



Utah State Board of Education  
Internal Audit Department

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**School Safety Audit**

19-02

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October 3, 2019

Chair Mark Huntsman  
Utah State Board of Education  
250 East 500 South  
Salt Lake City, UT 84111

Dear Chair Huntsman,

On April 12, 2018 in accordance with The Bylaws of the Utah State Board of Education (Board), the Board authorized the Internal Audit Department (IA) to perform an audit to review compliance with current regulations regarding school safety and to complete a gap analysis of the availability of required data at the state level. IA obtained relevant documentation from staff of the USBE, and performed the following procedures:

1. Gained an understanding, through research and inquiry, of applicable state code, administrative code, and policy
2. Reviewed and analyzed the internal control environment
3. Analyzed incident data reporting, and
4. Performed a gap analysis of required data (i.e., UCA 53-3-516)

We have identified the procedures performed during the audit above and the conclusions from those procedures are included in this report with suggestions for improvement.

Internal audits are conducted in accordance with the current *International Standards for the Professional Practice of Internal Auditing*, consistent with *Utah Code Annotated* and Utah Administrative Code.

By its nature, this report focuses on exceptions, weaknesses, and non-compliance. This focus should not be understood to mean the USBE does not demonstrate various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by staff of the USBE during the audit. The USBE's response to the audit is included as Appendix E.

This report is intended for the information and use of the USBE. If you have any questions, please contact me at (801) 538-7639.

Sincerely,

A handwritten signature in cursive script that reads "Deborah Davis".

Deborah Davis, CPA  
Chief Audit Executive, Utah State Board of Education

cc: Members of the Utah State Board of Education (USBE)  
Sydnee Dickson, State Superintendent of Public Instruction, USBE  
Patty Norman, Deputy Superintendent of Student Achievement, USBE  
Angie Stallings, Deputy Superintendent of Policy, USBE  
Scott Jones, Deputy Superintendent of Operations, USBE

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## I. Background, Scope, and Objective

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In the spring of 2018, the Utah State Legislature passed Senate Bill 198 (SB198) instructing the Utah State Board of Education (Board) to create rules to govern the collection of school discipline and law enforcement actions data, compile and aggregate the local education agency (LEA) collected data, and report the data by LEA to the Legislature by 2021.

In the April 12, 2018 Board meeting, the Board approved an audit of school safety incident reporting. The objective of the audit was to provide information related to the USBE's current incident, discipline, and law enforcement activity data practices and identify areas for improvement. The Board directed the Internal Audit Department (IA) to restrict the scope of the review to the USBE operations.

In May of 2018, SB198 became effective (Utah Code Ann. §53E-3-516). The audit was completed as resources became available. As part of the audit, IA drafted a timeline of relevant events as identified throughout the process (see Appendix A. Utah Code Ann. §53E-3-516 Implementation Timeline) and a high-level process map (see Appendix B. Utah Code Ann. §53E-3-516 and Utah Admin. Code R277-912 Process Map) tied to regulation and data reporting elements.

## II. Findings

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Findings are included within this report and are ordered by significance, from most significant to least per auditor judgment. Findings are presented using the following five elements:

1. **Criteria:** What should happen (e.g., code, statute, best practices)?
2. **Condition:** What is happening?
3. **Cause:** Why did the Condition happen?
4. **Effect:** What is the impact? Why should you care?
5. **Recommendation:** What action could be considered to resolve the Cause?

### a. Internal Control, USBE

**Criteria:** USBE Internal Policies 01-01 General Accounting Policy and Procedures states: The USBE follows the Utah Division of Finance Accounting Policies and Procedures [FIACCT].

FIACCT 20-00.00 Internal Control Program

Responsibilities of State Agency Management states:

Management of each state agency is responsible for establishing, monitoring, and maintaining internal control. The effectiveness of internal control depends on how well the

five components of internal control are implemented at each agency (see Appendix C. FIAACT 20-00.00 Internal Control Program).

As best practice related to internal controls, consider the following published by the Comptroller General of the United States in 2014 (see Appendix D. Standards for Internal Control in the Federal Government)

Standards for Internal Control in the Federal Government states:

**OV1.05** Internal control is not one event, but a series of actions that occur throughout an entity's operations. Internal control is recognized as an integral part of the operational processes management uses to guide its operations rather than as a separate system within an entity. In this sense, internal control is built into the entity as a part of the organizational structure to help managers achieve the entity's objectives on an ongoing basis.

**OV3.03** To determine if an internal control system is effective, management assesses the design, implementation, and operating effectiveness of the five components and 17 principles. If a principle or component is not effective, or the components are not operating together in an integrated manner, then an internal control system cannot be effective.

**Condition:** The USBE has not established an internal control system over the collection and reporting of school disciplinary and law enforcement action data (i.e., Utah Code Ann. §53E-3-516), including:

- Prescribing a data collection system and/or method (see also finding b. Data Reporting Elements, Not Collected),
- Identifying what reporting data in a "timely manner," per Utah Admin. Code R277-912-2(3), entails,
- Assigning key roles and responsibilities timely,
- Establishing and documenting control activities (i.e., policies and procedures),
- Establishing an accountability framework,
- Establishing a risk assessment process,
- Documenting a monitoring process (see also finding c. Data Reporting Elements, Collected), and
- Establishing clear record retention policies (see also the cause of finding c. Data Reporting Elements, Collected).

