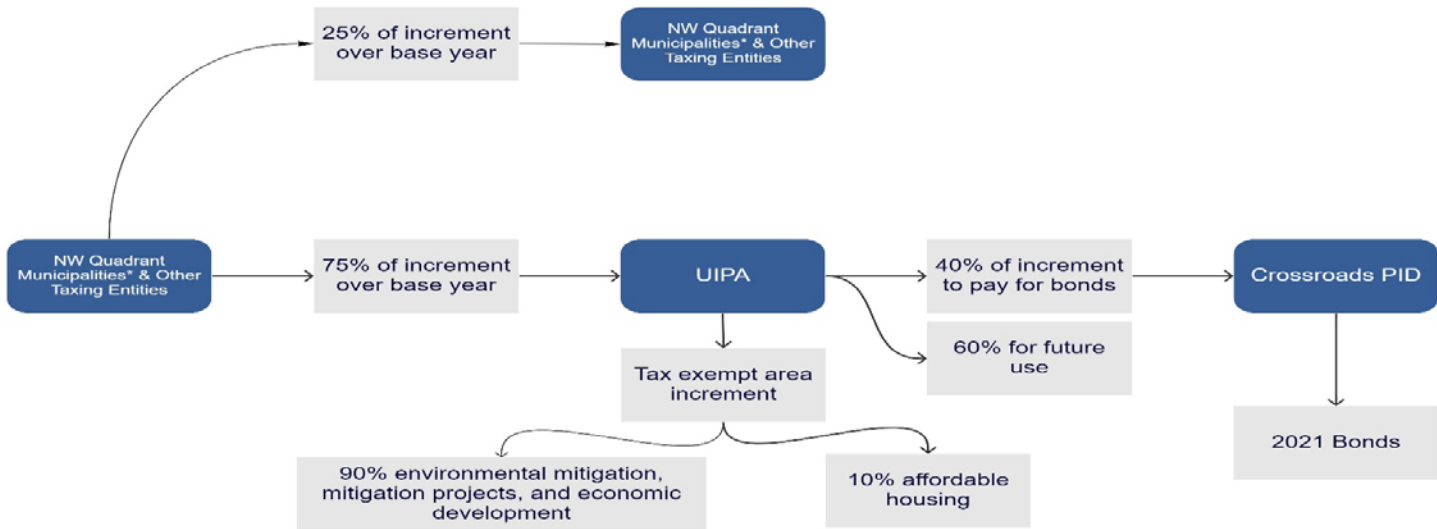
an RFP is a positive step; however, we are concerned this has not been a higher priority at the port. Additionally, we believe it is prudent for the port to complete its master development plan prior to any major expenditures from the sizeable bond it issued in December 2021, unless the board approves an exception. Postponing major expenditures is especially important, given a recent Utah Supreme Court ruling that could result in more than \$100 million in bond proceeds becoming available for use.

Tax Differential Is the Foundational Revenue Stream for UIPA Activities

Tax differential sets a base taxable value for most property in the port’s jurisdictional area at 2018 property values.² The tax differential refers to the difference between the base taxable amount and any increases in property tax for a given year. Figure 1 illustrates the general flow of the port’s tax differential revenues.

The port receives 75 percent of incremental tax revenue from property taxes in its jurisdictional area.

Figure 1 General Flow of UIPA’s Tax Differential Revenues. 40 percent of UIPA’s tax differential is pledged as security for its \$150 million bond. Salt Lake City’s portion is not included in the bond issuance and has additional parameters for its use in statute.*



*NW quadrant municipalities includes portions of Magna, Salt Lake City, Salt Lake County, and West Valley City

Source: UIPA.
*See Appendix B for additional information regarding the Salt Lake City tax differential.

² Part 6: Property Tax Differential of *Utah Code Chapter 58*, Utah Inland Port Authority Act, provides greater detail for the receipt and use of tax differential by the port and how it is calculated. Conditions that exempt properties from paying tax differential to the port are also outlined.

Tax differential can be used for many purposes, including administrative and operating costs, professional services, financing for land development, infrastructure installation costs, affordable housing payments, and so forth. It can also be used as a business recruitment tool by using economic development strategies for the jurisdictional area. The most significant use of tax differential to date is the port pledging it as financial backing for the \$150 million bond.

Tax Differential Forecasts Need Periodic Review

Since UIPA does not own land and cannot exercise regulatory powers for land-use purposes in its jurisdictional area, the economic viability of the port is limited by the developable area within its boundaries. Variables can be impacted by the type of development brought to the port, e.g., a warehouse versus a manufacturing facility. The economy and market conditions also impact these variables. The port's market analysis of its jurisdictional area notes the following:

Changes in market conditions or the economy could change or invalidate the report's conclusion....
Conclusions and recommended actions...should not be relied on as the sole input for investment decisions regarding the proposed development project, nor used for purposes beyond the scope and objectives of the current study as outlined.

The market analysis was conducted as part of the port's \$150 million bond issuance in December 2021. While its estimates are useful for the port's tax differential projections, following the consultant's disclaimer, we caution against relying on conclusions and estimates of the market analysis for any extended period. The port and its board should ensure they are up to date on market conditions and economic factors impacting the jurisdictional area's developable land to ensure they are bringing in the right businesses.

Tax differential can be used for many purposes including operating costs, contracting for services, and economic development post-performance incentives.

Market conditions and economic factors impact the tax differential revenue collected by the port. It is vital to stay current with these factors to ensure estimates are reliable.

UIPA Organizationally Still Developing, A Focus on Improved Planning Is Needed

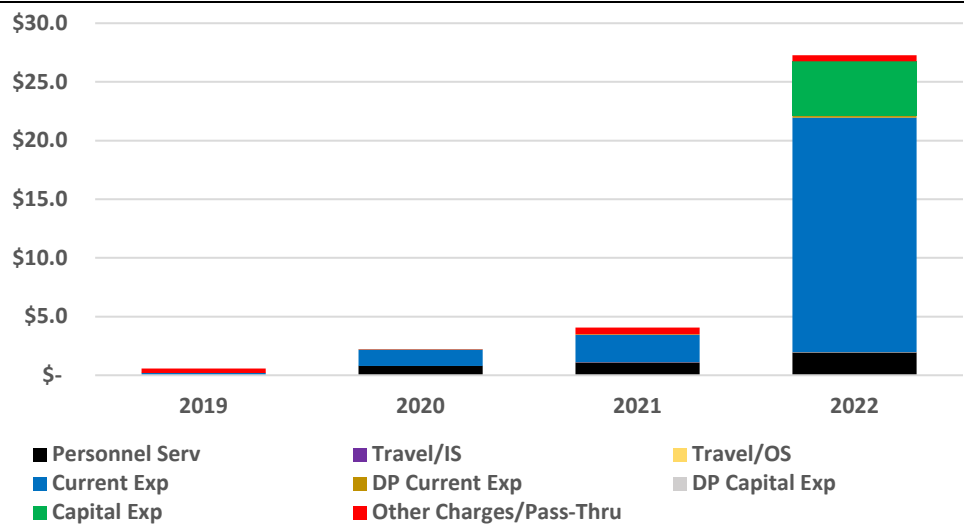
The port was created in Utah’s 2018 Legislative General Session and is still developing organizationally. The COVID-19 pandemic, as well as a Salt Lake City lawsuit, are cited by port management as reasons for UIPA’s slower development. While it is understandable that the port will develop over time, UIPA needs to prioritize a greater focus on planning, especially with its increased financial commitments. We also found that the port is phasing in staff positions.

