

R277-116 received final approval by the Utah State Board of Education on February 2, 2018. R277-116 is published in the March 1, 2018 Utah State Bulletin, subject to a 30-day comment period, with a first possible effective date of April 9, 2018.

R277. Education, Administration.

R277-116. Audit Procedure.

R277-116-1. Authority and Purpose.

(1) This rule is authorized by:

(a) Utah Constitution Article X, Section 3, which vests general control and supervision of public education in the Board;

(b) Subsection 63I-5-201(4) which requires the Board to direct the establishment of an internal audit department for programs administered by the entities it governs;

(c) Subsection ~~[53A-1-401(4)(a)]~~, 53E-3-401(4), which allows the Board to make rules to execute the Boards duties and responsibilities under the Utah Constitution and state law;

(d) Subsection ~~[53A-1-402(1)(e)]~~ 53E-3-501(1)(e), which directs the Board to develop rules and minimum standards regarding school productivity and cost effectiveness measures, school budget formats, and financial, statistical, and student accounting requirements for the local school districts;

(e) Section ~~[53A-1-404]~~ 53E-3-602, which allows the Board to approve auditing standards for school boards;

(f) Section ~~[53A-1-405]~~ 53E-3-603, which makes the Board responsible for verifying audits of local school districts;

(g) Subsection ~~[53A-17a-147(2)]~~ 53F-2-204(2), which directs the Board to assess the progress and effectiveness of all programs funded under the State System of Public Education; and

(h) Subsection ~~[53A-1-401(9)]~~, 53E-3-401(9), which gives the Board authority to audit the use of state funds by an education entity that receives state funds as a distribution from the Board.

(2) The purpose of this rule is to:

(a) outline the role of the Audit Director, Superintendent, and agency in the audit process; and

(b) outline the Board's procedures for audits of agencies.

R277-116-2. Definitions.

(1) "Agency" means:

(a) an entity governed by the Board;

(b) an LEA; or

(c) a sub-recipient.

(2) "Audit committee" means a standing committee of members appointed by the Board in accordance with Board bylaws.

(3) "Audit Director" means the person who:

(a) directs the audit program of the Board in accordance with Title 63I, Chapter 5, the Utah Internal Audit Act and Board policies;

(b) is appointed by and reports to the audit committee; and

(c) is independent of the agencies subject to Board audit.

(4) "Audit plan" means a prioritized list of audits with associated resource requirements to be performed by the audit program [~~in the audit program within a specified period of time~~] that is reviewed, approved, and adopted at least annually by the Board.

(5) "Audit program" means a department that provides internal audit services for the Board that is directed by the Audit Director.

~~[(6) "An entity governed by the Board" means the Board, SCSB, or USDB.]~~

~~[(7)]~~(6) "Draft audit report" means a draft audit report compiled by the Audit Director that is classified as protected under Title 63G, Chapter 2, Part 3, Section 305, Protected records.

~~[(8)]~~(7) "Education entity" means the same as that term is defined in Section ~~[53A-1-401]~~ 53E-3-401.

~~[(9)]~~(8) "Final audit report" means a draft audit report that is approved by the audit committee and the Board as a final audit report that is classified as public under Title 63G, Chapter 2, Part 3, Section 301, Public records.

~~[(9)]~~(9) "Local administrator" means the district superintendent or charter school director.

(10) "Sub-recipient" means any entity that receives funds from an entity governed by the Board.

R277-116-3. Audit Director Authority and Responsibilities.

(1) The Audit Director shall:

(a) ~~direct~~ manage the audit program and facilitate the audit process:

~~(i) as approved and directed by the Board and audit committee [by objectively evaluating the effectiveness and efficiency of the operations of the agency being audited];~~

~~(ii) in accordance with the current International Standards for the Professional Practice of Internal Auditing; and~~

~~(iii) [as otherwise required by the Board;]~~ in accordance with the USBE Internal Audit Department Policy and Procedure Manual.

