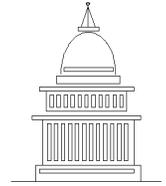




Local Governmental Auditing and Accounting

Newsletter



Published by the Office of the Utah State Auditor

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Please Help us Save the Environment!!!

We would like to reduce the amount of paper we use to publish our Newsletter. If you would like to help us save paper and taxpayers' money, please let us know by sending us an email at kgodfrey@utah.gov and we will send you our Newsletter electronically in the future.

We would be happy to send the Newsletter by email to anyone in your organization desiring to receive it.

Our Web Address: www.sao.utah.gov

March 2008

Auditor Independence Under Yellow Book

In our CPA training session on May 17, 2007 we discussed the new Government Auditing Standards (Yellow Book) issued by the Governmental Accountability Office (GAO). During that presentation, we discussed paragraph 3.28 which appeared to preclude auditors from both preparing financial statements and auditing those statements. However, we have received additional information that clarifies paragraph 3.28 as it relates to this issue.

We talked to Michael Hransky at GAO. He pointed out that footnote 27 on page 40 of the new Yellow Book refers to the Question and Answer document on Independence issued July 2002. He indicated that the new Yellow Book does not supersede that document, and in fact incorporates it into the new Yellow Book by this footnote reference.

The answer to Question #46 in that document indicates that auditors who prepare the financial statements of a governmental entity may also audit the financial statements as long as the other independence safeguards are applied. We encourage you to read that Q&A. You can find it at www.gao.gov/govaud/d02870g.pdf.

We apologize for the misunderstanding. If you have any questions, please call MacRay Curtis at 538-1335 or by e-mail at macraycurtis@utah.gov. Thank you for your patience.

State Auditor's Office Moves Back to State Capitol

With the completion of the State Capitol, part of the State Auditor's Office has moved back into the historic building. State Auditor Auston Johnson's main office is in room 260 on the rotunda level. The Local Government Division has moved over with Auston. However, most of the audit staff will remain in the Senate building. We would love to have you drop in and visit us when you come to the capitol. Our office is located northeast of the rotunda.

The Importance of Audit Committees to the Financial Audit

The audit committee in the public sector is becoming more and more prevalent and its importance to the audit is becoming more and more critical. Governments should recognize the importance and advantages of audit committees in the process of completing the annual audit. Auditors should encourage the formation of audit committees and use them to their advantage.

Why an audit committee?

Enhance independence – The auditor of a local government’s financial statements must be independent both in fact and in appearance. Having an audit committee in place helps to enhance the auditor’s real and perceived independence by providing a direct link between the auditor and the governing board while preserving the “hands off” perception. It limits the reliance the governing body places on the technical expertise of the independent auditor.

Facilitate Communication – A major purpose of an audit committee is to initiate communication between management, auditors, and the governing board. It is a natural function of the committee.

Manage Audit – The committee can focus and document the process of management of the audit.

Advise management – The committee should keep the governing body informed as to the progress of the audit, and play an advisory role. Keep in mind that management and the governing board remain ultimately responsible.

GFOA recommends that: 1) Every government should have an audit committee. This is just as applicable to small governments as it is to large. There are no exceptions. Reliable audits are essential to credible financial reporting. Since annual financial reporting is required by State law, committees are a practical tool a government can use to ensure the audit is performed efficiently and in accordance with legal and professional standards.

2) The audit committee should be formally established by charter, enabling resolution or other appropriate legal means. Clear legal authority and responsibility should be established and should be in writing.

3) The audit committee should collectively possess the expertise and experience in accounting, auditing, finan-

cial reporting and finance to understand and resolve issues raised by the independent auditor. When necessary or desirable, members of the committee can be selected from outside the government to provide the needed expertise and experience.

4) The majority of the members of the audit committee should be selected from outside of management. At the same time, the audit committee should include at least one representative each from the executive and legislative branches of government.

5) The audit committee should be sufficiently large to ensure members possess all the skills needed and at the same time, small enough to operate efficiently. The general rule is no less than 5 and no larger than 7.

6) The audit committee should be educated regarding both the role of the committee and their personal responsibility.

7) The audit committee should be responsible for everything having to do with the audit from selecting the auditor to resolution of the audit findings.

8) The audit committee should have access to reports and work plans of the internal audit department.