After the creation of UIPA in 2018, port activities were initiated by the Governor’s Office of Economic Opportunity (GO Utah).

UIPA Has Increased Financial Commitments, Needs to Improve Planning

After the creation of UIPA in 2018, port activities were initiated by the Governor’s Office of Economic Opportunity (GO Utah). An interim director was initially named, and an executive director was hired within the year. In fiscal year 2020, UIPA was created as a line item in GO Utah’s budget, where General Fund appropriations are passed through to the port. UIPA hired key personnel toward the end of 2021, and since then, its expenditures and activities have increased. Figure 2 shows UIPA expenditures from its initial GO Utah activities.

Figure 2 FINET Expenditures (in Millions). Personnel expenditures increased by 41 percent from fiscal year 2020 to 2021 and 75 percent from 2021 to 2022.



Source: Auditor generated from FINET data. Generated on July 7, 2022.

The large jump in current expenses (blue bar) from fiscal year 2021 to 2022 is mainly from two sources: (1) \$8.02 million for an up-front lease-to-own payment for the Stadler Rail test track, (2) \$6.31 million

Current expenses (dark blue bars) are largely driven by contracting for services and rental and lease costs for land and buildings.

set aside for security of the port's \$150 million bond. The expenditures for the Stadler Rail and for the bond security are current expenses in FINET, but according to UIPA's budgeting, they are capital expenditures. The port informed us that the Stadler Rail project was a previously identified state priority. It is understandable that some projects the port will participate in have been strategically planned by other organizations, in these circumstances the board should carefully weigh these projects and ensure they are appropriate for the port. The board should also ensure that a master development plan is developed to guide decision-making and ensure that projects are carefully considered to maximize value and purpose.

In addition to contracting for services, rental and lease costs for buildings and land represent large current expenses for the port. For example, from fiscal years 2020 to 2022, about \$2.4 million was paid on a lease for land set aside for a transload facility. In 2022, another \$500,000 was paid for the development of the port's IT network. Finally, the large jump in 2022 capital expenditures (green bar) is mainly from about \$4.6 million for the construction of a road in the Northwest Quadrant of the port.

Again, while these decisions may prove to be prudent, we are concerned about significant financial commitments being made with public funds before a master development plan is developed and all options are considered.

In Figure 2, the port's increase in current expenses and personnel services expenditures each year reflects UIPA's operational expansion through contracts for services and consultants, and hiring full-time personnel. Legal counsel and business development are examples of contracted services. Full-time hires included directors of compliance, operations and policy, and technology and business policy—all managerial-level positions. Other hires included an environmental engineer and business analysts who perform business outreach and development functions and have programming expertise in geographic information system (GIS) mapping.

UIPA Is Phasing In Staff Positions

The port is not yet fully staffed and is phasing in staff positions. This is understandable for a new entity in its nascent stages of development. For example, UIPA does not have a financial director,

The port expanded its in-house staff with key hires in late 2021, as well as contracts for business development services.

GO Utah provides the port with accounting and financial services that a financial director would normally manage.

contract specialist, or in-house legal position to transact its day-to-day business. These duties are either contracted or shared between current employees who fill multiple roles.

In addition, GO Utah continues to provide accounting and fiscal help to UIPA. This is something GO Utah has taken on to assist the port as it grows its operations. However, the port appears to be at an inflection point between GO Utah's time constraints and the port's needs in this area. UIPA management has acknowledged this and has reported to us that the port is not in a financial position to hire a finance team right now. UIPA should make it a priority to develop staff resources when finances are available.

Increased Board Involvement Is Needed for Utah Inland Port Authority

As an independent entity that is exempt from many Utah administrative laws, UIPA fits the description of the types of entities audited in our office's 2017 report, *A Review of Best Practices for Internal Control of Limited Purpose Entities*. This report is applicable to the port's operations and centers on the role of the board and staff, internal controls, recruiting qualified personnel, and tone at the top. We believe the UIPA board is providing the necessary tone at the top and include this reference to aid current and future boards.

We do not suggest that the board micro-manage staff but given that the UIPA board is the main oversight body for the port, a board-driven approach is essential to providing accountability for the port's actions. We are encouraged by the board's approach to governance. During our field work, we observed the board provide leadership, set expectations, and probe agenda and budget items. We recommend that this approach continue and that the board implement all best practices cited in our 2017 report.

Strong Board Governance Will Continue to Help UIPA

Leading, setting goals and expectations, and monitoring and holding staff accountable for results are areas the board should continue to ensure. For this limited review, discussions with previous board members and an assessment of the port's meeting minutes, recordings, and available meeting materials reveal that a lack of

We believe the UIPA board is providing the necessary tone at the top. Appendix C of this report provides best practices for limited purpose entities.

The UIPA board is the main oversight body for the port, and a board-driven governance approach will improve accountability of port actions.

information has hindered the board's ability to monitor key decisions at the port. For example, the primary method of the board authorizing UIPA expenses has been through its approval of the budget each year.

In meetings where budgets were unanimously approved by the board in 2020 and 2021, staff gave brief updates on amended and final budgets but did not provide much detail. UIPA's largest budget items have been contracts for consultants and services. Staff need to ensure that they are detailing the budgetary information in a manner that allows the board to have all pertinent information. Our review of meeting materials and discussions with current and previous board members lead us to believe that this was not sufficiently happening.

It appears the current board is working to address this issue. In its board meeting on June 23, 2022, the UIPA board questioned budget items and approved the budget with the caveat that larger expense items will be looked at further. The board also voiced support for a different process to review contracts. To assist the current and future boards, UIPA staff should work to ensure that materials for board meetings are provided in advance and made public as soon as possible.

Board Oversight Can Continue to Help UIPA with Accountability and Stronger Internal Controls

Based on our review, best practices that center on accountability and internal controls can continue to improve the port's operations. An example includes regular board review of an entity's expenses and disbursements. For this limited review, we have analyzed meeting minutes and meeting materials and have observed that the UIPA board has not regularly reviewed entities' expenses and disbursements in the past. We also interviewed several past board members and board leaders. Going forward, appointing a board member to serve as treasurer could remedy some of these past issues. Implementing these best practices will not only increase oversight of UIPA activities but also will improve internal controls and accountability beyond solely approving the port's budget. We recommend that the new board implement these best practices.

Additionally, the Utah Office of the State Auditor (SA, or State Auditor) produces a resource guide, titled *Little Manual for Local and Special Service Districts*. The manual provides guidance and training for board members and managers of UIPA-type organizations. The SA's *Little Manual* recommends appointing an audit committee to conduct

A regular board review of the port's expenses is a best practice the board can implement to improve internal controls at UIPA.