For school discipline data required in Utah Admin. Code R277-609, which was collected prior to Utah Code Ann. §53E-3-516, some principles of internal control have also not been adequately established, including:

- Documenting control activities,
- Implementing an accountability framework (see also the cause of finding c. Data Reporting Elements, Collected),
- Implementing a risk assessment process, and

- Implementing a monitoring process (see also finding c. Data Reporting Elements, Collected).

**Cause:** A lack of administrative oversight and governance. Other factors specific to Utah Code Ann. §53E-3-516 could include 1) questions about whether the USBE could collect the data required, specifically the arrests of minors, 2) organizational restructuring at the USBE without proactive reassignment of responsibilities, and 3) overlapping state agency responsibilities.

**Effect:** Noncompliance with statutory requirements, the collection and reporting of unreliable data, and potentially poor decision-making due to inaccurate information.

**Recommendation:** The USBE should evaluate its accountability framework given internal control concerns appear to be recurring (see 19-01 Year End Financial Close, 18-06 Utah Science Technology and Research Initiative Centers Program, and 18-02 School Fees). The accountability framework should include proper design, implementation, and monitoring for operational effectiveness to ensure statutory requirements and performance outcomes can be met.

## **b. Data Reporting Elements, Not Collected**

**Criteria:** Utah Code Ann. § 53E-3-516 School disciplinary and law enforcement action report – Rulemaking authority states:

(2) Beginning on July 1, 2020, the state board, in collaboration with school districts, charter schools, and law enforcement agencies, shall develop an annual report regarding the following incidents that occur on school grounds while school is in session or during a school-sponsored activity:

- (a) arrests of a minor;
- (b) other law enforcement activities; and
- (c) disciplinary actions.

(3) The report described in Subsection (2) shall include the following information by school district and charter school:

- (a) the number of arrests of a minor, including the reason why the minor was arrested;
- (b) the number of other law enforcement activities, including the following information for each incident:
  - (i) the reason for the other law enforcement activity; and
  - (ii) the type of other law enforcement activity used;
- (c) the number of disciplinary actions imposed, including:
  - (i) the reason for the disciplinary action; and
  - (ii) the type of disciplinary action; and
- (d) the number of SROs employed.

(4) The report described in Subsection (2) shall include the following information, in aggregate, for each element described in Subsections (3)(a) through (c):

- (a) age;
- (b) grade level;
- (c) race;



- (d) sex; and
- (e) disability status.

Utah Admin. Code R277-912-2 LEA Reporting Requirements states:

(1) An LEA shall work with the Superintendent and the relevant law enforcement agencies and school personnel to collect the following incident data that occurred on school grounds while school is in session or during a school-sponsored activity:

- (a) arrests of a minor;
- (b) other law enforcement activities as defined in Section 53E-3-516(1);
- (c) disciplinary actions as defined in section 53E-3-516(1); and
- (d) all other data as outlined in subsection 53E-3-516(3) and (4).

(5) An LEA shall report the data to the Superintendent as prescribed by the Superintendent.

Utah Admin. Code R277-609-8(4)(b) LEA Reporting states:

Beginning in the 2018-19 school year, an LEA shall submit all required UTREx discipline incident data elements as part of the LEA's daily UTREx submission.

Utah Code Ann. § 53E-1-203 State Superintendent's Annual Report (effective 5/14/2019) states:

- (1) The state board shall prepare and submit to the governor, the Education Interim Committee, and the Public Education Appropriations Subcommittee, by January 15 of each year, an annual written report known as the State Superintendent's Annual Report that includes...
- (4)(a) Except as provided in Subsection (4)(b), the annual report shall also include:
  - (iii) beginning on July 1, 2020, the report described in 53E-3-516 by the state board on certain incidents that occur on school grounds.

**Condition:** Currently the USBE is not prepared to collect the following data from LEAs which is due September 1, 2020:

1. Number of arrests of a minor that occur on school grounds while school is in session or during a school sponsored activity,
2. The reason(s) why the minor was arrested,
3. Number of other law enforcement activities that occur on school grounds while school is in session or during a school sponsored activity,
4. The reason(s) for other law enforcement activity,
5. The type(s) of other law enforcement activity, and
6. Number of Student Resource Officers (SRO) employed.

**Cause:** There are multiple reasons why the data has not been, or may not be, collected by the USBE on time:

- As of September 4, 2019, the USBE has not decided upon a collection method and/or prescribed to the LEAs a reporting method (see Appendix A. Utah Code Ann. §53E-3-516 Implementation Timeline);
- Key roles and responsibilities to ensure compliance with the statute were not timely assigned and/or monitored. See finding a. Internal Control, USBE; and

- There are questions regarding the legality to collect some of the data elements (e.g., arrests), for fear it may be in violation of Utah Code Ann. §53E-9-305.

**Effect:** Unless the USBE takes action, the USBE will not be able to provide a law enforcement action report, consistent with Utah Code Ann. §53E-3-516, to the Legislature by January 15, 2021.

**Recommendation:** The USBE should decide upon a method to collect the required data elements in Utah Code Ann. §53E-3-516 as reported to the LEA by local law enforcement and design and implement formal, comprehensive policies and procedures to ensure data is collected. If questions still exist regarding the legality of collecting some data elements, the USBE should work with the Legislature to obtain additional clarity.

### c. Data Reporting Elements, Collected

**Criteria:** Utah Admin. Code R277-484-5(6), Official Data Source and Required LEA Compatibility states:

An LEA shall submit daily updates to the Board Clearinghouse using all School Interoperability Framework (SIF) objects defined in the UTREx Clearinghouse specification.