9) The audit committee should make an annual accounting or report as to their activities

The Auditor’s Role – The committee is a specific responsible body, a designated contact for the auditor and is the liaison to the auditee’s governing body. The committee makes it easy for the auditor to ensure independence. Because of these advantages it would be beneficial for the auditor to assist the committee in its role by providing regular and timely communication to keep them informed regarding the progress of the audit and more particularly, audit recommendations. This may be a new concept. Help them, educate them. Give them guidance to succeed!

Other Roles of Audit Committees – Audit committees can and should play an important role in ensuring that the entity has appropriate internal controls. Most entities that have audit committees place the responsibility for analyzing and prescribing internal controls on those committees. They are also responsible for following up on audit recommendations to ensure that identi-

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ALLOCATION OF UNIFORM STATEWIDE FEES

It has come to the Utah State Auditor's Office's attention that some local governments that receive uniform statewide fees (i.e. fee-in-lieu) are recording these funds directly into the general fund and not to the funds in accordance with the manner property taxes are distributed. This is not an appropriate way to allocate uniform statewide fees.

Utah Code 59-2-405.2 (5)(b) states "Each taxing entity described in Subsection 5(a), that received revenues from the uniform statewide fees imposed by this section shall distribute the revenues in the same proportion in which revenues collected from the ad valorem

property tax are distributed." Revenues received from these fees should be treated like property taxes and be allocated to the government's different funds like their property taxes to be in compliance with the law stated above.

The Utah State Auditor's Office recommends to all local government (where applicable) and their CPAs to evaluate how you are allocating these funds and make the appropriate changes to ensure you are in complete compliance with the law. If you have any questions or concerns with this law feel free to contact our office.

New Audit Reporting Requirements

Independent auditors of local governments have been bombarded with new audit standards with additional requirements during 2006 and 2007. These audit standards affect how the auditor plans the audit, identifies, risk, and conducts the audit based on the risks identified.

One of the major changes required by these new audit standards is the type of things the auditor is required to report in his or her audit reports. Specifically, the new standards require auditors to report more of the weaknesses they note in internal controls as they conduct their audit. Previously, auditors had a lot more discretion in the weaknesses they reported. Auditors will also be required to continue to report any weaknesses noted year after year even if the entity has decided not to address the weakness.

If an entity does not have the expertise to prepare its own financial statements, the new standards will require auditors to report this as an internal control weakness. Also, if an entity does not have the expertise to analyze its internal controls, that will also be reported

as a weakness. As a result of the new reporting requirements, most entities are finding that the number of findings being reported in audit management letters has increased significantly. And this is the case even when conditions in internal controls have not changed.

The bottom line is that local governments, in most cases, should expect that the number of findings in their audit reports will increase, perhaps significantly. This does not mean that your auditors are becoming tough guys. And it doesn't mean that your staff are suddenly not doing a good job. It just means that auditors are required to report those conditions that have always existed.

As we have provided training to auditors and to financial staff, they have expressed fears that they will be fired as a result of the additional items being reported. Auditor and staff changes probably should not be made just because of the new reporting requirements.

(See related article on page 5 for information for CPAs on the changes required by SAS 112.)

The Importance of Audit Committees to the Financial Audit (cont.)

(Continued from page 2)

fied weaknesses in internal control or compliance and other issues are addressed in a timely manner. Audit committees can also direct the activities of internal audit groups and can analyze automated accounting systems before purchase.

The State Auditor's Office highly recommends that all local governments create audit committees. This will help ensure a high quality audit, will help ensure that the auditor is independent of management, and will help ensure that appropriate internal controls are in place.

2008 Legislation Affecting Local Governments

House Bills:

HB 54 Property Tax Assessment Revisions – This bill requires a county assessor of a 1st or 2nd class county to use a computer assisted mass appraisal system to conduct its annual update of property values, and to prepare a five-year plan to comply with the statutory property review requirements. It also requires the State Auditor to withhold and reallocate a county's portion of the multicounty assessing and collecting levy if the county does not comply with the mandatory cyclical appraisal requirements for two consecutive years.

HB 112 Public Education Foundation Amendments – This bill requires school district foundations to report certain financial information to schools; requires a local school board that establishes a foundation to require the foundation to follow certain accounting, purchasing, and check issuance policies.