The State Auditor's *Little Manual* recommends appointing an audit committee to conduct risk assessments, establish internal controls, and ensure that audit findings are addressed.

risk assessments, establish internal controls, and ensure that audit findings are addressed. With a compliance director and an internal control program in place, an audit committee could provide external oversight without taking on large time commitments. Additionally, the port is statutorily required to procure an audit of its finances each year, and bond covenants also require regular audits of UIPA finances. An audit committee would take over from staff, duties of working with the SA and other external auditors regarding the port's audit engagements. We recommend the UIPA board appoint an audit committee to further enhance internal controls and accountability.

Stronger Oversight and Management of Procurement and Contracts Needed for UIPA

Improved oversight, control, and accountability in procurement and contracting are needed for UIPA. The execution of procurement and contract management has leaned toward the exceptions in UIPA's procurement policy, with the exceptions becoming the norm. There is sufficient evidence in contracts we have reviewed to conclude that this area requires additional oversight and review. We could not fully audit this area in the time frame for this limited review. Consequently, we recommend that either the Legislative Audit Subcommittee authorize an additional audit of the port, or the new UIPA board ensure that contracts are adequately and independently reviewed.

UIPA's Contract Procurement Is Largely Staff Driven and Heavily Sole Sourced

Since UIPA's governing statute exempts it from Utah's procurement code, the creation, execution, and oversight of procurement and contracts lie squarely with the port and its board. This is one reason best practices specifically cite the importance of a board-created procurement policy. We have documented the port's procurement policy, which was updated in May 2022. Provisions of the policy that allow for unilateral actions by the purchasing agent disincentivize the use of competitive bidding. These provisions, coupled with the delegated authority provided by statute and board resolution, foster staff-driven procurement and contract management. Such a scenario, without deliberate board oversight, intensifies the inherent risks of procurement and contracting.

UIPA's procurement practices lean toward frequent sole sourcing.

UIPA's board has delegated authority to staff to create procurement policy and administer contracts.

Statute, Board Resolution, and Procurement Policy Allow for Staff-Driven Practices. *Utah Code 11-58-301(3)* authorizes the UIPA board to delegate powers to the port’s staff by resolution. In its Resolution 2019-05, the UIPA board delegated authority and ceded discretion to the executive director for procurement policy and administering contracts. UIPA’s procurement policy mirrors this resolution. It provides for a competitive bid process for services; however, many provisions allow the purchasing agent to make unilateral decisions. Examples include designated professional services; sole source; existing needs; specialized or confidential services; and emergencies, public threats, and unforeseen conditions. The following quote is from the sole source section of the port’s procurement policy:

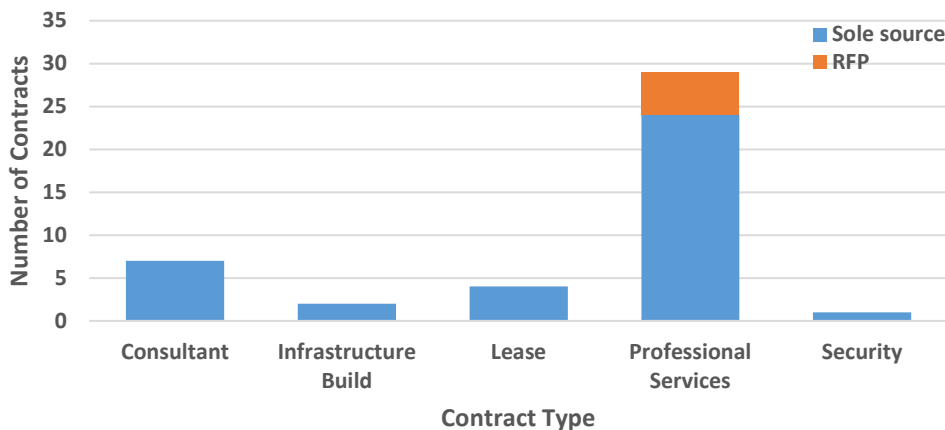
UIPA may utilize sole source procurement in lieu of the formal procurement requirements set forth in this Policy when the Purchasing Agent determines that its use is appropriate.

This language gives discretion to the port’s purchasing agent, which is the executive director or a designee, according to its policy.

UIPA Execution of Procurement Leans toward the Exception.

According to documentation provided by the port, UIPA has had contracts with twenty-nine different vendors. Some vendors have entered into more than one contract with the port or have had their contracts amended or renewed. Figure 3 indicates how the contracts with these vendors were originally procured.

Figure 3 UIPA Procurement Methods. About 81 percent of the port’s original contracts were sole sourced.



Source: UIPA.
 * 38 contracts did not have a bidding process, but we counted only 35 as sole sourced, since three were with companies on the state’s approved vender master list.

Competitive bid processes in the port’s procurement policy can be overridden by its purchasing agent.

About 81 percent of the port’s original contracts were obtained through sole source.

As Figure 3 shows, 35 of the port’s 43 original contracts (81 percent) have been obtained through the sole source method. UIPA staff and management have acted within their policy and delegated authority. However, with such a slant towards sole source contracting, the port leans heavily on the exception to a normal procurement process. This reduces transparency and can foster an environment where public resources are not adequately safeguarded.

Additionally, in our review of the port’s contracts, none include a signature by a board member. While we recognize that this policy was enacted when the port had minimal staff and needs to be updated, the port’s policy requires a board signature for purchases of \$50,000 or more, and nearly all UIPA contracts exceed this amount. We asked the port how the board approved its contracts shown in Figure 3. Staff explained that it was either through delegated authority or approval of the budget. In most cases, we did not find evidence of contract details being presented in board meetings. These conditions highlight the need for increased board oversight.

We recognize that the board may favor flexibility for staff to obtain services. However, absent a board-driven procurement and contract review process, board oversight depends upon individual board member efforts and can vary. We are encouraged by the board’s actions to provide greater oversight in this area. However, we believe adjustments to policies and procedures, with more deliberate attention to board approval and contract review processes, will enhance UIPA’s internal controls and mitigate risks in these areas.

Active Contracts Exhibit Weaknesses in UIPA’s Procurement and Contract Management Model

In our limited review, we did not have the time to adequately analyze all UIPA contracts. However, two contracts are highlighted in this section and we believe this area warrants additional review.

Questions with QuayChain Contract Exist. Importantly, we recognize that UIPA staff members have acted within port policy for procuring this contract. In board meetings, staff cited their intent to implement an “intelligent crossroads” network at the port, and QuayChain was selected to perform this work. Staff members have explained that while QuayChain’s technologies are not unique, the company provides a combination of industry knowledge and expertise in logistics, supply chain, and data management not available with

UIPA’s procurement policy needs to be revisited.

Questions have been raised whether other contractors have the expertise needed which highlights the concern with sole source contracts.

other contractors. We appreciate the port's openness in providing us with documentation of its contracts; however, questions have been raised whether other contractors lack the expertise needed by the port. We were not able to address these questions because a competitive bid process was not conducted for the \$3.7 million in anticipated work.

After reviewing the QuayChain contract, we have two main concerns: (1) The amount of money outlined in its statement of work (SOW) exceeds the actual contract amount by about \$1.7 million, and (2) Questions about a prior business association were raised.

We asked about the difference between the \$3.7 million SOW and actual contract amount of \$2 million. Staff explained that the contract covers two phases, and the \$2 million is for phase 1. Further, the SOW for phase 2 includes additional items and was included in the contract to be transparent about the project and its overall estimated costs. Importantly, management's plan is to move forward with the project and amend the contract as needed for future funding.

