



INTERNAL AUDIT

Preliminary Assessment of Debt Cost

R-21-07

January 6, 2022

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Rating Matrix

Descriptor	Guide
High	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
Medium	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
Low	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.

Distribution List

Title	For Action ¹	For Information	Reviewed prior to release
Executive Director		*	*
Chief Financial Officer	*		
Assistant Treasurer	*		
Comptroller	*		
Utah Attorney General	*		

¹For Action indicates that a person is responsible, either directly or indirectly depending on their role in the process, for addressing an audit finding.

Executive Summary

Introduction

The Audit Committee directed Internal Audit (IA) to perform an audit to determine if controls over Debt Costs are designed adequately and operating effectively to ensure compliance with federal regulations, state laws, and internal policies and procedures as well as to support the achievement of management objectives. The Audit Plan was approved by the Audit Committee on February 1st, 2021.

The preliminary assessment phase was concluded on January 6, 2022 and was conducted in accordance with the International Standards for the Professional Practice of Internal Audit, published by the Institute of Internal Auditors.

Background and Functional Overview

UTA has issued bond debt to fund certain capital projects, primarily related to rail services. As of January 1, 2022 total bond debt is \$2,218,726,498.

The Chief Financial Officer (CFO) has overall responsibility for managing UTA's debt strategy. Much of the day-to-day responsibilities are delegated to the Assistant Treasurer. Additionally, UTA has a longstanding relationship with Zions Public Finance who provides advice on bonding opportunities, debt management, and assists with ongoing compliance with covenants, regulations, and tax laws.

Objectives and Scope

The period of the preliminary assessment focused on activity between January 1, 2019 to June 30, 2021. Additional periods were reviewed as necessary.

The primary areas of focus for the preliminary assessment were:

- Pre-issuance controls
- Debt service payments
- Debt covenant compliance
- Compliance with applicable tax laws
- Third-party management
- Debt service coverage contingencies

Notably excluded from the scope was financial statement presentation of debt, as this was examined by an external auditor. The scope was further limited to debt from sales tax revenue bonds.

IA reviewed internal policies and procedures, legal and regulatory requirements, interviewed personnel, department leadership, and evaluated control documents to conduct this preliminary assessment.

Summary

Overall, IA determined that strong controls exist over the debt cost process. UTA relies heavily on third parties to develop and execute a debt strategy. Considering this arrangement, strong controls need to exist to procure and vet new service providers. We found controls satisfactory to protect UTA's interests. IA's only

recommendation for this report is that standard contract language be updated to specifically address protocols in the event of a third-party data breach.

IA appreciates the assistance offered by management and staff in completing this preliminary assessment.

Preliminary Assessment Status

Details:

As part of the preliminary assessment, contracts with major third parties involved with managing UTA’s bond strategy were reviewed to determine if the contract clauses sufficiently protect UTA’s interests. To provide for a knowledgeable legal opinion, the review was conducted by an attorney assigned to UTA by the Utah Attorney General’s office.

The review found opportunity to update standard contract language to better protect UTA in the event of a third-party data breach event.

Criteria:

Best practice necessitates that risks are identified and actively managed to mitigate adverse impacts on achieving management’s objectives.

Underlying Cause:

UTA contracts generally follow a standard template. The template had not been previously updated to reflect the risks of a data breach.

Potential Risks:

Contract clauses are a legal mechanism UTA can rely on to enforce compliance with desired standards and seek redress for harm from third-party nonperformance or poor performance. Without sufficient contractual language in these two noted areas, UTA faces additional exposure in the event of a third-party data breach. Such exposure can include financial losses, reputation harm, and failure to achieve primary performance goals.

Recommendations:

1. Standard contract language should be updated to cover UTA expectations and requirements for data breaches.

Management Response and Action Plan

The data breach recommendation is valid, and we need to amend our confidentiality provision to fix this as follows:

If confidential information is released to any third party without UTA’s written consent as described above, contractor shall notify UTA of the data breach within 10 days and provide its plan for immediate mitigation of the breach for review and approval by UTA.

Target Completion Date:

1/6/2022