HB 153 Impact Fees Amendments – This bill expands a requirement for a capital facilities plan to include private water providers that impose impact fees; expands the capital facilities plan notice requirement to land within all counties; requires notices to be given to certain private construction and real estate entities; requires notice to be provided before a local political subdivision or private water provider may prepare or contract to prepare the required impact fee analysis; requires impact fee enactments to allow a developer to receive a credit or proportionate reimbursement of an impact fee for land, improvements, or construction that the developer is required to provide in excess of requirements for the project; prohibits an impact fee enactment from taking effect until 90 days after it is enacted and makes other changes in the requirements for imposing impact fees.

HB 173 Money Management Act Updates – This bill removes obligations issued by the Student Loan Marketing Association from the list of approved investments, and clarifies that an authorized agency or instrumentality that becomes private and is no longer considered to be a government agency is no longer authorized as an approved investment for public funds.

HB 186 Property Tax - County Assessment and Collection Amendments – This bill provides that the county assessing and collecting property tax levy is

subject to the property tax notice and hearing requirements if the levy is levied within "receiving" counties; and requires that after distributions have been made to receiving counties, money remaining in the Property Tax Valuation Fund shall be retained in the fund until the following year.

Senate Bills:

SB 2 Minimum School Program Budget Amendments – This bill modifies provisions related to the funding of charter schools.

SB 29 Truth in Taxation Amendments – This bill changes the exemptions from property tax advertisement and hearing requirements from \$15,000 to \$20,000; requires a school district to include a statement in its proposition submitted to its voters voting on the imposition or modification of a voted leeway program under certain circumstances; and provides that a school district may continue to receive the full amount of state guarantee money tied to the voted leeway program and board approved leeway for a period of five years if the school district's guarantee would have been reduced solely to changes in the school district's certified tax rate.

SB 32 Local Government Bonding Act - Public Hearings – This bill requires that a local political subdivision conduct a public hearing prior to issuing bonds, and that the public hearing include potential economic impacts on the private sector.

SB 38 Transparency in Government Finance – This bill extends the date that notice of open and public meetings must be placed on the Utah Public Notice Website from April 1, 2008 to October 1, 2008; prohibits a court from voiding a final action taken by a public body for failure to comply with the posting written notice requirements on the Utah Public Notice Website if the posting is made for a meeting that is held prior to April 1, 2009; creates the Utah Public Finance Website for the purpose of providing public financial information for state entities only.

SB 45 Accounting for Competitive Activities of Local Entities – This bill requires a county or city of the first class to create an inventory of activities by

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2008 Legislation Affecting Local Governments (continued)

(Continued from page 4)

June 30, 2010; requires a county or city of the second class to create an inventory of activities by June 30, 2011; and requires reporting and disclosure of the inventory, including efforts made to privatize aspects of the activity.

SB 47 Limited Purpose Local Government Entities Revisions – This bill repeals and reenacts, re-writes, clarifies, and modifies provisions related to special service districts, municipal building authorities, and conservation districts.

SB 48 Equalization of School Capital Outlay Funding – This bill requires divided school districts to impose a capital outlay levy at a specified rate and allocates the revenue generated under the capital outlay levy to school districts located within the qualifying divided school district; requires each school district in a county of the first class to levy a capital outlay property tax at a specified rate and allocates the revenue

generated under the capital outlay levy to school districts located in the county.

SB 71 School District Amendments – This bill clarifies the procedures for creation of a new school district.

SB 77 Revisions to Government Records Access Management Act – This bill provides access to records that are private, controlled, or protected by the Legislature and its staff. It also clarifies that all bids, including bids and applications submitted in response to requests for proposals etc., are public records after the contract or grant has been awarded.

SB 245 Funding Relating to Airports, Highways, and Public Transit – This bill modifies the audit requirement relating to the local sales and use tax to fund tourism, recreation, cultural, and convention facilities, to include airport facilities. It also addresses funding for airports, highways, and public transit in first and second class counties.

Statement on Auditing Standard No. 112 , “Communicating Internal Control Related Matters Identified in an Audit”

We have been receiving audit reports for local governments that should have implemented SAS 112 but are still using the old reporting language. SAS 112 requires the auditor to communicate control deficiencies that are significant deficiencies or material weaknesses in internal control.

Significant deficiencies are defined as: a control deficiency or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected. The terminology “significant deficiency” replaces the old terminology of “reportable condition.” Many auditors are still using “reportable condition” to describe their findings in audit reports.

The definition of “significant deficiency” is much broader than “reportable condition.” This means that more things will be reported as significant deficiencies than were reported as reportable conditions.

