**CHAPTER 2:**

**AUDIT PROCEDURES**

**TO BE PERFORMED AT LEAST EVERY THIRD YEAR**

This chapter of the *State Compliance Audit Guide* identifies compliance testwork that auditors can generally rotate. (Not all of the compliance requirements apply to all entity types.) Auditors should divide the applicable requirements approximately in third and test a third of them with each audit, budgeting a similar amount of tests for each audit cycle unless the risk of noncompliance warrants testing of these requirements every year.

This chapter does not apply to nonprofit organizations EXCEPT FOR **charter schools structured as nonprofit**

**organizations,** which are considered public schools and are, therefore, subject to this chapter similar to school

districts.

**Auditors should not rotate/omit a specific compliance test if the prior audit identified noncompliance or if evidence supports an elevated risk of noncompliance for the current audit.**

1. **CASH MANAGEMENT**

Information Contact: Ann Pedroza, 801-538-1883, Secretary to the Utah Money Management Council

| **Legal**  **Ref.** | **Appli-**  **cable**  **to: \*** | **AUDIT PROCEDURES** | **Performed by and Date** | **Workpaper Index** |
| --- | --- | --- | --- | --- |
| [UCA](http://le.utah.gov/xcode/Title51/Chapter7/51-7-S15.html)  [51-7-15(3)](http://le.utah.gov/xcode/Title51/Chapter7/51-7-S15.html) | ALL | 1. Entities are required to file a written report with the Money Management Council (Council) on or before January 31 and July 31 of each year. This report, entitled the “Deposit and Investment Report Form,” provided by the Council (see <http://utah.gov/treasurer/documents/utah-state-treasurer-deposit-investment.pdf>), contains information about the deposits and investments of that entity during the preceding six months ending December 31 and June 30, respectively. The Council uses this form to determine if the entity is in compliance with the Money Management Act.   Review the entity's fiscal year end report and determine that the report agrees to financial institution statement year-end closing balances (‘bank’ balances NOT ‘book’ balances) and includes all accounts (both deposit and investment) held by the entity. |  |  |

|  |  |  |
| --- | --- | --- |
| **CONCLUSION (adequacy of the controls, significant deficiencies/material weaknesses, and management letter comments):** | **Performed by and Date** | **Workpaper Index** |
|  |  |  |

1. **ENTERPRISE FUND TRANSFERS, REIMBURSEMENTS, LOANS, AND SERVICES**

This *Guide* focuses on state compliance issues and generally does not include audit steps regarding appropriate accounting treatment. However, as concerns are raised about the appropriate accounting treatment for certain transactions, the OSA includes the treatment in this *Guide*. As such, we have included this section relating to Enterprise Funds. The auditor should consider this guidance when conducting an audit of governmental entities.

**Background**

The treatment of enterprise fund transfers, reimbursements, loans, and services is subject to the following two provisions: ***(1) Utah Code Annotated (UCA) and (2) Accounting standards.*** Therefore, requirements not specifically stated in UCA but required by accounting standards must be followed.

Unlike a private business, which is accounted for as a single entity and has an accounting system designed to measure profitability, governmental accounting systems are designed to measure ***accountability***. To measure accountability, a governmental unit is accounted for through several separate funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities for attaining certain objectives in accordance with ***regulations, restrictions, or limitations***. Therefore, a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functioning independently. (GASB Codification 1300.101)

An enterprise fund is a separate distinct fiscal entity designed to account for the restricted activity of the fund. The restriction imposed on enterprise fund proceeds is created through an implied agreement with rate payers when the government imposes a fee. The implied agreement is that the government will use the fee for enterprise fund activities and nothing else.

