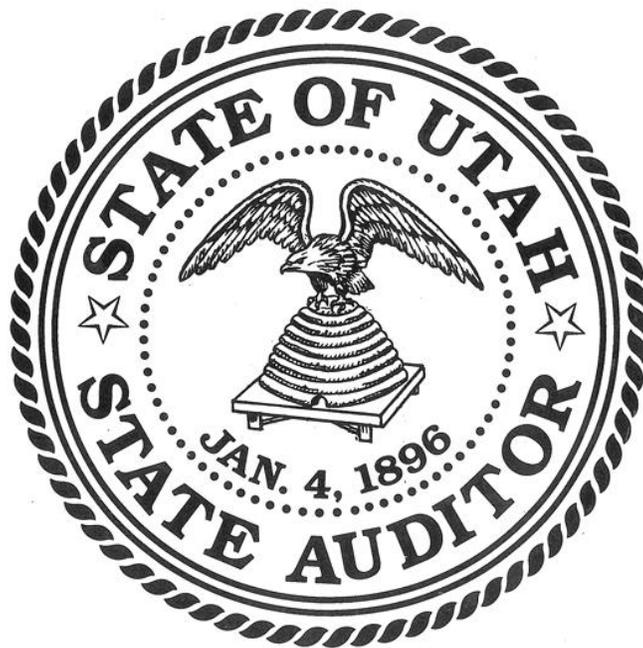


STATE COMPLIANCE AUDIT GUIDE

May 1, 2016
(with subsequent revisions dated Nov. 15, 2016)



OFFICE OF THE
UTAH STATE AUDITOR

REVISION HISTORY

As revisions are made to this *State Compliance Audit Guide*, they will be noted in the table below. Please refer back to the online version often to check for changes.

CHAPTER	SECTION	PAGE	CHANGE(S) MADE	DATE CHANGED
3	Appendix 1	2	Changed the "Group" column code for Education Salary Adjustments program to "R" to coincide with the move of this program to a Restricted program.	11/15/2016
3	Appendix 1	2	Changed the minimum "Percentage of coverage attained in the current year" from 20% to 25%, as required by USBE and as noted in the instructions to the Schedule.	11/15/2016

TABLE OF CONTENTS

	<u>Page</u>
APPLICABILITY:	
IDENTIFYING COMPLIANCE REQUIREMENTS TO BE TESTED	i
WHICH ENTITIES NEED A STATE COMPLIANCE AUDIT?	ii
CHAPTER 1: AUDIT PROCEDURES TO BE PERFORMED ANNUALLY	
A. Compliance Audit Planning Procedures	1-1
B. Budgetary Compliance	1-2
C. Fund Balance	1-4
D. Justice Courts	1-6
E. Utah Retirement Systems	1-7
F. Restricted Taxes and Related Revenues	1-9
G. School District Tax Levies	1-10
H. Open and Public Meetings Act	1-12
I. Treasurer’s Bond	1-14
J. Utah Public Finance Website (Transparency)	1-15
Appendix 1 – Identification of Applicable Compliance Areas and Risk Assessment	Ch1-A1-p1
Appendix 2 – Disposition of Justice Court Fines, Fees, and Forfeitures	Ch1-A2-p1
Appendix 3 – Restricted Tax Types and Shared Revenues	Ch1-A3-p1
CHAPTER 2: AUDIT PROCEDURES TO BE PERFORMED AT LEAST EVERY THIRD YEAR	
A. Cash Management	2-1
B. Enterprise Fund Transfers, Reimbursements, Loans, and Services	2-2
C. Statement of Taxes Charged, Collected and Disbursed – Current and Prior Years	2-6
D. Tax Levy Revenue Recognition	2-7
E. Impact Fees	2-8
F. School Fees	2-9
G. Special and Local Service District Board Members	2-10
CHAPTER 3: AUDIT PROCEDURES FOR MINIMUM SCHOOL PROGRAM (MSP) FUNDS RECEIVED FROM THE UTAH STATE BOARD OF EDUCATION (Local Education Agencies)	
A. Minimum School Program	3-1
Appendix 1 – Sample Minimum School Program Schedule	
A. Instructions for 2016	Ch3-A1-p1
B. Sample Schedules	Ch3-A1-p2
Appendix 2 – Sample State and Federal Revenue Reconciliation for LEAs	Ch3-A2-p1