This contract is a prime example of the necessity of board oversight and contract review. We bring it to the UIPA board's awareness here and suggest a thorough review of the contract to ensure contract deliverables are understood and payout amounts are clearly delineated.

A fundamental concern for engaging in sole source contracts is that decisions about how or why certain companies were hired can be difficult to defend. The port assures us that it conducted due diligence in selecting QuayChain. We reviewed the contract and were not able to determine why it was sole sourced. Further, because of the decision to sole source, questions that were raised about a prior business association between the port director and the QuayChain CEO are not easily resolved, and we did not have time to fully review this issue.

Additionally, we have documented the December 2020 creation of a nonprofit organization called the Intelligent Crossroads Lab. The registered agent of the nonprofit is the port's chief operating officer (COO). Its directors (who were appointed in December 2021) are the QuayChain CEO, UIPA CEO, and UIPA technology director. The QuayChain contract was signed in July 2021 (about seven months after the nonprofit was created). While port officials explained that the nonprofit was created as a vehicle to spin off any innovation created through the contract, enough questions exist that we believe it is essential that the UIPA board monitor this contract.

The QuayChain contract is a prime example of the necessity of UIPA board oversight and review of contracts.

We reviewed the QuayChain contract and were not able to determine why it was sole sourced.

Board involvement in the approval and periodic review of UIPA contracts can ensure accountability for the port.

Potentially Questionable Spending in the Northwest Quadrant. FINET data show UIPA paying about \$4.6 million to a contract with NWQ, LLC for 700 North Road construction, in the Northwest Quadrant. The contract, signed in September 2021 for \$10 million, would be paid with appropriated funds or taxing authority revenue. One question raised regarded road construction typically being funded by developers in the course of their work. We reviewed available documents to understand why UIPA is paying the entire bill for the road construction. We were not able to get sufficient evidence to make a determination. It is also unclear if other financing options were available for this road. The new board asked about this and raised other questions during board meetings we attended.

We are encouraged to see UIPA staff working to develop new vendor performance metrics and making positive changes to their contract management process. A more robust contract management function at the port could ensure that contractor invoices match progress on the ground. Board involvement in the approval and periodic review of contracts can ensure accountability.

In addition to these two contracts, based on our audit work, we believe a thorough review should be conducted of all port contracts. We recommend that either (1) the Legislative Audit Subcommittee direct the Office of the Utah Legislative Auditor General to conduct this work, or (2) the board ensure that a review of contracts is done.

UIPA Contract Management Function Needs Enhancement, Greater Priority

Along with procurement, UIPA's contract management processes need to improve. For example, a basic internal control is segregation of duties. Currently, UIPA's contract management functions are conducted primarily through one person, who performs many other duties at the port. This employee has a central role in drawing up contracts, handling invoices, and monitoring contracts. We recognize UIPA's process involves a legal review, COO approval of invoices, and a final approval by GO Utah when invoices are uploaded to FINET. However, UIPA's contract management function needs greater segregation of duties, accountability within contracts, and board oversight. As noted earlier, UIPA is phasing in staff positions, and we recommend that UIPA continue to address this need moving forward.

Contract management functions at the port need greater segregation of duties, accountability within contracts, and board oversight.

We obtained contract analyst job descriptions from other state agencies. Duties for contract analysts include negotiating, writing, and reviewing contracts/agreements; coordinating with agency managers and contractors to resolve problems; and managing change orders, amendments, or renewals. Applying this to UIPA, contract management duties should not include executing financial transactions of the contracts that the analyst is also managing and monitoring.

The port also lacks measurable metrics and timelines in contracts to provide structure and accountability for contractors. The contract for 700 North Road construction is an example of this. When the current board inquired about this project, UIPA staff did not have sufficient information to answer its questions. Also, questions about why the port is funding the project at 100 percent could not be answered.

One way to address these issues is to empower UIPA's compliance director to take on contract management oversight. We are not prescribing policy to the port in this area; however, we recommend that the board prioritize its contract management functions and ensure that best practices are incorporated into its oversight duties.

Bond Proceeds Largely Unspent, Master Plan for Port Development in Beginning Stages

A Salt Lake City lawsuit filed against the port resulted in unspent bond proceeds that were slated for infrastructure expenditures. With that case nearing resolution, UIPA will have bond proceeds available. Because the master development plan is still in the beginning stages, the planned uses for bond proceeds will need continued audit work.

Master Development Plan for Project Area in Beginning Stages

As noted, UIPA produced a strategic business plan to guide it through fiscal year 2024, which maps the vision, mission, core values, and general approach of the port. However, the plan is not intended to be a master development plan or list of projects the port will execute. As mentioned, an RFP is in process to procure a third-party company to create a master development plan for the project area.

We recommend that the board prioritize its contract management functions and ensure that best practices are incorporated into its oversight duties.

UIPA does not yet have a master development plan, but an RFP is currently being finalized to procure consultant assistance to develop it.

Additional audit work is necessary to understand and document details of UIPA contracts to make a determination on their appropriateness.

Additionally, the first bond interest payment was scheduled for June 1, 2022, from bond proceeds. To date, other uses of bond proceeds include the \$8.02 million payment to Stadler Rail. State funds were used to make the initial \$8.02 million payment to Stadler Rail. The funds were passed through to UIPA according to an agreement with the Utah Department of Transportation. UIPA management has explained that public infrastructure district (PID) bond proceeds will be used to reimburse UIPA the \$8.02 million.

For this transaction, therefore, state-appropriated funds were used as a prepayment for a lease intended to be paid for with bond funds. Analyzing the payment, it appears to be a loan from UIPA to the PID, and we would expect a loan contract to be executed prior to payment. We have begun to document this process to determine whether any resolutions were passed by the UIPA and PID boards, and if any agreements were in place prior to the payment being made. However, additional audit work is necessary to understand, document, and make a determination on the appropriateness of this transaction.

Planned Uses for Bond Proceeds Need Continued Audit Work

According to bond financing documents, bond proceeds will pay for items such as project costs, capitalized interest on the bonds, and security in the Reserve Fund. Creation documents for the PID also outline certain infrastructure needs that bond proceeds are intended for, such as construction of a transload/cross dock facility, alternative fuel refueling station, community partnership project, rail line, and acquisition of land or lease rental rights. We have begun to receive more detailed documents of the business case for the transload facility. However, there remains a need to conduct additional audit work to document the port's intended use of bond proceeds.

Uniform Reporting Requirements Needed For UIPA

In this report, our focus has been on best practices for governance, internal controls, and management practices UIPA should focus on going forward. However, another area of complexity is the port's reporting environment. UIPA does not necessarily fit into a single type of limited purpose entities. This, along with the nature of the port's mission, creates a complex working environment that spans multiple levels of government and the private sector. Additionally, with its diverse revenue sources, the port interacts with many different stakeholders who need to know how UIPA uses its resources. Finally, even though UIPA is a separate political subdivision of the state, it is currently rolled up, according to GASB standards, into Utah's financial statements as a discreet component unit of the state.