**Public Notice and Hearing Requirements**

State laws for local governments require that when there are “…allocations or transfers from an enterprise fund to another fund that are not reasonable allocations of costs between the enterprise fund and the other fund, the governing body shall…” publish public notice and hold a public hearing to disclose the transfer. Essentially, if resources (cash, goods, or services) are transferred out of an enterprise fund and equivalent resources are not received in return (meaning no cash is exchanged or no overhead is allocated), the entity must publish notice and hold a public hearing regarding the transaction. For counties, the original or subsequently amended budget hearings and notices are sufficient to comply with this requirement. **For all other local governments, information specific to the transfer vs. the budget public hearing must be mailed or transmitted separately to each enterprise fund customer.**

**Accounting Treatment**

In order to complete accounting entries for enterprise fund transfers, reimbursements, loans, or services, the amount/value of the goods or services provided to another fund must be determined. The value of the services provided by a utility enterprise fund to another fund should be estimated or calculated at the same rates charged to other similar customers of the fund. Conversely, the value of services provided by the general fund to oversee the utility enterprise funds (HR functions, accounting, legal, etc.) should be based on reasonable estimates/allocations of those costs. Both the costs of the services provided by the utility enterprise fund to other funds as well as the overhead type costs incurred to oversee the utility enterprise fund should be recorded, even if cash was not exchanged between funds.

**Nonreciprocal interfund activity** is the internal counterpart to nonexchange transactions and includes interfund transfers and interfund reimbursements. (GASB Codification 1800.102)

* ***Interfund* *transfers*** – flows of assets (such as cash, goods or services) without equivalent flows of assets in return and without a requirement for repayment.

Example 1: A transfer of cash from a utility enterprise fund to the general fund or other funds for **activities unrelated** to the utility enterprise fund. Sometimes these transfers are referred to as **subsidy transfers**.

*General Fund*

Cash $xx,xxx

Other Financing Sources – Transfer In $xx,xxx

*Enterprise Fund*

Nonoperating Expenses - Transfer Out $xx,xxx

Cash $xx,xxx

Example 2: Services provided by a utility enterprise fund (water, electricity, or garbage) for general government fund activities **without payment of cash or a requirement for payment.**

*General Fund*

Utilities Expenditures $xx,xxx

Other Financing Sources – Transfer In $xx,xxx

*Enterprise Fund*

Nonoperating Expenses - Transfer Out $xx,xxx

Charges for Services $xx,xxx

(NOTE: For both examples above, local governments other than counties are required by statute to perform additional public notice procedures of the transfer.)

* ***Interfund reimbursements*** – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. For example, the general fund may pay a bill for an enterprise fund for which the enterprise fund then reimburses the general fund. Also, **allocations of overhead** (e.g. accounting, payroll, and human resource services) **are properly treated as an interfund reimbursement** rather than as interfund services. Note that for interfund reimbursements, neither fund recognizes revenue.

*General Fund*

Cash or Due from Other Funds – Enterprise Fund $xx,xxx

Expenditure $xx,xxx

*Enterprise Fund*

Expense $xx,xxx

Cash or Due to Other Funds – General Fund $xx,xxx

**Reciprocal interfund activity** is the internal counterpart to exchange and exchange-like transactions and includes interfund loans and interfund services provided and used (GASB Codification 1800.102.a).

* ***Interfund services provided and used –*** sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used should be reported as revenues in seller funds and expenditures or expenses in purchaser funds. For example, the enterprise fund may provide water, electricity, or garbage services for city offices or parks accounted for in the general fund.

*General Fund*

Utilities Expenditure $xx,xxx

Cash or Due to Enterprise fund $xx,xxx

*Enterprise Fund*

Cash or Due from General Fund $xx,xxx

Charges for Services $xx,xxx

* ***Interfund loans –*** amounts provided with a requirement for repayment. Interfund loans should be reported as interfund receivables in lender funds and interfund payables in borrower funds.

**Materiality**

All accounting standards are subject to the principle of materiality. Therefore, if a government determines that amounts related to financial reporting requirements are not material, then the requirement is not applicable. However, the determination of materiality must be based upon an evaluation/estimate of relevant factors. A simple guess or “gut feeling” is not a sufficient evaluation.