~~[(b) ensure that collectively the audit department possesses the knowledge, skills, and experience essential to the practices of the profession and are proficient in applying internal auditing standards, procedures, and techniques;~~

~~(c) employ:~~

~~(i) a sufficient number of professional and support staff to implement an effective internal audit program; and~~

~~(ii) audit staff who are qualified in disciplines that include:~~

~~(A) accounting;~~

~~(B) business management;~~

~~(C) public administration;~~

~~(D) human resource management;~~

~~(E) economics;~~

~~(F) finance;~~

~~(G) statistics;~~

~~(H) electronic data processing; or~~

~~(i) engineering;~~

- ~~—— (d) inform the audit committee if additional professional and support staff are necessary to implement an effective internal audit program;~~
- ~~—— (e) base compensation, training, job tenure, and advancement of internal auditing staff on job performance;~~
- ~~—— (f) propose audit rules, policies, and amendments, for approval and adoption by the Board that maintain staff independence from operational and management responsibilities that would impair staff's ability to make independent audits of an agency;~~
- ~~—— (g) develop and recommend an audit plan to the Board and the audit committee based on the findings of periodic risk assessments, audits, and budget;~~
- ~~—— (h) perform an audit of a special program, activity, function, or organizational unit of an agency at the direction of the Board or the audit committee with one or more objectives, including:
 - ~~—— (i) to verify the accuracy and reliability of agency records;~~
 - ~~—— (ii) to assess compliance with management policies, plans, procedures, and regulations;~~
 - ~~—— (iii) to assess compliance with applicable laws, rules, and regulations;~~
 - ~~—— (iv) to evaluate the efficient and effective use of agency resources;~~
 - ~~—— (v) to verify the appropriate protection of agency assets; and~~
 - ~~—— (vi) review and evaluate internal controls over the agency's accounting systems, administrative systems, electronic data processing systems, and all other major systems necessary to ensure the fiscal and administrative accountability of the state agency;~~~~
- ~~—— (i) determine the assignment and scope of the audits;~~
- ~~—— (j) periodically discuss relevant matters with the audit committee including whether there are any restrictions on the scope of the audits;~~
- ~~—— (k) submit draft audit reports directly to the Board and to the audit committee;~~
- ~~—— (l) receive comments from the Board and responses from the Superintendent on the draft audit report;~~
- ~~—— (m) edit draft audit report based upon the comments and responses received;~~
- ~~—— (n) resubmit a draft audit report to the Board and audit committee:
 - ~~—— (i) after receipt of comments from the Board and responses from the Superintendent; and~~
 - ~~—— (ii) until a draft audit report is approved and adopted as a final audit report by the Board;~~~~
- ~~—— (o) report monthly to the audit committee, or as otherwise directed by the audit committee, including:
 - ~~—— (i) reviewing current audits being performed both internally and externally;~~
 - ~~—— (ii) the scope of the internal and external audits;~~
 - ~~—— (iii) status of internal and external audits;~~
 - ~~—— (iv) follow up draft audit reports; and~~
 - ~~—— (v) draft audit reports for final review and recommendation;~~
 - ~~—— (p) conduct an annual quality assurance review of the audit program with the audit committee;~~
 - ~~—— (q) personally or through a designee, report quarterly to the Board, or as otherwise directed by the Board;~~
 - ~~—— (r) personally or through a designee, attend all Board meetings;~~~~

~~_____ (s) report to the Board, within a reasonable time of discovering, issues that have the potential of exposing the Board, Superintendent, or an agency to liability or litigation;]~~

(b) act as the liaison for external audits of the Board;

~~[(t)c] maintain the classification of any public record consistent with GRAMA;~~

~~[(u)d] be subject to the same penalties under GRAMA as the custodian of a public record; [and]~~

~~[(v) ensure that significant audit matters that cannot be appropriately addressed by the audit program are referred to either the Office of Legislative Auditor General or the Office of the State Auditor.]~~

(e) publish final reports on the Internal Audit department webpage if appropriate;
and

(f) make a copy of the USBE Internal Audit Department Policy and Procedure Manual to the general public upon request.