TABLE OF CONTENTS

	<u>Page</u>
CHAPTER 4: REPORTING	
REPORTING REQUIREMENTS, including determination of materiality	4-1
DEVELOPMENT OF FINDINGS	4-3
EXAMPLES of Auditor's Reports on Compliance:	
Example 1 Unmodified Opinion on Compliance with:	
• <u>No</u> Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified	
• Other Noncompliance Noted	
• Other Internal Control Deficiencies Noted	4-4
Example 2 Unmodified Opinion on Compliance with:	
• Immaterial Instances of Noncompliance Noted	
• Significant Deficiencies in Internal Control Over Compliance Identified	
• <u>No</u> Material Weaknesses Identified	4-7
Example 3 Qualified Opinion on Compliance with:	
• Material Instances of Noncompliance Noted	
• Material Weaknesses and Significant Deficiencies in Internal Control Over Compliance Identified	4-10

QUESTIONS AND COMMENTS

The Office of the Utah State Auditor welcomes questions, comments and suggestions on this *Guide*. Please submit them to Patricia Nelson, Audit Supervisor, Local Government, at patricianelson@utah.gov.

IDENTIFYING COMPLIANCE REQUIREMENTS TO BE TESTED

NOTE: This *Guide* is not intended to identify compliance requirements that could be direct and material to the financial statements. This State Compliance Audit does not replace testing of compliance in a financial statement audit. Financial statement compliance requirements not in this guide may include, but not be limited to, compliance with the Utah Money Management Act, compliance with debt or bond requirements, or debt limitations. Therefore, the auditor should use appropriate audit procedures, such as inquiry with management, review of minutes, and other procedures as considered necessary to identify the compliance requirements that should be tested as part of the financial audit. (See AU-C 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*.)

WHICH ENTITIES NEED A STATE COMPLIANCE AUDIT?

Utah Code Annotated (UCA) 51-2a-202 requires the local government entities and local education agencies listed below to receive a **financial audit** in accordance with *Government Auditing Standards*.

IN ADDITION, these entities are required to have a **state compliance audit** which should be 1) performed in accordance with *Government Auditing Standards* **as well as with** the *State Compliance Audit Guide (Guide)*, developed by the Office of the Utah State Auditor (OSA) as directed by UCA 51-2a-301, and 2) completed using the guidance in the AICPA's Clarified Statements on Auditing Standards, AU-C section 935, *Compliance Audits*.

- **Local Government Entities** with total annual revenues or expenses greater than or equal to \$750,000:
 - **Counties**
 - **Municipalities**
 - **Interlocal entities**
 - **Local and special service districts**
- **Local Education Agencies (LEAs)**, *regardless of total annual revenues or expenses*:
 - **School districts**
 - **Operating Charter Schools (including charter schools organized as nonprofits)**.
- Other local government entities that are not required to have a financial audit under state law, but choose to have a financial audit.

This *Guide* does not apply to:

- **State departments or agencies**
- Local government entities that are **allowed by statute and choose to receive an Agreed-Upon Procedures engagement instead of an audit**.
- **Nonoperating Charter Schools** (Charter schools that have not received MSP funds or federal funds and are not providing educational services during a fiscal year). Nonoperating Charter schools are required to have an Agreed-Upon Procedures engagement (See OSA's *Guide for AUP's for Local Governments* at <http://auditor.utah.gov/local-government-2/training-and-publications/>).
- **Nonprofit Organizations** which are subject instead to reporting requirements under UCA 51-2a-201.5 (see <http://auditor.utah.gov/local-government-2/reporting-requirements/non-profit-organization-reporting/> for applicable reporting requirements)

**A COMPLETE LIST OF
ALL CURRENT REPORTING REQUIREMENTS BY ENTITY TYPE
CAN BE FOUND ON THE OSA WEBSITE AT:
<http://auditor.utah.gov/local-government-2/publications/reporting-requirements/>**