| **Legal**  **Ref.** | **Appli-**  **cable**  **to: \*** | **AUDIT PROCEDURES** | **Performed by and Date** | **Workpaper Index** |
| --- | --- | --- | --- | --- |
| GASB Codification 1800.102 | C, M, D, IL | 1. **Services Provided by an Enterprise Fund to Other Funds**    1. Determine that services provided by an enterprise fund (water, electricity, etc.) to the general fund or other funds have been quantified or estimated and that the rates used are the same as those charged to other customers of the fund.    2. Determine that the services provided by the enterprise fund to other funds were properly recorded as a:  * **Nonreciprocal interfund transfer** if no cash was exchanged or is not expected to be exchanged, or * **Reciprocal interfund services provided/used transaction** if cash was exchanged. |  |  |
| UCA  Towns:  [10-5-114](http://le.utah.gov/xcode/Title10/Chapter5/10-5-S114.html)  Cities:  [10-6-117](http://le.utah.gov/xcode/Title10/Chapter6/10-6-S117.html)  Districts:  [17B-1-638](http://le.utah.gov/xcode/Title17B/Chapter1/17B-1-S638.html)  Counties:  [17-36-36](http://le.utah.gov/xcode/Title17/Chapter36/17-36-S36.html)  Interlocals:  11-13-524 | C, M, D, IL | 1. **General Fund Overhead Allocations to Other Funds**   Determine that:   1. General fund overhead costs (HR, accounting, legal services, etc.) allocated to other funds are based on a reasonable methodology. 2. The overhead allocation amount was included in the original or amended budget of the other fund as an expenditure/expense. 3. The allocation of the overhead was properly recorded as an **interfund reimbursement transaction** (reduction of general fund expenditures and increase of expenditures/expense) in the other fund. 4. If no cash was exchanged or expected to be exchanged, in addition to the reduction/increase in expenditure/expense in each fund, an **interfund transfer** was recorded (‘transfer out’ in the general fund and a ‘transfer in’ in the other fund). |  |  |
| UCA  Towns:  [10-5-107](http://le.utah.gov/xcode/Title10/Chapter5/10-5-S107.html)  Cities:  [10-6-135](http://le.utah.gov/xcode/Title10/Chapter6/10-6-S135.html)  Districts:  [17B-1-629](http://le.utah.gov/xcode/Title17B/Chapter1/17B-1-S629.html)  Counties:  [17-36-32](http://le.utah.gov/xcode/Title17/Chapter36/17-36-S32.html)  Interlocals:  [11-13-524 (3)(d)](http://le.utah.gov/xcode/Title11/Chapter13/11-13-S524.html?v=C11-13-S524_2015051220150512) | C, M, D, IL | 1. **Interfund Transfers from an Enterprise Fund (subsidy transfers or services provided without payment) – *Public Notice and Hearing Requirements*** 2. *For counties:* Determine whether the county included the interfund transfers in an original budget or in a subsequent budget amendment approved by the governing body for the fiscal year under audit. If the county did not, proceed to step b.   *For all other local government entities,* proceed to step b:   1. For the applicable entities noted in a. above, determine that the governing body held a public hearing and provided written notice of the:  * Date, time, and place of hearing. * Purpose of the hearing. * The enterprise fund from which the cash or goods would be transferred. * The fund to which the cash or goods would be transferred. * The amount/value of cash or goods transferred.   Determine that the notice was:   * Mailed or transmitted to each enterprise fund customer. * Distributed at least seven days before the hearing. * A separate notification from the customers’ utility bill.   ***Exception:*** *An entity may determine that the amount of the services provided without payment by the enterprise fund to the general fund is less than or equal to the amount of general fund overhead to be allocated to the enterprise fund. In this case, there would be an equivalent flow of resources between funds and the additional public notice and hearing requirements would not be applicable. The entity should still, however, determine and record the flow of those resources.* |  |  |
| UCA  Towns:  [10-5-120](http://le.utah.gov/xcode/Title10/Chapter5/10-5-S120.html)  Cities:  [10-6-132](http://le.utah.gov/xcode/Title10/Chapter6/10-6-S132.html)  Districts:  [17B-1-626](http://le.utah.gov/xcode/Title17B/Chapter1/17B-1-S626.html)  Counties: [17-36-30](http://le.utah.gov/xcode/Title17/Chapter36/17-36-S30.html)  Interlocals:  [11-13-523](http://le.utah.gov/xcode/Title11/Chapter13/11-13-S523.html?v=C11-13-S523_2015051220150512) | C, M, D, IL | 1. **Interfund Loans** – For enterprise funds loaned to another fund:   **[Note – not applicable to loans from the general fund to any other fund or short-term advances from a cash and investment pool to individual funds that are repaid by the end of the fiscal year.]**   1. Determine that the loan was in writing and contained the following terms and conditions:    * Effective date of the loan.    * Name of the fund loaning the money.    * Name of the fund receiving the money.    * Amount of the loan.    * Term of and repayment schedule of the loan (not to exceed 10 years).    * Interest rate of the loan (if less than one year, the interest rate cannot be less than the rate offered by the PTIF, if greater than one year the rate cannot be less than the greater of the PTIF rate or the rate of a US Treasury note of a comparable term).    * Method of calculating interest applicable to the loan.    * Procedures for applying interest and paying interest. 2. Determine that the governing body held a public hearing and provided written notice within at least 7 days of the hearing regarding the:    * Date, time, and place of the hearing,    * Purpose of the hearing, and    * The proposed terms and conditions of the interfund loan.   ***Notice and hearing requirements outlined in b. above are satisfied if the loan is included in an original or subsequently amended budget.***   1. Determine that the governing body authorized the loan by ordinance or resolution at a public meeting. |  |  |