SAS 112 also identifies areas in which control deficiencies ordinarily are at least significant deficiencies, as well as indicators that control deficiencies should be regarded as at least a significant deficiency and a strong indicator of a material weakness. Auditors should be familiar with SAS 112 requirements and these lists when auditing local governments.

SAS 112 is effective for audits of financial statements for periods ending on or after December 15, 2006.

The State Auditor’s Office will be providing additional training on SAS 112 in our Annual Governmental Auditing Update. See page 7 for further details about that training.

LOCAL GOVERNMENT ANNUAL REGIONAL TRAINING SESSIONS

The Local Government Division of the Utah State Auditor’s Office sponsors annual training every Spring for local government officials and the independent auditors of local governments. Below is a description of the seminars. We invite everyone to attend.

The Regional Training Seminars will be held at eight different locations spread throughout the State. The seminars are intended for municipalities, counties, special districts, school districts and private non-profits working with governments. We invite mayors, council members, clerks, recorders, treasurers, board members, commissioners, county auditors, school business officials and independent auditors who work with local governments to attend. This year, as in the past, we will be discussing current financial issues that affect budgeting and accounting officials from local governments. We will discuss reporting property taxes, the State Auditor’s new web page, new reporting requirements for auditors, and other applicable topics. We will have Tiffany O’Sheal from State Archives talk about the new Public Notice Website. We will have an update on the effects of the 2008 legislative session on local governmental entities, a presentation on current issues from the Utah State Tax Commission and information on other critical issues. We will also hold a budget training session for new budget officers.

The following is a list of times and locations. The seminar will last 3 hours and for those who choose to attend the hands-on budget training it will take another 45 minutes or until you have your questions answered. We hope to see you there!

<u>DATE:</u>	<u>LOCATION:</u>	Monday	<u>Orem</u>
Wednesday	<u>South Ogden</u>	April 14, 2008	56 North State St.
March 26, 2008	South Ogden Municipal Center	9 am – 1 pm	City Offices – Room 102
9 am – 1 pm	3950 Adams – Parking in Rear Council Room		Council Chambers
Thursday	<u>Logan</u>	Tuesday	<u>Salt Lake City</u>
March 27, 2008	Bridgerland Applied Tech College	April 15, 2008	State Office Building
9 a.m. - 1 pm	1301 N. 600 W. Room 171E - (Enter So. Doors)	9 am – 1 pm	Auditorium, 1st Floor
Tuesday	<u>Price</u>	Wednesday	<u>St. George</u>
April 1, 2008	185 East Main	April 23, 2008	175 East 200 North
9 am – 1 pm	2nd Floor -Room 207	9 am – 1 pm	Council Chambers
Wednesday	<u>Vernal</u>	Thursday	<u>Richfield</u>
April 2, 2008	147 East Main St.	April 24, 2008	250 North Main
9 am – 1 pm	South Conference Room	9 am – 1 pm	Auditorium

State Auditor’s Web Page

The Utah State Auditor’s Office web page has been updated. The current web address for the Utah Sate Auditor’s Office is www.sao.utah.gov. Updating our web page will not change our web address. A number of years ago our web page was changed from www.sao.state.ut.us. This address continued to work until recently. Make sure that if you have any of our manuals as favorites on your internet browser that you are linking to the new address.

The updated versions of both the State Legal Compliance Manual and the Uniform Accounting Manuals are only available in a pdf format on our web site. If you have any question, concerns or suggestions about the Utah State Auditor’s web page, please contact Kent Godfrey at (801) 538-1384 or e-mail him at kgodfrey@utah.gov.

Utah State Auditor's Office

ANNUAL GOVERNMENTAL AUDITING UPDATE

Wednesday May 7, 2008

12:00 Noon

Larry H. Miller Campus
Salt Lake Community College
9750 South 300 West
Sandy, Utah

Recommended for 4 Hours CPE

Agenda:

SAS 112—Findings, New Reporting Language
State Auditor's Auditing Rules
Reporting Property Taxes
Reporting Impact Fees
State Legal Compliance Issues
Results of the National Single Audit Study
And much, much more.

Price \$50 per person

Seating is limited so do not delay registering.

Submit checks by April 30, 2008 to:

Utah State Auditor's Office
E310 State Capitol Complex
Salt Lake City, UT 84114

See inside for details of our
Annual Regional Training Seminar
coming to a city near you,
and our
***Annual Governmental
Auditing Update***
for all CPAs auditing
local governments in Utah.