Utah Admin. Code R277-609-8, LEA Reporting (effective May 8, 2018) states:

The Superintendent shall define the procedures for the collection, maintenance, and review of records described in Subsection (1).

Utah Admin. Code R277-613-5. Reporting and Incident Investigations of Allegations of Bullying, Cyber-bullying, Hazing, and Retaliation. (effective July 9, 2018) states:

(8) An LEA shall, as required by Subsection 53G-9-606(2), report the following annually, on or before June 30, to the Superintendent in accordance with the Superintendent's submission requirements:

- (d) incidents of bullying, cyber-bullying, hazing, and retaliation;
- (e) the number of incidents described in Subsection (8)(d) required to be reported separately under federal law...
- (f) the number of incidents described in Subsection (8)(d) that include a student who was bullied, cyber-bullied, hazed, or retaliated against based on the student's actual or perceived characteristics, including disability, race, national origin, religion, sex, gender identity, or sexual orientation.

**Condition:** Current incident and discipline data collected by the USBE is likely inconsistent and unreliable from LEA to LEA. The extent to which the data is inconsistent and unreliable is not known due to the limited scope of the audit (i.e., only the USBE); however, we verified the following:

1. In 2018, 11% of LEAs did not report any incident data and in 2019, four percent of LEAs did not report any incident data.

School Year	LEAs with Enrollment	LEAs with Incidents Reported	Percentage of LEAs with Incidents Reported
2019	155	149	96%
2018	154	137	89%
2017	150	73	49%
2016	146	72	49%

- In response to an IA Public Education Hotline, one LEA reported experiencing 55 incidents at a single school in SFY18; however, the LEA had reported only 31 incidents (56% of the incidents) at that school to the USBE via UTREx.

**Cause:** There are multiple reasons why the data may not be reliably collected, including,

- Lack of internal controls (e.g., policies and procedures, system of monitoring, limited accountability)
- Lack of data field definitions (e.g., infraction, discipline),
- UTREx reports do not contain separate fields for cyber-bullying, hazing, or retaliation.
- LEA fear of having schools designated as a poorly managed or a dangerous school, and/or
- Education record retention schedule Student Discipline GRS-1504, may lead to confusion regarding when an LEA must expunge and/or retain records

**Effect:** The Legislature, the USBE, LEAs, and stakeholders (e.g., parents, taxpayers) may make educational decisions based on inaccurate data or may not even consider the data when making decisions because they know the data is inaccurate, rendering the time and resources to collect the data wasted.

LEAs that have established good internal controls and reporting practices, potentially leading to higher incident data reporting, may be perceived as poorly managed as opposed to LEAs that do not. This may result in potentially diverting support from LEAs that need additional monitoring to those that are operating more effectively.

**Recommendation:** Internal Audit is aware the USBE has taken some steps to ensure LEAs are reporting data, as evident in the table above; however, the USBE should consider clarifying data reporting requirements, ensuring LEAs are aware of data reporting requirements, and establishing an effective monitoring system to ensure all LEAs report data and that reported data is accurate and reliable. In the event LEAs do not report data, the USBE should consider corrective action consistent with Utah Admin. Code R277-114 and/or Utah Code Ann. § 53E-3-401(8)(a)(ii).

## **d. Rulemaking**

**Criteria:** Utah Code Ann. § 63G-3-301(14), Rulemaking Procedure states:

(a) As used in this Subsection (14), "initiate rulemaking proceedings" means the filing, for the purposes of publication in accordance with Subsection (4), of an agency's proposed rule that is required by state statute.

(b) A state agency shall initiate rulemaking proceedings no later than 180 days after the day on which the statutory provision that specifically requires the rulemaking takes effect, except under Subsection (14)(c).

**Condition:** The USBE did not meet the 180-day requirement to initiate (i.e., filed with office of Administrative Rules) the rulemaking proceedings for requirements outlined in UCA §53E-3-516. R277-912 should have been initiated by November 4, 2018, but, was not initiated until December of 2018.

**Cause:** Inadequate internal controls to ensure timelines for policy making were met.

**Effect:** LEA reporting of required data may be delayed, which in turn may cause reporting delays for the USBE. Additionally, the USBE may be required to answer to the legislative Administrative Rules Review Committee, providing reasons for the delay.

**Recommendation:** The USBE should design and implement formal, comprehensive policies and procedures to ensure required rules are initiated within required timelines.

## **e. Model Policies**

**Criteria:** Utah Admin. Code R277-609-11 Model Policies (effective May 2018) states:

(1) The Superintendent shall develop, review regularly, and provide to LEA boards model policies to address disruptive student behavior and appropriate consequences.

**Condition:** Model policies have not been reviewed and updated regularly to ensure that they include the required elements. Some missing elements include:

- Procedures for responding to reports received through the School Safety and Crisis Line,
- Procedures for the development of remedial discipline,
- Procedures for the use of reasonable and necessary physical restraint,
- Specific provisions for preventing and responding to gang-related activities, and
- Policy for detaining students after regular school hours for grades K-6, and parental notification prior to holding student after school.

**Cause:** Changes to the various applicable regulations may have caused some delay in updating the model policies. Lack of administrative priority and oversight, and staff turnover, were also factors.

**Effect:** Potentially influencing LEA noncompliance with required regulations, which could have negative student and other stakeholder impacts that subject an LEA and the USBE to increased risk and liability.

