Background: Methodology for High-Risk Areas Focused on Impact and On-going Demonstrated Progress

Identifying the 12 High-Risk Areas

For several years, the U.S. Government's Government Accountability Office (GAO) has produced a biennial list of high-risk programs of government operations that highlight critical vulnerabilities at the federal level. Our office presented this method of risk identification to the co-chairs of the Legislative Audit Subcommittee, as a way to provide preventative risk services to benefit Utah. The Legislative Audit Subcommittee prioritized this audit in June of 2022. Then in the 2023 General Session, the Legislature codified the high-risk list as part of our regular duties. The office was directed to "create, manage, and report to the Audit Subcommittee a list of high-risk programs and operations that:

- Threaten public funds or programs;
- Are vulnerable to inefficiency, waste, fraud, abuse, or mismanagement; or
- Require transformation."

Our initial work identified almost 30 potential high-risk areas, as we used criteria from GAO's list and the list of peer offices providing similar audit and evaluation services to their legislatures. We also considered policy concerns of state significance identified by Utah stakeholders. Further reviewing of past lists from the GAO and California suggested a manageable list could be between 8 and 12 high-risk areas.

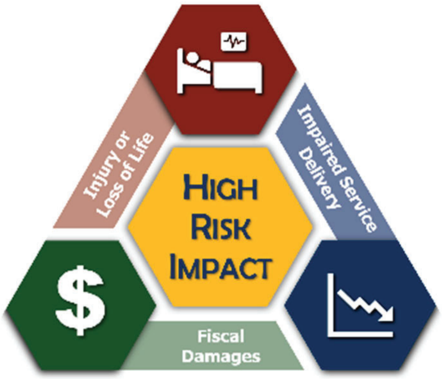
Next, our approach to sifting through the nearly 30 initial risk candidates consisted of compiling a high-level risk assessment and an impact statement for each of the areas. We created the risk assessments through the following steps:

- **Step 1:** reviewing documents that portrayed the concerns of key Utah stakeholders, as well as interviewing legislative leaders, the governor, executive branch cabinet members, judicial and local government officials, as well as other key stakeholders.
- **Step 2:** reviewing risk lists at the federal and state levels (the federal Government Accountability Office and the California State Auditor's Office—two entities that maintain high-risk lists).

- **Step 3**: reviewing past and current audits from our office. Past and current OLAG audits helped inform our decision on what to include in the high-risk list due to the built-in screening and prioritization process that yields high-risk and important areas that we audit.

Step 1 allowed us to identify which of the Utah stakeholder concerns matched our nearly 30 high-risk candidates and highlighted the main concerns in each risk area. Step 2 showed us if we had similar concerns as the federal government or other states. And Step 3 gave us a chance to review what work our office (Office of the Legislative Auditor General, or OLAG) has already done or is currently working on the risk candidates. These high-level risk assessments then fed the impact statements for each candidate.

In the impact statements, we identified the largest detrimental effects that could stem from each high-risk area. When possible, we quantified that potential impact through an analysis of legislative, agency, and other documents or data sources related to the risk candidates. These impacts fell into three general categories: 1) injury or loss of life, 2) fiscal damages, or 3) impaired service delivery. Lastly, we selected performance measures in each risk area that could be used to track progress toward mitigating its risk.



This risk assessment and impact analysis process helped us to compare nearly 30 risk candidates on equal footing, allowing us to select the most concerning areas for the final high-risk list. It also provided us with a roadmap on how to further evaluate each of the final risk list items.

After reviewing the impact statements and comparing the effects of each high-risk candidate, we narrowed the final high-risk list down to 12 areas. Our experience with conducting audits and producing the first high-risk list under a reasonable deadline led us to divide our list as follows:

- **Six high-risk areas received an in-depth analysis of the Implementation Framework (discussed in the next section):** water needs, water infrastructure, educational pathways, mental health services, substance use, and strategic human capital.
- **Three high-risk areas link directly to full audits by our office:** housing affordability (to be released in November 2023); Utah's energy policy (linked to

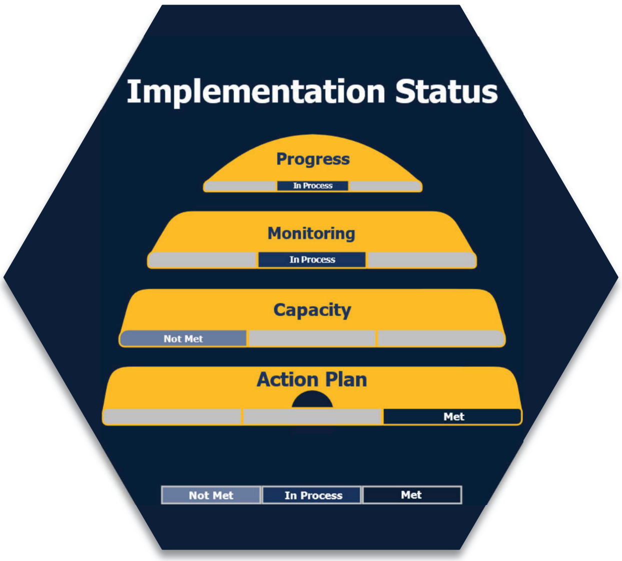
the Energy Policy audit released in June 2023); and Cybersecurity & Data Privacy (linked to the respective audits released in May and June 2023).

- **Three high-risk areas termed "Honorable Mention," which highlight areas of critical vulnerability, and will receive in-depth analysis on the next iteration of the High-Risk List:** state revenue diversification, real property management, and contract performance management.

Rating the High-Risk Areas

Each of the 12 high-risk areas has its own chapter in this report. In the chapter summaries, we rate each area according to four dimensions and categorize the most detrimental impacts that could arise. As the format for this is the same in each chapter, we explain the rating system here for future reference.

Following our counterpart at the federal level, the GAO, we chose to rate the high-risk areas according to four dimensions:



- **Action Plan:** a corrective action plan exists that defines the root cause and solutions and provides for substantially completing corrective measures, including steps necessary to implement solutions we recommended.
- **Capacity:** agency has the capacity (i.e., people and resources) to resolve the risk(s).
- **Monitoring:** a program has been instituted to monitor and independently validate the effectiveness and sustainability of corrective measures.
- **Progress:** ability to demonstrate progress in implementing corrective measures and in resolving the high-risk area.

The Implementation Framework "beehive" shows how each of the four dimensions will be rated as "Not Met," "In Process," or "Met." This will allow stakeholders for each area of concern to show whether they are making progress toward mitigating the risk when we review the risk list every few years.

The four dimensions are likely to build on each other; once an action plan is in place, then capacity and monitoring can be established, and progress is likely to follow. If progress does not follow, it could show a need to review and adjust action plans, capacity, or monitoring mechanisms. We note that many action plans received a "Met" status without a full review by our office, per the scope of this audit. Thus, while they are "Met," that does not mean they may not merit further review in the future if progress in the area is not evident during future reviews.

In addition to the areas with complete Implementation Framework ratings, there were several areas that did not receive full ratings. This is because they will receive full ratings in the future. For some, there are current OLAG audits that will address the high-risk issue and rate them (Housing Affordability and two of the Water Needs areas). The "Honorable Mention" areas (State Revenue Diversification, Real Property Management, and Contract Performance Management) will receive ratings in future iterations of the high-risk list. The Implementation Framework "beehive" graphics for these unrated areas are blank, as shown below.