|  |  |  |
| --- | --- | --- |
| **CONCLUSION (adequacy of the controls, significant deficiencies/material weaknesses, and management letter comments):** | **Performed by and Date** | **Workpaper Index** |
|  |  |  |

1. **STATEMENT OF TAXES CHARGED, COLLECTED AND DISBURSED –**

**CURRENT AND PRIOR YEARS**

Information Contact: Jennifer Condie, Assistant Division Director, Property Taxes, Tax Commission, (801) 297-3636

| **Legal**  **Ref.** | **Appli-**  **cable**  **to: \*** | **AUDIT PROCEDURES** | **Performed by and Date** | **Workpaper Index** |
| --- | --- | --- | --- | --- |
| UCA  [59-2-913](http://le.utah.gov/xcode/Title59/Chapter2/59-2-S913.html) | C | 1. Determine if the Statement of Taxes Charged, Collected, and Disbursed - Current and Prior Years (also called the Treasurer's Settlement Statement) that was submitted to the Tax Commission as form PT-750, agrees to applicable county records and is complete. |  |  |

|  |  |  |
| --- | --- | --- |
| **CONCLUSION (adequacy of the controls, significant deficiencies/material weaknesses, and management letter comments):** | **Performed by and Date** | **Workpaper Index** |
|  |  |  |

1. **TAX LEVY REVENUE RECOGNITION**

**Background**

We have noted instances where governmental entities do not recognize revenue for taxes imposed by the government because the funds do not flow through the entity. GASB 36, paragraph 2, requires that the entity that imposes a tax recognize the tax revenue.

**Common Revenue Recognition Errors**

Redevelopment Agencies (RDA)

When a county collects tax increment it distributes the increment directly to an RDA. However, the RDA is not the taxing entity; rather, the taxing entity is the public entity (school district, local or special district, municipality, county, etc.) that authorized the RDA to receive the increment. Therefore, that public entity should record the property tax revenue and a corresponding expenditure to the RDA.

If the RDA is a blended component unit and reported as a special revenue fund of the primary government, GASB 54, paragraph 30, requires the proceeds to be reported as revenue in the RDA special revenue fund.

Local Option Sales Taxes for Transportation

Utah Code 59-12-2208 allows a county, city, or town legislative body to impose a sales tax for transportation. One of the allowable uses of the tax is for a “system of public transit.” Some local governments have elected to have the State Treasurer directly deposit these funds with the local transit authority rather than having the funds flow through the county, city, or town and then to the transit authority. Regardless of the flow of funds, because the tax is imposed by the county, city, or town, these funds should be recognized as a revenue and expenditure on the financial statements of the entity that imposed the tax.