It is recommended that continued audit work be conducted to determine how other similar authorities operate, and to determine an appropriate reporting model for UIPA. Relevant questions for the port that have not been included in this limited review pertain to its reporting environment. Specifically:

- Should UIPA be subject to procurement code?
- Should the port be required to report to the state's transparency website?
- Should the port be required to post financial transactions to FINET? Without FINET data, our limited review of the port would have been much more difficult. Although an organization like UIPA is not required to use FINET, we recommend that the port continue to use it.
- Are there other reporting and accountability mechanisms for the port that should be considered in statute?

Answers to these questions will help ensure that the port continues to move forward in a positive direction.

The port currently posts financial transactions to FINET but is considering discontinuing this practice.

This limited review does not focus on UIPA's complex working environment or its reporting.

It is recommended that continued audit work be conducted to determine an appropriate reporting model for UIPA.

Recommendations

1. We recommend that the Utah Inland Port Authority complete its master development plan prior to any major expenditures from bond proceeds, unless the board approves an exception.
2. We recommend that the Utah Inland Port Authority create a standard for periodic review of tax differential forecasts.
3. We recommend that the Utah Inland Port Authority implement the best practices cited in our 2017 report, *A Review of Best Practices for Internal Control of Limited Purpose Entities* (summarized in Appendix C of this report).
4. We recommend that the Utah Inland Port Authority continue to work to ensure that materials for board meetings are provided in advance and made public as soon as possible.
5. We recommend that the board of the Utah Inland Port Authority appoint a board member to serve as treasurer.
6. We recommend the board of the Utah Inland Port Authority appoint an audit committee to enhance internal controls and accountability.
7. We recommend that the Utah Inland Port Authority update its procurement policies.
8. We recommend that either (1) the Legislative Audit Subcommittee direct the Office of the Utah Legislative Auditor General to conduct additional work on all Utah Inland Port Authority contracts and other identified risk areas, or (2) the board ensure that a review of contracts and risk management is performed.

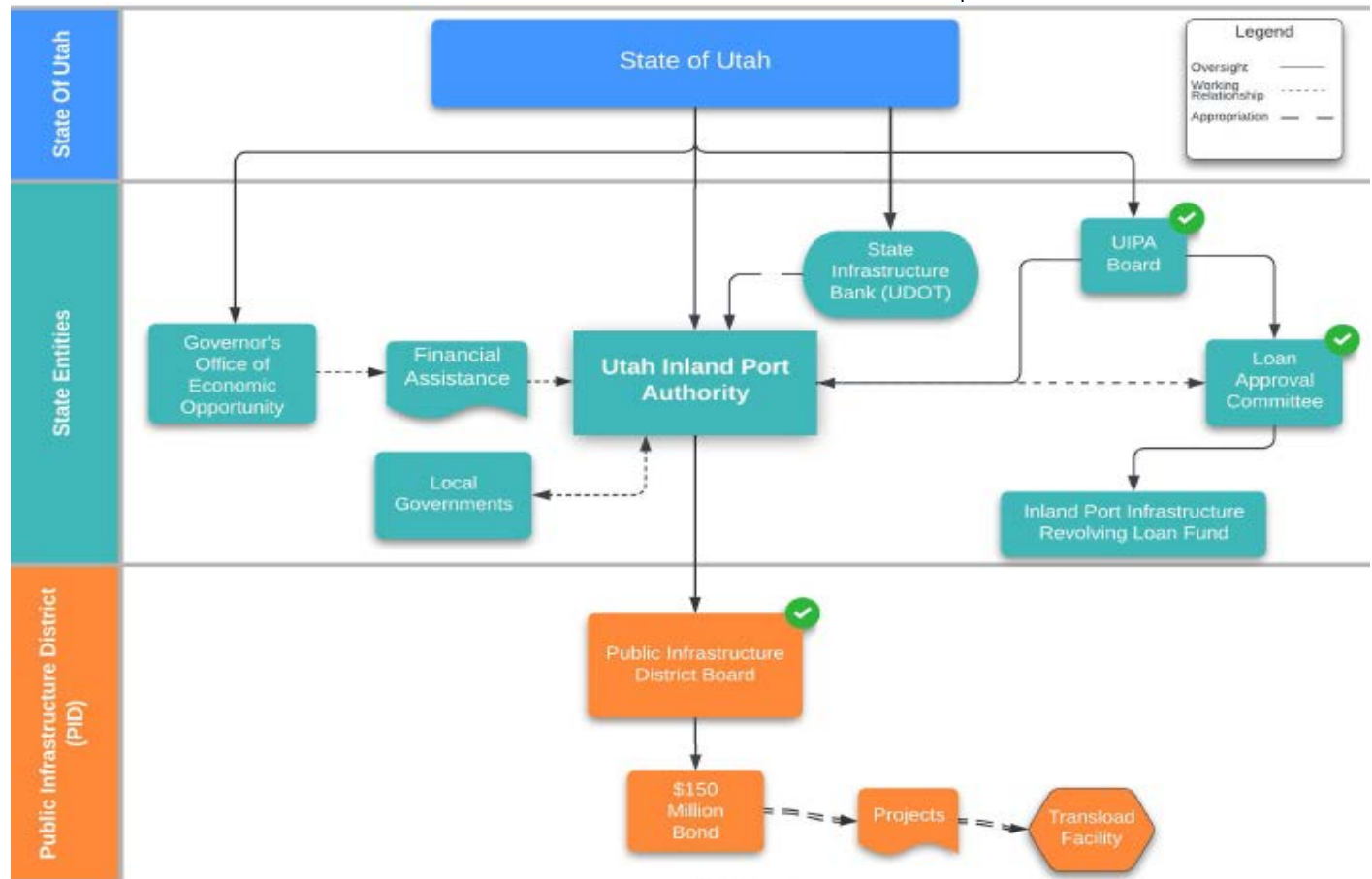
Appendices

Appendix A UIPA Purpose and Statutory Structure

Figure A1 depicts UIPA and its related governmental entities.

UIPA interacts with many different entities, including state agencies and local governments

Figure A1. UIPA-Related Entities. UIPA is connected to multiple entities and levels of government.



Footnotes

1. The Utah Inland Port Authority was created in 2018 and is a political subdivision of the state.
2. The UIPA Board, Loan Approval Committee, and Public Infrastructure District Board each have approval power and are denoted by a green checkmark.
3. The transload facility is an example of one of many proposed projects by UIPA staff.

Source: Auditor generated.

The port interacts with state agencies, local governments, a public infrastructure district it created as a subsidiary, and others. UIPA's mission requires it to engage in private industry and in the macroeconomic sectors of logistics and the national and global supply chain. These areas of focus require the port to engage with federal government regulation agencies.

The UIPA board created a PID, which is a local district with the power of eminent domain and taxing authority. The PID is a legal entity that was used to issue a \$150 million bond in December 2021.

According to statute, UIPA is an “independent, nonprofit, separate body corporate and politic...a political subdivision of the state...and a public corporation.”

UIPA fulfills an important statewide function for promoting trade and advancing a vision for regional and global commerce.

