MOUNTAIN REGIONAL WATER

To: Administrative Control Board

From: Lisa Hoffman, AGM

Date: November 12, 2026

Subject: Annual Fraud Risk Assessment Questionnaire

Action Requested

No action is required from the Administrative Control Board on the 2026 Fraud Risk Assessment. This is for informational purposes only and to present findings from the annual risk assessment performed in November.

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 them to the Utah Office of the State Auditor by June 30th of each year.

2026 Risk Assessment

For 2026, the same Assessment was performed as in 2020 -2025. There have been no changes to the state auditor's questionnaire since 2020. The District adopted the following two new best practices in 2026:

1. The District added a formal Audit Committee.
2. The District made a change to no longer allow any authorized signers to have access to blank checks.

The following describes the final remaining question 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 30 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 to identify violations of laws or policies.

At this time, District staff are comfortable with the level of risk currently being mitigated and is not recommending a formal internal audit function. Additionally, the District changed independent auditors two years ago and during their initial review process and the subsequent year no issues with the District's internal controls were found.

Conclusion

For the size of the District, the internal controls are more than adequate as determined by the total points earned of 375 out of a maximum of 395. This score equates to a risk level of "Very Low". No further actions is recommended by District staff at this time.