**Recommendation:** The USBE should update model policies to reflect current regulatory requirements and communicate those changes to LEAs. Further, the USBE should design and implement formal, comprehensive policies and procedures to ensure model policies will be regularly updated as required in statute.

**Appendix A**  
**Utah Code Ann. §53E-3-516 Implementation Timeline**

Date	Event	Description	Reference
16-Feb-18	Senate Bill 198 introduced, 1st reading	The introduction of the bill.	<a href="https://le.utah.gov/~2018/bills/static/SB0198.html">Status - https://le.utah.gov/~2018/bills/static/SB0198.html</a>
27-Feb-18	Amendments	Amendments included: 1) Requested extension on the reporting date from Jan 1, 2019 to July 1, 2020. 2) Removed the "questioning by SRO" data element. 3) Definition for Disciplinary action restricted to expulsion and suspension. 4) Removed number and type of complaints filed against SROs	<a href="https://le.utah.gov/~2018/bills/static/SB0198.html">Amended - https://le.utah.gov/~2018/bills/static/SB0198.html</a>
19-Mar-18	Bill passed		<a href="https://le.utah.gov/~2018/bills/static/SB0198.html">Status - https://le.utah.gov/~2018/bills/static/SB0198.html</a>
12-Apr-18	Audit prioritized		Board Meeting Minutes 4/12/18
8-May-18	53E-3-516 effective date		<a href="https://le.utah.gov/~2018/bills/static/SB0198.html">Information - https://le.utah.gov/~2018/bills/static/SB0198.html</a>
May-18	Presented to LEAs	USBE presented the 2018 Legislative update, including SB198, to District Superintendents, HR directors and to the Education Section of the bar.	
18-Sep-18	School Safety Advisory Committee	Meeting with Student Data Privacy, Student Support, Data and Statistics, and Granite School District to discuss the viability of being able to collect the required data for UCA 53-3-516.	
15-Oct-18	School disciplinary incident reporting system	A discussion between IT and Student Achievement related to school Disciplinary Incident Reporting System.	
16-Oct-19	School Safety Advisory Committee	A discussion related to the fiscal request for programming for the State Incident Data System.	
2-Nov-18	R277-912 draft 1, 2 & 3	All three drafts were presented in Standards and Assessment Committee. There was no discussion on how the data would be compiled. Two questions raised; 1) will law enforcement provide information to LEAs and 2) Will the information from law enforcement be accurate and reliable?	Standards and Assessment Committee Meeting Nov 2, 2018
4-Nov-18	Rule should have been initiated	180 days after the effective date of 53E-3-516, a Rule was required to be written.	63G-3-301(14)(b)
Dec-18	Reorganized Student Services	Student Support Coordinator, who was potentially assigned oversight, was removed from the project due to department reorganization.	
6-Dec-18	Board approved R277-912	The agenda item had no discussion and was approved unanimous by the Board	USBE Board meeting December 6, 2018 11- Standards and Assessment Committee Report
1-Jan-19	R277-912 Published in Utah State Bulletin	30 day comment period- no comments	Utah State Bulletin January 1, 2019 Number 2019-1
28-Jan-19	HB 120 Student and School Safety Assessment introduced to the House	HB 120 mentions 53E-3-516 - Public Safety Liaison to ensure cooperation and foster compliance with statutory provisions including 53E-3-516 and 53G-8-211	<a href="https://le.utah.gov/~2019/bills/static/HB0120.html">https://le.utah.gov/~2019/bills/static/HB0120.html</a>
7-Feb-19	R277-912 effective date		R277-912
Feb-19	Prescribe Data	Superintendent to prescribe the reporting method	R277-912-2(5)
8-May-19	Audit Started	IA started planning School Safety Audit	
14-May-19	53E-3-516 amended	First report due date for superintendent report changed from November 1, 2020 to January 15, 2021 (as per 53E-1-203)	UCA 53E-3-516
1-Jul-19	LEA data tracking	LEA should be tracking arrest and other law enforcement actions - in a form agreed upon by Superintendent and relevant law enforcement agencies	UCA 53E-3-516 R277-912-2(2)

1-Jul-19	Staff change	School and Student Safety Education Coordinator staff change.	
1-Jul-19	Staff change	School and Student Safety Specialist staff change.	
19-Aug-19	Brainstorming meeting	Meeting to determine next steps in complying with statutory requirements. Attendees included: USBE staff, DPS, city police chiefs association, and county sheriffs association.	
20-Aug-19	Meeting with Senator	Met to discuss amending the report due date.	
<b>Future Requirements</b>			
1-Jul-20	Start to develop annual report	Collaboration with districts, charter schools and law enforcement agencies	UCA 53E-3-516(2)
1-Sep-20	Deadline for LEAs to report data to the USBE		UCA 53E-3-516 R277-912-2(4)
1-Nov-20	Report compiled and provided to the Board		R277-912-3(3)
15-Jan-21	Superintendent Report to Legislature		UCA 53E-3-516