UIPA Is a Legally Separate Entity from the State

UIPA was created in *Utah Code* under Title 11: Cities, Counties, and Local Taxing Units. *Utah Code 11-58-201* created the port under the authority of the Utah Constitution as an “independent, nonprofit, separate body corporate and politic, with perpetual succession...a political subdivision of the state...and a public corporation.”³

Utah Code 11-58-205 precludes the port from exercising regulatory powers for land use purposes on jurisdictional land. Additionally, the port is bound to select sections of the Independent Entities Code. Under *Utah Code 63E*, the port is exempt from multiple statutes and administrative rules normally applied to state agencies. For example, *Utah Code 63E-2-109(2)(b)* places the port under the purview of the State Auditor’s Office, reporting financial information to the Public Finance Website, rather than budgeting through the Legislature.

UIPA Authority and Powers Created in Statute. Statute authorizes the port to coordinate all state and local efforts in business planning and management of jurisdictional land. UIPA can hire employees, including contractors and consultants. Environmental sustainability is prevalent in UIPA’s statutes, which allow it to form a foreign trade zone and community enhancement program. Working with municipalities to help fund affordable housing is also required.

Additionally, in developing jurisdictional land and project areas, the port is granted power to engage in marketing and business recruitment activities, acquire and sell or enter into lease agreements as the lessee or lessor for real or personal property, sue and be sued, and enter into contracts and exercise powers authorized under them.

UIPA’s Purpose Is to Maximize Economic Benefit for Utah. According to statute, the port fills an important statewide function for promoting trade and business complimentary to it. The port’s mission also encompasses a vision for regional and global commerce, beyond the purview of city or county interests. To advance this vision, the port is charged with the following aims:

³ *Utah Code 63E-1-102(7)*: “Public corporation” means an artificial person, public in ownership, individually created by the state as a body politic and corporate for the administration of a public purpose relating to the state or its citizens.

- Maximize high-quality jobs.
- Improve air quality.
- Facilitate transportation of goods and coordinate exports of Utah products.
- Promote economic development in project areas that also might be in rural communities.

Statute also allows for the development of a logistics infrastructure that supports economic growth and positions the state as a player in the global supply chain—through roads, rail, and air travel.

UIPA Is Connected to Multiple Entities by Statute, Resolution, or Agreement

Utah Code 17D-4 defines UIPA as a “Development Authority,” authorized to create a public infrastructure district (PID). In October 2021, the port’s board created the UIPA Crossroads PID as a subsidiary of the port. The PID’s governing document establishes a five-member board, comprised of the UIPA executive director, the chair and vice chair of the port’s board, and two PID board appointees; UIPA’s chief operating officer is inserted as the PID’s executive director. In addition to the PID, the UIPA board executed, by resolution, an interlocal agreement that pledged tax differential from its jurisdictional area and empowered the PID to execute a \$150 million bond for infrastructure development. This bond was a primary motivation in creating the PID.

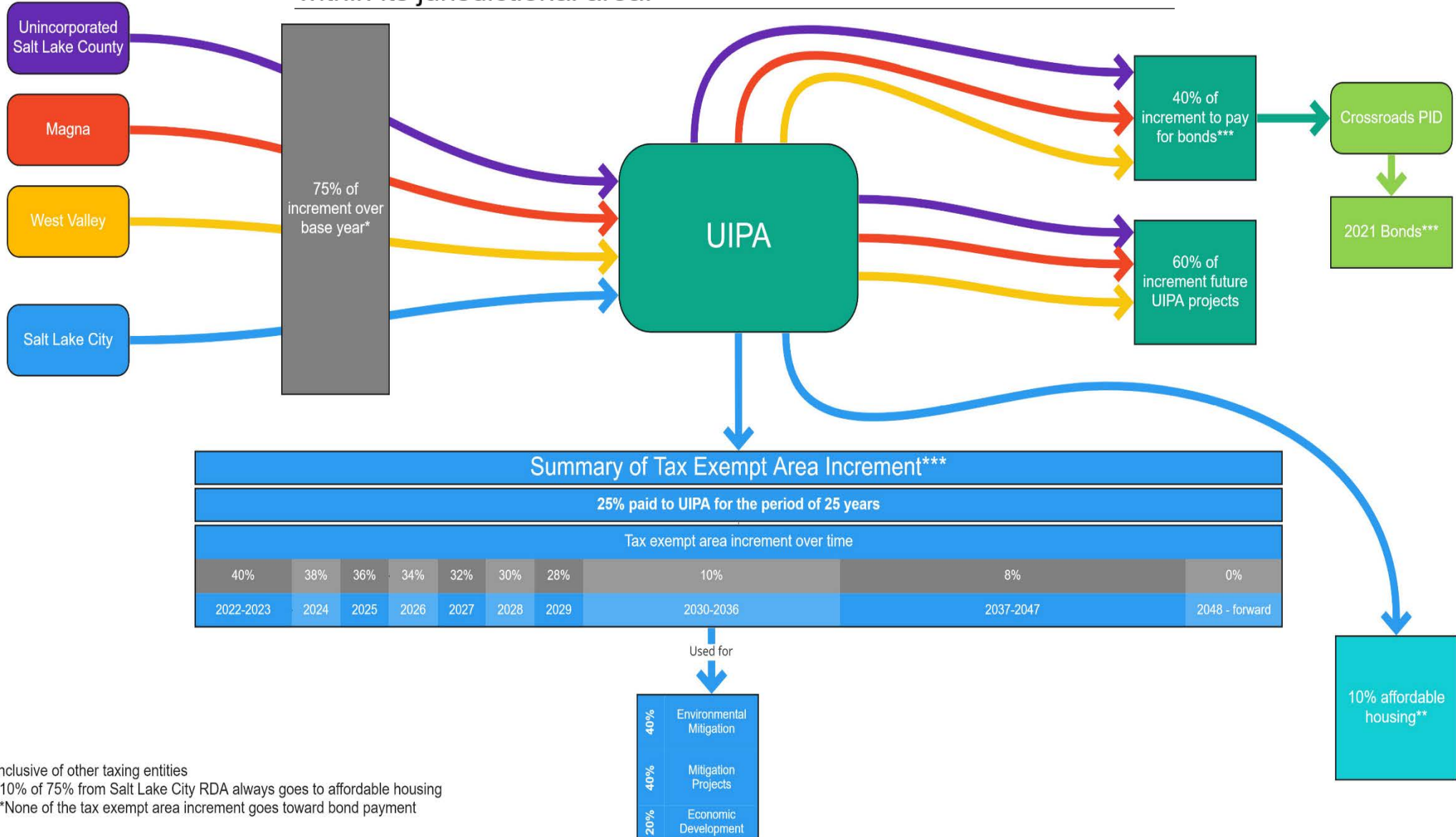
In addition, a Loan Approval Committee (LAC), made up of voting UIPA board members, was created in statute. The LAC authorizes infrastructure loans from the Inland Port Infrastructure Revolving Loan Fund and can structure these loans and forgive them under certain circumstances. The only recorded action taken by the LAC was in a November 2021 meeting, where it approved (1) a policy for approving infrastructures loans and (2) a resolution creating an agreement with the PID for \$50 million to support the issuance of a \$150 million bond.

According to the PID Act in Utah code, PIDs are local districts.

Local districts (PIDs) have the power of eminent domain, to levy property taxes, and impose fees, among other governmental powers.