Capital Equalization

School districts in first class counties impose a tax rate of .000600 for capital equalization. Tax revenue generated by this levy is allocated to the school districts based on student enrollment. The tax imposed by the school district is revenue and the difference between actual receipts and revenue is recorded as other local revenue or an expenditure.

| **Legal**  **Ref.** | **Appli-**  **cable**  **to: \*** | **AUDIT PROCEDURES** | **Performed by and Date** | **Workpaper Index** |
| --- | --- | --- | --- | --- |
| GASB Codification N50.125 | ALL | 1. Determine whether the entity shares a portion of its property tax revenue (tax increment) with an RDA. If tax increment is provided to an RDA, determine whether the increment is included in the entity’s property tax revenue. |  |  |
| GASB Codification N50.125 | ALL | 1. Determine whether the entity imposes a local option sales tax for a “system of public transit.” If the tax is imposed, determine whether the amount is included in the entity’s sales tax revenue. |  |  |

|  |  |  |
| --- | --- | --- |
| **CONCLUSION (adequacy of the controls, significant deficiencies/material weaknesses, and management letter comments):** | **Performed by and Date** | **Workpaper Index** |
|  |  |  |

1. **IMPACT FEES**

When considering materiality for the auditor’s testing of the impact fee schedule, a potential user may include those who pay the impact fee. Those who pay the impact fee may be concerned about amounts typically considered immaterial in comparison to total impact fees or the total project. Due to audit efficiency considerations, the OSA does not expect the auditor to test the impact fee schedule to the level of materiality of each individual who pays the impact fee.

| **Legal**  **Ref.** | **Appli-**  **cable**  **to: \*** | **AUDIT PROCEDURES** | **Performed by and Date** | **Workpaper Index** |
| --- | --- | --- | --- | --- |
| UCA  [11-36A-601](http://le.utah.gov/xcode/Title11/Chapter36a/11-36a-S601.html) | C, M, D, IL | 1. Determine that the entity prepared a schedule identifying impact fee funds and that:    1. The schedule detailed the year in which they were received, the project from which the funds were collected, the capital projects for which the funds are budgeted, and the projected schedule for expenditure.    2. Disbursements reported on the schedule agree to the entity's accounting records.    3. Receipts reported on the schedule are reasonable. |  |  |
| UCA  [11-36A-602 (1)](http://le.utah.gov/xcode/Title11/Chapter36A/11-36a-S602.html) | C, M, D, IL | 1. Determine that impact fee proceeds disbursed in the current year were used only for public facilities identified in the capital facilities plan and for the specific public facility type for which the fee was collected. |  |  |
| UCA  [11-36A-602 (2)](http://le.utah.gov/xcode/Title11/Chapter36A/11-36a-S602.html) | C, M, D, IL | 1. Determine that the impact fee proceeds were used in a timely manner and that reasons for holding fees longer than six years were appropriate and documented. |  |  |
| UCA  [11-36A-603](http://le.utah.gov/xcode/Title11/Chapter36A/11-36a-S603.html) | C, M, D, IL | 1. Determine that the entity has appropriately refunded any unused impact fees. |  |  |
| UCA  [11-36A-601(5)(d)](http://le.utah.gov/xcode/Title11/Chapter36a/11-36a-S601.html) | C, M, D, IL | 1. Determine that the entity submitted the impact fee schedule to the OSA by searching the OSA website at <https://secure.utah.gov/auditor-search/?p=public>. |  |  |

|  |  |  |
| --- | --- | --- |
| **CONCLUSION (adequacy of the controls, significant deficiencies/material weaknesses, and management letter comments):** | **Performed by and Date** | **Workpaper Index** |
|  |  |  |

1. **SCHOOL FEES**

The objective of these procedures is to ensure that fees are not being charged in the public school system for kindergarten through sixth grade students for activities occurring during the regular school day. Secondary schools (grades 7-12) may impose fees if authorized by the Legislature and local boards consistent with local board policies and state law and used in a manner consistent with their original design.