**Appendix B**

**Utah Code Ann. §53E-3-516 and Utah Admin Code R277-912 Process Map**

<b>Responsibility:</b>	SRO or other Law Enforcement Individual (e.g., DPS liaison)  <b>Department of Public Safety</b> (Local Law Enforcement)  Report data to LEA	School and/or LEA (e.g., designated SIS employee)  <b>LEA</b> (e.g., Schools, Districts, Charters)  Collect data from DPS, Report data to USBE	Student Support Specialist(s)  <b>USBE</b>  Collect data from LEA, develop report, present report to the Board and to the Legislature	Data & Statistics and Financial Operations staff  <b>USBE Board</b>  Recieve Law Enforcement Related Incident Report	<b>Legislature</b>  Receive State Superintendent's Annual Report
<b>Collection Date:</b>	As needed	Beginning July 1, 2019 <i>53E-3-516(2)</i>	September 1, annually, <i>R277-912-2(4)</i>	November 1, annually, <i>R277-912-3(3)</i>	January 15, annually, <i>53E-1-203</i>
<b>Reporting Date:</b>	As needed	September 1, annually, <i>R277-912-2(4)</i>	To Board: November 1, annually, <i>R277-912-3(3)</i>  To Legislature: January 15, annually <i>53E-1-203</i>		
<b>Code:</b>	<i>R277-912-2(1)</i> An LEA shall work with the Superintendent and the relevant law enforcement agencies and school personnel to collect the... incident data  DPS Liaison: <i>53-1-106(1)(i)(ii)</i> : coordinate the creation of model policies and memorandums of understanding for a local education agency and a local law enforcement agency	<i>R277-912-2(1)</i> An LEA shall work with the Superintendent and the relevant law enforcement agencies and school personnel to collect the... incident data...	<i>53E-3-516(2)</i> The state board, in collaboration with school districts, charter schools, and law enforcement agencies, shall develop an annual report regarding... incidents	<i>53E-1-203(4)(a)(iii)</i> beginning on July 1, 2020, the report described in Section <i>53E-3-516</i> by the state board on certain incidents that occur on school grounds...	
<b>Required data elements:</b>	- Arrests - Reason for Arrests - Other Law Enforcement Activity (e.g., search and seizure by an SRO, issuance of a criminal citation, filing a delinquency petition, referral to a probation officer) - Type of Activity - Reason for the Activity	- Disability status - Age - Grade Level - Race - Sex - Number of SROs employed - Disciplinary Actions - Reason for Disciplinary Action - Type of Disciplinary Action	- All data required by both <i>53E-3-516</i> and <i>R277-912 (Aggregate)</i>	- All data required by both <i>53E-3-516</i> and <i>R277-912 (Aggregate)</i>  - All requirements in <i>53E-1-203(4)(a)(iii)</i> for the State Superintendent's Annual Report	
<b>Data elements likely to be included:</b>	- Student Identifier - Student's School - Incident location	- Student Identifier - LEA - Incident data - Other potential SIS elements			
<b>Systems or Data Format:</b>	Unspecified Format: could be as simple as a form, so long as the data is given to the LEA.	<i>R277-912-2(2)</i> An LEA shall collect the data in a form agreed upon by the Superintendent and the relevant law enforcement agencies.  <i>R277-912-2(5)</i> An LEA shall report the data to the Superintendent as prescribed by the Superintendent.	<i>R277-912-2(5)</i> An LEA shall report the data to the Superintendent as prescribed by the Superintendent.	As prescribed in <i>R277-912</i>	As prescribed in <i>53E-1-203(4)(a)(iii)</i>



Source: Utah Division of Finance <http://apps.finance.utah.gov/nxt/gateway.dll?f=templates&fn=default.htm&vid=nxtpub:app1>

## Internal Control Program

### FIACCT 20-00.00

Effective: 01-Mar-2012

Revised: 01-July 2017

Reviewed: 01-July 2017

## Purpose

This policy outlines the requirements for state agencies to implement, assess, and maintain good internal controls over state operations, financial reporting, and compliance.

## Policy

- A. Agencies must establish and maintain sound internal controls based on the five components of internal control.
- B. Agencies must establish and maintain proper segregation of duties.
- C. Agencies must participate in the Internal Control Program as described in this policy.

## Background

As a result of the passing of the Sarbanes Oxley Act of 2002, governments experienced pressure to establish enhanced internal control frameworks similar to those used by U.S. public company boards, management, and public accounting firms. In addition, auditing standards were revised to emphasize the responsibility of management for internal control.

The Director of the Division of Finance is authorized and required by state statute to do the following:

- “provide for the accounting control of funds” UC 63A-3-103(1)(b);
- “prescribe other fiscal functions required by law or under the constitutional authority of the governor to transact all executive business for the state.” UC 63A-3-103(1)(h);
- “exercise accounting control over all state departments and agencies.” UC 63A-3-203(1)(a);
- “maintain a financial control system according to generally accepted accounting principles.” UC 63A-3-204(1)(a).

To ensure compliance with auditing standards and the state statutes listed above, the State Division of Finance established an Internal Control Program to help ensure that agencies develop and maintain a good system of internal control.

The State Division of Finance participated with the National Association of State Comptrollers (NASC) in developing internal control questionnaires (ICQs) that may be used by all states to aid in the implementation and development of an effective internal control system and program. The Division of Finance then modified some of the ICQs to better fit the needs of Utah state agencies. The ICQs are the basis for the Internal Control Program.

## Benefits of the Internal Control Program

The benefits of the program include the following:

- Reducing:
  - a. The risk of fraud and errors in financial statements and reports,
  - b. The risk of loss, misuse, or waste of taxpayer dollars or other assets,
  - c. The risk of noncompliance with state and federal laws and state policies and procedures,
  - d. Embarrassment and repercussions that can come from related events.
- A process to assist each agency in fulfilling their internal control responsibilities.
- A designated contact within the State Division of Finance who has a background in internal control.

- A designated agency contact that has a background in internal controls that can coordinate and work with the State Division of Finance.
- A process to assist the State’s central management in assessing the condition of internal control systems in agencies.