Appendix B Tax Increment Flow

Figure B1. UIPA Increment Flow with Salt Lake City. The port receives 75 percent of tax differential revenue from all entities within its jurisdictional area.



*Inclusive of other taxing entities

**10% of 75% from Salt Lake City RDA always goes to affordable housing

***None of the tax exempt area increment goes toward bond payment

Appendix C

Checklist of Best Practices for Board Members of Limited Purpose Entities

This checklist is copied from OLAG's 2017 audit, *A Review of Best Practices for Internal Control of Limited Purpose Entities*. It was used in this limited review to analyze the port's condition in the areas highlighted in bold of each checklist and is included here for reference.

Roles of Board and Staff	
1. The board takes ultimate responsibility for governance of the entity by (1) appointing an executive staff, (2) providing broad policy guidance, (3) authorizing the use of resources, (4) setting goals and expectations, and (5) monitoring results.	<input type="checkbox"/>
2. The board members recognize their role is to be more than just a ceremonial body. They have a responsibility to lead and hold staff accountable for results.	<input type="checkbox"/>
3. The board chair reviews and approves the agenda before each meeting, inviting other board members to propose additional agenda items, if desired.	<input type="checkbox"/>
4. The executive director (a) helps the board draft a set of internal control policies and (b) guides staff as they carry out the board's policies.	<input type="checkbox"/>
5. To protect against fraud, staff duties are segregated such that no one person has control over all parts of a financial transaction.	<input type="checkbox"/>
6. The board appoints a board chair, a treasurer and a clerk.	<input type="checkbox"/>
7. For organizations with an insufficient number of staff to achieve a proper separation of duties, board members serve as treasurer and clerk.	<input type="checkbox"/>
8. The board approves a staffing policy that defines the responsibilities of all those who handle different aspects of the entity's finances.	<input type="checkbox"/>
9. The board is solely responsible for hiring and directing the audit function.	<input type="checkbox"/>

Internal Controls	
10. The board approves policies that govern the organization and addresses each best practice described in the best practice audit. This would include policies such as a personnel policy, a procurement policy, and records retention policy. A procurement policy is of particular importance with the recent instances of fraud, waste, and abuse that have occurred.	<input type="checkbox"/>
11. The board regularly reviews a report of entity disbursements. The report includes the date, vendor and amount of each expense since the last board meeting.	<input type="checkbox"/>
12. To control credit purchases, purchase cards (or “p-cards”) are issued to a limited number of staff. Limits are placed on the dollar amount, type and number of charges made to each card.	<input type="checkbox"/>
13. An independent person with no book keeping responsibilities is assigned to reconcile the bank statement each month with that month’s receipts and expenses.	<input type="checkbox"/>
14. The board requires its formal approval of any expenditure above a certain dollar amount.	<input type="checkbox"/>
15. The board requires that two people sign all local entity checks. Before signing, both signers will review and approve the attached requisition sheet.	<input type="checkbox"/>
16. The board verifies that the entity has complied with applicable state laws including: certification and filing of annual budget (Utah Code 14B-1-614), notice of public meetings (Utah Code 52-4), notice of board member contact information (Utah Code 17B-1-303), participation in Utah public finance website (Utah Code 63A-3-405.4), and financial statement reporting requirements (Utah Code 51-2a-202).	<input type="checkbox"/>

Recruiting Qualified Personnel	
17. Staff avoid recruiting individuals to serve as board members	<input type="checkbox"/>
18. Local entities publicize the opportunity to apply for any elected board seats that will soon be coming available.	<input type="checkbox"/>
19. Local entities follow an open and objective recruiting process when filling staff positions and hiring outside contractors. Hiring relatives or business associates of the board and management is avoided.	<input type="checkbox"/>
20. Board and staff regularly receive the required training in open and public meetings, board governance and other matters applicable to the entity's mission. Training can be obtained online at https://auditor.utah.gov/training/loacl-district/ , through in-house seminars, and at conferences such as those offered by the Utah Association of Special Districts.	<input type="checkbox"/>
21. When in-house expertise is not available to perform special tasks, the entity hires or appoints qualified outside experts.	<input type="checkbox"/>

Tone at the Top	
22. The board adopts a code of ethics that clearly states the organization's values and standards of behavior.	<input type="checkbox"/>
23. The board and management seek opportunities to reinforce the organization's ethical standards during staff meetings, training, and newsletters.	<input type="checkbox"/>
24. The board holds everyone accountable, including management, to high standards of performance.	<input type="checkbox"/>
25. The board and executive director avoid using a compensation system and other incentives that encourage employees to take unnecessary risks.	<input type="checkbox"/>
26. The board provides an ethics hotline and adopts a whistleblower policy.	<input type="checkbox"/>
27. The board adopts a conflict-of-interest policy describing how members should respond when their personal interests have the potential to conflict with their public duty.	<input type="checkbox"/>

Agency Response



UTAH INLAND PORT AUTHORITY

September 9th, 2022

Kade Minchey, CIA, CFE
Auditor General
Office of the Legislative Auditor General
W315 State Capitol Complex
Salt Lake City, UT 84114

Dear Mr. Minchey:

We thank the legislative audit team for their efforts to learn about the Utah Inland Port Authority (UIPA) and to provide constructive recommendations. Requesting this audit was among the first actions we took as a new UIPA board of directors, and we are continually impressed with the professionalism of those in the Office of the Legislative Auditor General. We are very appreciative of the time that they have taken to meet with our team as we work together to improve our organization.

We wholeheartedly agree with all recommendations in the audit and have directed UIPA management, including new UIPA executive director Ben Hart, to move forward with implementing them along with other best practices. We are committed to ensuring that UIPA is focused within the scope of its mission to maximize the public good it is creating for individuals, families, businesses, and communities across the State of Utah. We're also grateful for the many community, local, state, private, and public partners and stakeholders for their collaboration and support in this important team effort. We're excited by the progress the organization is making and look forward to what is to come as UIPA enters this new phase.

UIPA Actions to Increase Mission Focus and Oversight:

- 1. Northwest Quadrant Master Development Plan:** UIPA is undergoing a master development plan process in coordination with public and private stakeholders. This Master Development Plan will be completed prior to using any tax differential related funding, unless approved by the board under rare circumstances. Similarly, UIPA will complete its Master Development Plan prior to using any revenue sources under the jurisdiction of the UIPA Crossroads Public Infrastructure District, unless approved by the UIPA Crossroads Public Infrastructure District Board under rare circumstances.
- 2. Treasurer Role:** The board of directors has appointed Dan Hemmert to serve as UIPA's Treasurer. In addition to serving as the UIPA Vice Chair and the Executive Director of the Governor's Office of Economic Opportunity, Mr. Hemmert has extensive professional experience in the financial services industry.