(2) The Audit Director may contract with an LEA or other education entity to provide internal audit services to the LEA or other education entity if the contract is approved by the audit committee in accordance with Board contract policies.

R277-116-4. Superintendent Authority and Responsibilities.

The Superintendent shall:

(1) provide resources necessary to conduct the audit program including adequate funds, staff, tools, and space to support the audit program;

(2) facilitate communications with those charged with governance, management, and staff as requested by the Audit Director or the audit committee to ensure the access necessary to perform an audit;

(3) ensure access to all personnel, records, data, and other agency information that the Audit Director or staff consider necessary to carry out their assigned duties;

(4) notify the Audit Director of external audits of entities governed by the Board;

(5) notify the agency that the Audit Director shall be the liaison for an external audit; ~~[and]~~

(6) support the audit program as otherwise requested by the audit committee or Audit Director[-]; and

(7) facilitate appropriate action by the Board on issues identified in audits by:

(a) sending the final management response letter and form to the governing board and local administrator of an audited agency in response to the final audit report;

(b) following up on final management response forms sent to the governing board and local administrator of an audited agency in accordance with timelines outlined in the management response letter, as monitored by the Audit Director, to ensure either:

(i) the audited agency took appropriate action;

(ii) the audited agency's lack of action is acceptable; or

(iii) implementation of a corrective action plan in accordance with R277-114; and

(c) sending the closure letter to the governing board and local administrator of an audited agency when the Board accepts the audited agency's management response.

R277-116-5. Agency Authority and Responsibilities.

The agency shall wholly cooperate and provide the Audit Director and the internal audit staff all:

(1) necessary access to those charged with governance, management, and staff; and

(2) personnel, records, data, and other agency information that the Audit Director or staff consider necessary to carry out their assigned duties in a timely manner.

~~[R277-116-6. Audit Plans.~~

~~———— (1) The audit plan prepared by the Audit Director shall:~~

~~———— (a) identify the individual audits to be conducted during each year;~~

~~———— (b) identify the related resources to be devoted to each of the respective audits;~~

~~———— (c) ensure that internal controls are reviewed periodically as determined by the Board or by the audit committee; and~~

~~———— (d) ensure that audits that evaluate the efficient and effective use of agency resources are adequately represented in the audit plan.~~

~~———— (2) Upon request, the Audit Director shall make a copy of the approved and adopted audit plan available to the state auditor, legislative auditor, or other appropriate external auditors to assist in planning and coordination of any external financial, compliance, electronic data processing, or performance audit.]~~

R277-116-[7]6. Audit Process.

(1) The Audit Director shall develop and recommend an audit plan to the Board and the audit committee based on the ~~[findings]~~ results of periodic risk assessments and audits.

(2) Once approved and adopted by the Board, the Audit Director shall implement the audit plan.

(3) At the initiation of an audit, the Audit Director shall, as necessary:

(a) send an engagement letter to the governing board and local administrator of the agency subject to the audit; and

(b) hold an entrance conference with the agency's governing board.

~~[(3) As requested by the audit committee or Audit Director, the Superintendent shall establish the audit program.~~

~~———— (4) The agency shall provide all information to the Audit Director and audit staff for the audit to be timely conducted.]~~

~~[(5)4] After conducting an audit, the Audit Director shall:~~

(a) submit a preliminary draft audit report directly to:

(i) the audit committee;

~~[(b) the Board; and]~~

(ii) the Superintendent; and [for response or comment.]

(iii) the governing board of the audited agency;

(b) hold an exit conference, if necessary, with the governing board and local administrator of the audited agency and administration to discuss the preliminary draft audit report; and

(c) edit the preliminary draft audit report, as appropriate, based on feedback received.

(5) The Audit Director shall submit a revised draft audit report directly to:

(a) the audit committee;

(b) the Board;

(c) the governing board and local administrator of the audited agency; and

(d) the Superintendent.