## **Responsibilities of State Agency Management**

Management of each state agency is responsible for establishing, monitoring, and maintaining internal control. The effectiveness of internal control depends on how well the five components of internal control, discussed below, are implemented at each agency. The State’s internal control program is designed to help both state and agency management determine whether an effective internal control system has been designed and deployed at the agency level.

## **What is Internal Control?**

According to COSO<sup>1</sup>, internal control is broadly defined as a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

## **Components of Internal Control<sup>2</sup>**

Internal control consists of five interrelated components, derived from the way management runs operations, and are integrated with the management process. The components represent what is needed to achieve the objectives listed above. When looking at any one category – the effectiveness and efficiency of operations, for instance – all five components must be present and functioning effectively to conclude that internal control over operations is effective.

The following is a brief overview of the five internal control components (see also the State Division of Finance Internal Control Guide).

### **1. Control Environment**

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. It includes factors such as the integrity, ethical values and competence of the entity’s people; management’s philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by management.

### **2. Risk Assessment**

Every entity faces a variety of risks from external and internal sources that must be assessed. Risk assessment is the identification and analysis of relevant risks to achievement of management objectives, forming a basis for determining how the risks should be managed. Examples of these risks include new employees, new information systems and technology, and new organization structures.

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<sup>1</sup> COSO is a voluntary private sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. COSO is jointly sponsored by the American Accounting Association, the American Institute of Certified Public Accountants, Financial Executives International, the Institute of Internal Auditors, and the Institute of Management Accountants.

<sup>2</sup> Source: COSO

### 3. Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out, helping to ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities include procedures such as approvals, verifications, reconciliations, security of assets, and segregation of duties. (More information on segregation of duties is included below in this policy.)

### 4. Information and Communication

Pertinent information must be identified, captured in information and accounting systems, and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also must occur in a broader sense, flowing down, across, and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously.

### 5. Monitoring

Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time – and is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two.

### Segregation of Duties

Segregation of duties is one of the most important features of effective internal control and is one of the Control Activities discussed in the Components of Internal Control section above. The fundamental premise of segregated duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. These are called incompatible duties when performed by the same individual. Examples of incompatible duties include situations where the same individual (or small group of people) is responsible for:

- Managing both the operation of and record keeping for the same activity
- Managing custodial activities and record keeping for the same assets
- Authorizing transactions and managing the custody or disposal of the related assets or records.

## Procedures

### Responsibility

### Action

### Finance

Provide Internal Control Questionnaires (ICQs) to be used by state agencies to assess their internal controls.

Determine which ICQs are required and which are optional.

Set deadlines for completion and submission of the ICQs and corrective action plans to the Division of Finance and the agency internal auditor (as applicable).

Follow up with agencies to ensure ICQs are completed, problems noted are addressed in corrective action plans, and agency management has signed-off on the ICQs.

Perform internal control field audits to ensure agencies:

- Understand the ICQ questions
- Have accurately reported internal control weaknesses, compensating controls, and proposed corrective action plans
- Have implemented proposed corrective action plans

Provide assistance to agencies on internal control issues and questions.

<b>Agency ACT</b>	The ACT (Agency Coordinating Team) lead member for each agency will be the main contact for the State Division of Finance for the Internal Control Program, unless an agency designates an alternative contact person. If an alternate is designated, they will need to attend the monthly ACT meetings to ensure that they receive information on the program.
<b>Agency Chief Financial Officer (CFO)</b>	<p>The agency's chief financial officer (finance director or comptroller) shall determine how many of the required ICQs shall be completed. For example, the Cash Receipts ICQ should be completed for each separate receipting system and/or location in the agency.</p> <p>The agency's chief financial officer shall determine which of the optional ICQs will be completed. For example: Davis-Bacon, Federal Grant Administration, Investments.</p>
<b>Agency</b>	<p>Thoroughly complete the ICQs, following the instructions on each ICQ.</p> <p>Ensure that each "No" response is fully explained on the ICQ including identifying any compensating controls and any needed corrective action plans.</p>
<b>Agency CFO</b>	The agency's top financial officer will review and approve each of the completed ICQs including any related corrective action plans.
<b>Agency Head/ Executive Director</b>	The agency head/executive director will sign each ICQ as an indication that they are aware of the completed ICQ and of any problems or corrective action needed.
<b>Agency ACT</b>	Submit the completed ICQs (including corrective action plans) signed by both the agency top financial officer and agency head, to the State Division of Finance by the required deadlines and provide copies to the agency internal auditor (if applicable).

**Appendix D**  
**Standards of Internal Control in the Federal Government**

This is the accessible text file for sections one through four of the GAO report number GAO-14-704G entitled 'Standards for Internal Control in the Federal Government' which was released on September 10, 2014. For the full report, go to <https://www.gao.gov/assets/670/665714.txt>

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United States Government Accountability Office:  
GAO:

By the Comptroller General of the United States:

September 2014:

Standards for Internal Control in the Federal Government:

GAO-14-704G:

What is the Green Book and how is it used?

Important facts and concepts related to the Green Book and internal control:

Internal control and the Green Book:

What is internal control?

Internal control is a process used by management to help an entity achieve its objectives.

How does internal control work? Internal control helps an entity:

- \* Run its operations efficiently and effectively;
- \* Report reliable information about its operations;
- \* Comply with applicable laws and regulations.

How is the Green Book related to internal control? Standards for Internal Control in the Federal Government, known as the Green Book, sets internal control standards for federal entities.