3. **Finance and Audit Committee:** The executive director has created a new Finance and Audit Committee to provide additional financial and compliance oversight over all UIPA affairs. As Treasurer, Mr. Hemmert will chair the Finance and Audit Committee, which will be comprised of volunteer community members with requisite professional experience in finance, accounting, compliance, etc. The first meeting of the Finance and Audit Committee is anticipated to be held in October 2022.
4. **Chief Compliance Officer:** The executive director has appointed Amy Brown Coffin as the UIPA Chief Compliance Officer. In this capacity, Ms. Coffin will be responsible for ensuring that UIPA achieves best practices in all matters of transparency, accountability, financial oversight, and internal controls
5. **Procurement Policy:** UIPA management has begun a review of UIPA's procurement policy. This review will be completed by November 2022 with recommendations on updates to the current policy to be presented to the board for consideration and adoption by November 2022.
6. **Contract Review:** UIPA executive director and management will work with UIPA's board to review all contracts. The contracts identified in the audit as sole source involve different kinds of agreements. All of the contracts to provide services that were not the result of an RFP process will have expired or will otherwise be terminated by the end of September, other than a small contract (<\$25k) for environmental services. The audit also identified long term leases (including UIPA's office space) and infrastructure construction agreements as sole source. These cannot be terminated immediately without significant financial consequences and accordingly will remain in place for now. Process changes will include strengthened contract management controls and separation of powers.
7. **Tax Differential:** UIPA management will develop and present an annual review of the tax differential forecasts as part of the UIPA annual budget review and approval process.
8. **Statute Review and Integration:** UIPA management will implement best practices identified in the audit that most closely align with the authority statute and integrate those best practices into established policy.
9. **Transparency and Accountability:** UIPA management will continue to work closely with members of the public to facilitate the full participation of the public in UIPA business consistent with the Open and Public Meetings Act, including making public documents available as soon as is practicable, typically well before the 24-hour minimum threshold.

Additional Context and Action:

Over the past three months, we have appreciated the auditors' limited review of UIPA, which addressed governance, internal controls, policies, contracts, performance, and financial records. The UIPA team has worked to provide unfettered access to documents, information and people. The auditors attended public and closed board meetings and held numerous one-on-one briefings. Although we recognize the difficult task to fully understand, in such a short time, the complexities of the UIPA organization and efforts undertaken by the UIPA team, this report provides the UIPA executive team and board an objective perspective regarding some aspects

of the first four years of operations. It should be noted that this period included start-up of the organization, initial hires, periods of civil disobedience and disrupted meetings, COVID shutdown, active litigation and numerous other challenges.

Within the lessons from this audit there is an important reminder that all organizations should be supported through a strong statutory purpose that includes reporting, accountability and governance. The UIPA would like to emphasize that the statutes authorizing UIPA currently allow for significant flexibility. The report notes UIPA's compliance with existing statute but asks several important questions, including:

1. Should UIPA be subject to state procurement code?
2. Should UIPA report to the transparency website?
3. Should UIPA continue to use FINET?
4. Are there other possible accountability mechanisms that could be adopted in statute that UIPA should be subject to?

It is up to the Utah State Legislature to answer these questions. UIPA looks forward to providing input to the legislature concerning these questions and is committed to supporting and implementing any statutory changes that the legislature makes in response.

It is important to emphasize that each fiscal year UIPA has had independent financial auditors review the UIPA financial statements. These internal controls and annual financial audits concluded that all expenditures have been made in accordance with the board approved budgets and policies and legislative statute. UIPA has made significant progress, and will continue that progress, toward restructuring the organization to ensure stronger internal controls with separation of duties and authorities. We note that prior to the commencement of the legislative audit, the UIPA implemented the COSO framework, which is the gold standard system used to establish internal controls to be integrated into business processes. This framework provides reasonable assurance that the organization is operating ethically, transparently and in accordance with established industry standards.

We want to acknowledge, strongly, that UIPA has already taken several significant steps towards ensuring compliance with the recommendations in the audit. Our new smaller board has met more frequently and provided greater oversight to our executive team. The board has also appointed a new executive director, who brings a wealth of government leadership experience.

UIPA is in the process of making substantial changes to organizational policies that address many of the issues noted in the audit. Moving forward, staff will ensure that board resolutions regarding capital projects and long-term leases will be approved in a public meeting. Those resolutions associated with capital projects and long-term leases will include language that will not only approve the budget to allow dollars to be spent but also specific language to approve the actual projects and documents.

Also and as noted above, the executive director has elevated the existing Compliance Director to the position of Chief Compliance Officer, who will report directly to the executive director. This change is intended to strengthen the compliance voice within the organization.

As noted in the report, the UIPA team started small (to make sure it stayed within budget), and as such, team members have filled many duties simultaneously while outsourcing other work and functions to independent contractors. We agree with the legislative audit report

recommendations to right-size the UIPA team, reduce some of the services that have previously been contracted out, and develop an organization that prioritizes strong governance all while remaining in budget.

Planning will continue to be a high priority for the UIPA team. Our team is working to develop the following two documents prior to the next legislative session to ensure we are meeting statutory objectives:

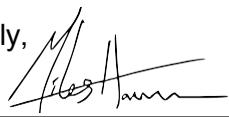
1. **The Utah Inland Port Vision, Mission and Strategy**. This document will provide the long-term vision for UIPA, clearly define a mission that is consistent with existing statute and focused on the appropriate role of a public inland port authority, and establish the organization's operational strategy, including key objectives and organizational structure that will calibrate and focus all UIPA resources, employees, activities, and efforts on accomplishing key objectives, fulfilling UIPA's mission and ultimately, achieving UIPA's vision.
2. **The Northwest Quadrant Master Development Plan**. This document will provide the overarching long-term plan for the core jurisdictional area with an objective of supporting vibrant, prosperous, healthy, and sustainable communities in the jurisdictional area. The plan will optimize economic land uses and sustainable development, infrastructure design (including rail), tax-differential use, and traffic flow. It will identify and plan for opportunities for intentional business growth, marketing and the smart utilization of other resources pertinent to the development of the area. The intent of this plan is to identify optimal growth scenarios, facilitate active private public partnerships, and to identify the investments that will help us to achieve these long-term logistics objectives.

We want to acknowledge that Salt Lake City, Salt Lake County, West Valley City, Magna, other public and private stakeholders will have a significant role to play in the development of a Northwest Quadrant Master Development Plan. UIPA management will develop annual revenue projections to make sure that the projects on which we spend money are within the revenues we actually receive, as was recommended in the audit.

Once UIPA's vision, mission and strategy document, plus master development plans are completed, discussions and multi-jurisdictional coordination will not be finished. New technologies will become available; priorities and needs will change; therefore, updates and amendments to these plans should be expected. Both of these documents will be produced under the guidance of the UIPA Board and in coordination with a broad array of stakeholders.

UIPA intends to integrate and implement all recommendations into operations over the next 12 months. This 12-month period will allow sufficient time for UIPA to develop and implement new policies and procedures, refine and improve, and assess what additional steps should be taken to ensure that UIPA is operating as productively and effectively as possible.

We are a learning and growing organization; we are very appreciative of the suggestions for improvement made by the Legislative Audit team and look forward to working closely together as we learn from the assessment in the audit and implement audit recommendations in an expeditious manner.

Sincerely, 

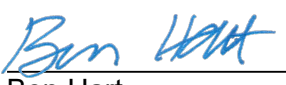
Miles Hansen
Chair, UIPA



Abby Osborne
Board Member, UIPA



Mike Schulz
Board Member, UIPA



Ben Hart
Executive Director



Dan Hemmert
Co-Chair, UIPA



Jerry Stevenson
Board Member, UIPA



Victoria Petro-Eschler
Board Member, UIPA

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