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MEMORANDUM

TO: Members, Utah State Board of Education

FROM: Martell Menlove, Ph.D.
Chief Executive Officer

DATE: May 9, 2014

ACTION: R277-113 *LEA Fiscal Policies and Accountability* (Amendment)

Background: SB 93 *Internal Audit Amendments* was passed during the 2014 legislature. This legislation establishes requirements for audit committees for all LEAs, including the makeup of audit committee members. This bill requires all LEAs with 10,000 or more students to establish their own Internal Audit function.

Key Points: The bill requires that LEAs establish an audit committee, which is already part of Board rule R277-113 *LEA Fiscal Policies and Accountability*. The bill also requires that a local board of seven or more members designate three members as the audit committee, and a board of six or fewer members designate two members as the audit committee. The bill further indicates that the audit committee members cannot be administrators or employees of the LEA. Amendments to add these provisions to R277-113 are proposed.

LEAs with 10,000 or more students are required to implement an Internal Audit Program. The LEAs can restructure existing internal audit functions and personnel, hire new personnel, or contract for internal audit services. Newly-enacted 53A-30-130 (7) establishes a provision that allows LEAs to contract with the State Board of Education and the Office of the State Auditor for internal audit services.

Anticipated Action:

1. It is proposed that the Finance Committee consider approving R277-113, as amended, on first reading, and if approved by the Committee, the Board consider approving R277-113, as amended, on second reading.
2. The Finance Committee will discuss whether the Board should allow LEAs to contract with Board auditors to serve as LEA auditors. The Board could, based upon the Committee's recommendation, direct staff to investigate interest from affected LEAs and estimate required resources.

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Natalie Grange, Internal Audit Director, 801-538-7813

1 **R277. Education, Administration.**

2 **R277 113. LEA Fiscal Policies and Accountability.**

3 **R277-113-4. LEA Responsibilities.**

4 A. LEAs shall develop, have approved by local/charter
5 boards and implement the fiscal policies required in R277-
6 113-5 before September 15, 2013. These policies shall be in
7 writing.

8 B. LEAs shall also develop a plan for training LEA and
9 public school employees, at least annually, on policies
10 enacted by the LEA specific to job function.

11 (1) These policies shall be available at each LEA main
12 office, at individual public schools, and on the LEA's
13 website.

14 (2) The LEA fiscal policies and training may have
15 different components, specificity, and levels of complexity
16 for public elementary and secondary schools.

17 (3) LEAs may have one policy or more than one satisfying
18 the minimum requirements of this rule.

19 (4) An LEA policy shall address how often the policy
20 shall be reviewed, including periodic updates or training and
21 resource manuals.

22 (5) An LEA policy may reference specific training manuals
23 or other resources that provide detailed descriptions of
24 business practices which are too lengthy or detailed to
25 include in the LEA policy.

26 C. An LEA shall designate board members to serve on an
27 audit or finance committee, consistent with Section 53A-30-
28 102(1). The LEA audit or finance committee has the following
29 responsibilities:

30 (1) establish an internal audit program that provides
31 internal audit services for the programs administered by the
32 LEA, consistent with Section 53A-30-103 (required only if LEAs
33 have 10,000 or more students);

34

35 (1)2) ensur[ing]e that management properly develops and
36 adheres to a sound system of internal controls consistent with
37 the requirements of R277-113-5;

38 (2)3) receiv[ing]e a report of the risk assessment
39 process undertaken by management in developing the system of
40 internal controls;

41 (3)4) develop[ing] a process to review financial
42 information, financial statements, and LEA and individual
43 school records on a regular basis;

44 (4)5) ensur[ing]e that management conducts a competitive
45 RFP process to hire external auditors and other professional
46 services and making a recommendation to the LEA board on the
47 results of the RFP process consistent with the State
48 Procurement Code;

49 (5)6) receiv[ing]e communication from or meeting with
50 the external auditors annually and receiving a direct report
51 of the audit findings, exceptions, and other matters noted by
52 the auditor;

53 (6)7) report[ing] the annual audit reports and findings
54 or other matters communicated by the external auditor or other
55 regulatory bodies to the LEA board in a public meeting;

56 (7)8) ensur[ing]e that matters reported by external
57 audits, internal audits, or other regulatory bodies are
58 resolved in a timely manner.

59 D. The definition of school sponsored and requirements of
60 R277-113-4[F]G do not apply to activities, fundraising events,
61 clinics, clubs, camps, or activities organized by a third
62 party which have not been designated by the LEA as school
63 sponsored. All transactions pertaining to nonschool sponsored
64 events shall be conducted at arm's length; revenues and
65 expenditures shall not be commingled with public funds.

66 E. For nonschool sponsored events, funds may be managed
67 or held by a public school employee, only consistent with
68 R277-107.

69 F. The definition of school sponsored and requirements of
70 R277-113-4[F]G do not apply to non-curricular clubs
71 specifically authorized and meeting all criteria of Sections
72 53A-11-1205 through 1208.

73 G. LEAs and individual public schools shall comply with
74 the following regarding school and nonschool sponsored
75 activities:

76 (1) may enter into contractual agreements to allow for
77 fundraising and use of LEA facilities. An agreement shall
78 take into consideration the LEA's fiduciary responsibility for
79 the management and use of public funds. LEAs should consult
80 with the LEA insurer or legal counsel, or both, to ensure
81 risks are adequately considered and managed;

82 (2) shall annually review fundraising activities that
83 support or subsidize LEA or public school-authorized clubs,
84 activities, sports, classes or programs to determine if the
85 activities are school sponsored consistent within R277-113-1H;

86 (3) shall ensure that revenues raised from school
87 sponsored activities and funds expended from the proceeds are
88 considered public funds consistent with R277-113-1G;

89 (4) shall maintain adequate records to ensure that funds
90 collected from or during school sponsored activities are in
91 compliance with LEA cash handling policies as required by
92 R277-113-5;

93 (5) shall maintain adequate records to show that
94 expenditures made to support activities from LEA or public
95 school funds are in compliance with LEA expenditure of funds
96 policies as required by R277-113-5;

97 (6) shall make records of activities available to
98 parents, students, and donors and shall maintain the records
99 in sufficient detail to track individual contributions and
100 expenditures as well as overall financial outcome. Records
101 may be private or protected consistent with Sections 63G-2-
102 302, 303, 305, and the Family Educational Rights and Privacy

103 Act (FERPA), 20 U.S.C. Section 1232g;
104 H. Public Education Foundations established by LEAs
105 shall follow the requirements provided in Section 53A-4-205.

106 **KEY: school sponsored activities, public funds, fiscal**
107 **policies and procedures, audit committee**

108 **Date of Enactment or Last Substantive Amendment: [~~November 7,~~**
109 **~~2013]~~2014**

110 **Authorizing, and Implemented or Interpreted Law: Art X, Sec**
111 **3; 53A-1-401(3); 53A-1-402(1)(e)**