How does an entity use the Green Book? Objective identified;  
Controls designed;

Controls in place;  
Objective achieved.

Who would use the Green Book?

- \* A program manager at a federal agency;
- \* Inspector general staff conducting a financial or performance audit;
- \* An independent public accountant conducting an audit of expenditures of federal dollars to state agencies;
- \* A compliance officer responsible for making sure that personnel have completed required training.

The cube:

The standards in the Green Book are organized by the five components of internal control shown in the cube below. The five components apply to staff at all organizational levels and to all categories of objectives.

Categories of objectives:

Operations;  
Reporting;  
Compliance.

Components of internal control: Control Environment;  
Risk Assessment;  
Control Activities;  
Information and Communication;  
Monitoring.

Levels of organizational structure: Function;  
Operating unit;  
Division;  
Entity.

Principles:

Each of the five components of internal control contains several principles. Principles are the requirements of each component.

Control Environment: 5 principles; Risk Assessment: 4 principles;  
Control Activities: 3 principles; Information and Communication: 3 principles; Monitoring: 2 principles.

Attributes:

Each principle has important characteristics, called attributes, which explain principles in greater detail.

Page structure:

Green Book pages show components, principles, and attributes.

Sources: GAO and COSO. GAO.gov/Greenbook.

[End of What is the Green Book and how is it used]

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Overview:

Foreword:

Policymakers and program managers are continually seeking ways to improve accountability in achieving an entity's mission. A key factor in improving accountability in achieving an entity's mission is to implement an effective internal control system. An effective internal control system helps an entity adapt to shifting environments, evolving demands, changing risks, and new priorities. As programs change and entities strive to improve operational processes and implement new technology, management continually evaluates its internal control system so that it is effective and updated when necessary.

Section 3512 (c) and (d) of Title 31 of the United States Code (commonly known as the Federal Managers' Financial Integrity Act (FMFIA)) requires the Comptroller General to issue standards for internal control in the federal government. Standards for Internal Control in the Federal Government (known as the Green Book), provide the overall framework for establishing and maintaining an effective internal control system. Office of Management and Budget (OMB) Circular No. A-123 provides specific requirements for assessing and reporting on controls in the federal government. The term internal control in this document covers all aspects of an entity's objectives (operations, reporting, and compliance).

The Green Book may also be adopted by state, local, and quasi-governmental entities, as well as not-for-profit organizations, as a framework for an internal control system. Management of an entity determines, based on applicable laws and regulations, how to appropriately adapt the standards presented in the Green Book as a framework for the entity.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) updated its internal control guidance in 2013 with the issuance of a revised Internal Control - Integrated Framework.[Footnote 1] COSO

introduced the concept of principles related to the five components of internal control. The Green Book adapts these principles for a government environment.

The standards are effective beginning with fiscal year 2016 and the FMFIA reports covering that year. Management, at its discretion, may elect early adoption of the Green Book.

This revision of the standards has gone through an extensive deliberative process, including public comments and input from the Comptroller General's Advisory Council on Standards for Internal Control in the Federal Government. The advisory council consists of about 20 experts in financial and performance management drawn from federal, state, and local government; the private sector; and academia. The views of all parties were thoroughly considered in finalizing the standards.

I appreciate the efforts of government officials, public accounting professionals, and other members of the audit and academic communities who provided valuable assistance in developing these standards. I extend special thanks to the members of the Advisory Council on Standards for Internal Control in the Federal Government for their extensive input and feedback throughout the entire process of developing and finalizing the standards.

Signed by:

Gene L. Dodaro:  
Comptroller General of the United States:  
September 2014:

[End of Foreword]

How to Use the Green Book:

The Green Book provides managers criteria for designing, implementing, and operating an effective internal control system. The Green Book defines the standards through components and principles and explains why they are integral to an entity's internal control system. The Green Book clarifies what processes management considers part of internal control. In a mature and highly effective internal control system, internal control may be indistinguishable from day-to-day activities personnel perform.

The Green Book is structured as follows:

1. An Overview, which includes the following sections:

\* Section 1: an overview of the fundamental concepts of internal control:

\* Section 2: a discussion of internal control components, principles, and attributes; how these relate to an entity's objectives; and the three categories of objectives:

\* Section 3: a discussion of the evaluation of the entity's internal control system's design, implementation, and operation:

\* Section 4: additional considerations that apply to all components in an internal control system:

2. A discussion of the requirements for each of the five components and 17 principles as well as discussion of the related attributes, including documentation requirements.

The Green Book clearly indicates the component and principle requirements through the use of "must" and "should." Further discussion of these requirements is included in section 2 of the Overview. Documentation requirements are summarized in section 4 of the Overview.

Figure 1 depicts a sample page from the Green Book. This illustration identifies the components, principles, and attributes of the Green Book, which are further discussed in section 2 of the Overview.

Figure 1: Green Book Sample Page:

[Refer to PDF for image: illustration]

Component: listed at top of the page.

Principle: First heading.

Attributes: described under the principle.

Source: GAO. GAO-14-704G.

[End of figure]

Section 1 - Fundamental Concepts of Internal Control:

Definition of Internal Control:

OV1.01

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved (see figure 2).

These objectives and related risks can be broadly classified into one or more of the following three categories:

\* Operations - Effectiveness and efficiency of operations:

\* Reporting - Reliability of reporting for internal and external use:

\* Compliance - Compliance with applicable laws and regulations:

Figure 2: Achieving Objectives through Internal Control:

[Refer to PDF for image: illustration]

Objective identified;

Controls designed;

Controls in place;

Objective achieved.