(6) Within fourteen days of the Audit Director's submission of the revised draft audit report to the [Board and audit committee, the Superintendent] audited agency governing board, and after the exit conference, if applicable, the auditing agency's governing board shall [either]:

(a) provide a written response or comment ~~[to]~~ on the ~~[Board, audit committee, and Audit Director to the]~~ draft audit report to the Audit Director and audit committee; or

(b) file a written request for an extension to the audit committee setting forth:

(i) ~~the [steps necessary to investigate and prepare a response to the draft audit report]~~ justification for the extension request; and

(ii) the extension time necessary to provide the response [perform each step];
[and

~~_____ (iii) the latest date that the Superintendent's written response or comment will be given to the Board, audit committee and Audit Director.]~~

(7) Upon receiving written response and comment from the ~~[Superintendent]~~ audited agency governing board, the Audit Director shall:

(a) incorporate into the draft audit report the written response[s and comments], if any, received from the ~~[Board, the audit committee, and the Superintendent]~~ audited agency governing board; [and]

(b) prepare Audit concluding remarks, if appropriate; and

~~[(b)c]~~ submit the amended draft audit report to the audit committee for recommendation.

(8) The audit committee may:

(a) recommend an amended draft audit report for approval and adoption; or

(b) send the amended draft audit report back to the Audit Director with instructions for additional review.

(9) Upon recommendation from the audit committee on the amended draft audit report, the Board may:

(a) approve and adopt an amended draft audit report as the final audit report; or

(b) send the amended draft audit report back to the audit committee with instructions for additional review.

R277-116-[8]7. Audit Reports.

(1) An audit report prepared by the Audit Director and staff shall be based upon audits of agency programs, activities, and functions. ~~[that include:~~

~~_____ (a) findings based upon the audit scope; and~~

~~_____ (b) one or more of the following objectives:~~

~~_____ (i) verification of the accuracy and reliability of agency records;~~

~~_____ (ii) assessment of an agency's compliance with management policies, plans, procedures, and regulations;~~

~~_____ (iii) assessment of an agency's compliance with applicable laws, rules, and regulations;~~

~~_____ (iv) evaluation of the efficient and effective use of agency resources;~~

~~_____ (v) verification of the appropriate protection of agency assets;~~

~~_____ (vi) furnishing independent analyses, appraisals, and recommendations that may, depending upon the audit scope, identify:~~

~~_____ (A) the adequacy of an agency's systems of internal control;~~

~~_____ (B) the efficiency and effectiveness of agency management in carrying out assigned responsibilities; and~~

~~_____ (C) the agency's compliance with applicable laws, rules, and regulations;~~

~~_____ (vii) review and evaluation of internal controls over the agency's accounting systems, administrative systems, electronic data processing systems, and all other major systems necessary to ensure the fiscal and administrative accountability of the agency; and~~

~~_____ (viii) identification of abuse, illegal acts, errors, omissions, or conflicts of interest.]~~

(2) An audit report prepared by the Audit Director shall include identification of any:

(a) abuse;

(b) illegal acts;

(c) errors;

(d) omissions; or

(e) conflicts of interest.

~~[(2) An audit report prepared by the Audit Director and staff shall include a statement that the audit was conducted according to International Standards for the Professional Practice of Internal Auditing.]~~

(3) The Audit Director shall provide, upon written request, a copy of an audit report to the Office of Legislative Auditor General or the Office of the State Auditor.

(4) The Audit Director shall ensure that public release of a final audit report complies with the conditions specified by the state laws and rules governing the audited agency.

KEY: educational administration

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Authorizing, and Implemented, or Interpreted Law: Art X Sec 3; [53A-1-401]53E-3-401; [53A-1-402(1)(e)]53E-3-501(1)(e); [53A-1-405]53E-3-603; [53A-17a-147(2)]53F-2-204; 63I-5-101 through 401