| **Legal**  **Ref.** | **Appli-**  **cable**  **to:** | **AUDIT PROCEDURES** | **Performed by and Date** | **Workpaper Index** |
| --- | --- | --- | --- | --- |
| [R277-407](http://www.rules.utah.gov/publicat/code/r277/r277-407.htm) | LEA | 1. For schools selected for testwork for the LEA’s agreed-upon procedures engagement for aggregate student membership (see the *Guide for Agreed-Upon Procedures Engagements for Local Education Agencies and Community-Based Organizations*, issued by the Office of the Utah State Auditor), review such items as the registration packet, board minutes, LEA’s webpage, parental letters, fee schedule, donation requests, and accounting records, etc. to gain an understanding of fees or charges for individual students and assess an appropriate risk level. |  |  |
| [R277-407](http://www.rules.utah.gov/publicat/code/r277/r277-407.htm) | LEA | 1. Select a representative sample of fees/charges collected, focusing on months during the beginning of a school year when fees are more likely to be collected.   Determine whether the fees collected complied with the following: |  |  |
| [R277-407](http://www.rules.utah.gov/publicat/code/r277/r277-407.htm) and  UCA  [53A-12-102 (1-2)](http://le.utah.gov/xcode/Title53A/Chapter12/53A-12-S102.html) | LEA | 1. **Fees for Regular School Day Activities**:   Elementary Schools – The school did not charge school fees of any kind for activities that took place during the regular school day, including materials, textbooks, supplies, snacks, drinks, or for any class or activity, including assemblies and field trips. Additionally, students were not required to bring items from home, unless the student was replacing supplies provided by the school which were lost, wasted, or damaged by the student through careless or irresponsible behavior.  Secondary Schools – Fees charged for secondary school activities were 1) approved by the local school board in a public meeting and were allowable by statute, 2) listed on the fee schedule, and 3) subject to waiver compliant with [R277-407-6](http://www.rules.utah.gov/publicat/code/r277/r277-407.htm). NOTE: Textbook fees may be charged in grades 7–12 and students may be required to provide their own student supplies subject to the provisions of [R277-407-6](http://www.rules.utah.gov/publicat/code/r277/r277-407.htm). |  |  |
| [R277-407](http://www.rules.utah.gov/publicat/code/r277/r277-407.htm) | LEA | 1. **Fees for Activities Occurring Outside of Regular School Day** – Participation was voluntary and the fee was 1) approved by the local school board in a public meeting, 2) listed on the fee schedule, and 3) subject to waiver compliant with [R277-407-6](http://www.rules.utah.gov/publicat/code/r277/r277-407.htm). |  |  |
| [R277-407](http://www.rules.utah.gov/publicat/code/r277/r277-407.htm) | LEA | 1. **Donations or Contributions** – Donations or contributions were solicited and accepted in accordance with LEA policies and IRS regulations, and all requests clearly stated that donations and contributions were voluntary.   NOTE: A donation is considered a fee if a student is required to make a donation in order to participate in an activity. |  |  |

|  |  |  |
| --- | --- | --- |
| **CONCLUSION (adequacy of the controls, significant deficiencies/material weaknesses, and management letter comments):** | **Performed by and Date** | **Workpaper Index** |
|  |  |  |

1. **SPECIAL AND LOCAL SERVICE DISTRICT BOARD MEMBERS**

| **Legal**  **Ref.** | **Appli-**  **cable**  **to:** | **AUDIT PROCEDURES** | **Performed by and Date** | **Workpaper Index** |
| --- | --- | --- | --- | --- |
| UCA  [17B-1-311](http://le.utah.gov/code/TITLE17B/htm/17B01_031100.htm) | D | 1. Through inquiry of management and scanning payroll or personnel records, determine that no member of the board is also an employee of the district at the same time. |  |  |
| UCA  [17B-1-312](http://le.utah.gov/code/TITLE17B/htm/17B01_031200.htm) | D | 1. Through inquiry with officials of the entity and observation of certificates or other relevant evidence, determine that each member of a board of trustees of a district, within one year after taking office or election to a new term, completed training developed by the Office of the Utah State Auditor in cooperation with the Utah Association of Special Districts. |  |  |

|  |  |  |
| --- | --- | --- |
| **CONCLUSION (adequacy of the controls, significant deficiencies/material weaknesses, and management letter comments):** | **Performed by and Date** | **Workpaper Index** |
|  |  |  |