Source: GAO. GAO-14-704G.

[End of figure]

OV1.02

These are distinct but overlapping categories. A particular objective can fall under more than one category, can address different needs, and may be the direct responsibility of different individuals.

OV1.03

Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of public resources.

Definition of an Internal Control System:

OV1.04

An internal control system is a continuous built-in component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that an entity's objectives will be achieved.

OV1.05

Internal control is not one event, but a series of actions that occur throughout an entity's operations. Internal control is recognized as an integral part of the operational processes management uses to guide its operations rather than as a separate system within an entity. In this sense, internal control is built into the entity as a part of the organizational structure to help managers achieve the entity's objectives on an ongoing basis.

OV1.06

People are what make internal control work. Management is responsible for an effective internal control system. As part of this responsibility, management sets the entity's objectives, implements controls, and evaluates the internal control system. However, personnel throughout an entity play important roles in implementing and operating an effective internal control system.

OV1.07

An effective internal control system increases the likelihood that an entity will achieve its objectives. However, no matter how well designed, implemented, or operated, an internal control system cannot provide absolute assurance that all of an organization's objectives will be met. Factors outside the control or influence of management can affect the entity's ability to achieve all of its objectives. For example, a natural disaster can affect an organization's ability to achieve its objectives. Therefore, once in place, effective internal control provides reasonable, not absolute, assurance that an organization will achieve its objectives.

[End of section]

Section 2 - Establishing an Effective Internal Control System:

## Presentation of Standards:

### OV2.01

The Green Book defines the standards for internal control in the federal government. FMFIA requires federal executive branch entities to establish internal control in accordance with these standards. The standards provide criteria for assessing the design, implementation, and operating effectiveness of internal control in federal government entities to determine if an internal control system is effective. Nonfederal entities may use the Green Book as a framework to design, implement, and operate an internal control system.[Footnote 2]

### OV2.02

The Green Book applies to all of an entity's objectives: operations, reporting, and compliance. However, these standards are not intended to limit or interfere with duly granted authority related to legislation, rulemaking, or other discretionary policy making in an organization. In implementing the Green Book, management is responsible for designing the policies and procedures to fit an entity's circumstances and building them in as an integral part of the entity's operations.

## Components, Principles, and Attributes:

### OV2.03

An entity determines its mission, sets a strategic plan, establishes entity objectives, and formulates plans to achieve its objectives. Management, with oversight from the entity's oversight body, may set objectives for an entity as a whole or target activities within the entity. Management uses internal control to help the organization achieve these objectives. While there are different ways to present internal control, the Green Book approaches internal control through a hierarchical structure of five components and 17 principles. The hierarchy includes requirements for establishing an effective internal control system, including specific documentation requirements.

### OV2.04

The five components represent the highest level of the hierarchy of standards for internal control in the federal government. The five components of internal control must be effectively designed, implemented, and operating, and operating together in an integrated manner, for an internal control system to be effective. The five components of internal control are as follows:

\* Control Environment - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

\* Risk Assessment - Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.

\* Control Activities - The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.

\* Information and Communication - The quality information management and personnel communicate and use to support the internal control system.

\* Monitoring - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

OV2.05

The 17 principles support the effective design, implementation, and operation of the associated components and represent requirements necessary to establish an effective internal control system.

OV2.06

In general, all components and principles are relevant for establishing an effective internal control system. In rare circumstances, there may be an operating or regulatory situation in which management has determined that a principle is not relevant for the entity to achieve its objectives and address related risks. If management determines that a principle is not relevant, management supports that determination with documentation that includes the rationale of how, in the absence of that principle, the associated component could be designed, implemented, and operated effectively. In addition to principle requirements, the Green Book contains documentation requirements.

OV2.07

The Green Book contains additional information in the form of attributes. These attributes are intended to help organize the application material management may consider when designing, implementing, and operating the associated principles. Attributes provide further explanation of the principle and documentation requirements and may explain more precisely what a requirement means and what it is intended to cover, or include examples of procedures that may be appropriate for an entity. Attributes may also provide background information on matters addressed in the Green Book.

OV2.08

Attributes are relevant to the proper implementation of the Green Book. Management has a responsibility to understand the attributes and exercise judgment in fulfilling the requirements of the standards. The Green Book, however, does not prescribe how management designs, implements, and operates an internal control system.

OV2.09

Figure 3 lists the five components of internal control and 17 related principles.

Figure 3: The Five Components and 17 Principles of Internal Control:

[Refer to PDF for image: list]

Control Environment:

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.

2. The oversight body should oversee the entity's internal control system.

3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.

4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.

5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

#### Risk Assessment:

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.

7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.

8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.

9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.

#### Control Activities:

10. Management should design control activities to achieve objectives and respond to risks.

11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.

12. Management should implement control activities through policies.

#### Information and Communication:

13. Management should use quality information to achieve the entity's objectives.

14. Management should internally communicate the necessary quality information to achieve the entity's objectives.

15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

#### Monitoring:

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

17. Management should remediate identified internal control deficiencies on a timely basis.

Source: GAO. GAO-14-704G.

[End of figure]

Internal Control and the Entity:

OV2.10

A direct relationship exists among an entity's objectives, the five components of internal control, and the organizational structure of an entity. Objectives are what an entity wants to achieve. The five components of internal control are what are required of the entity to achieve the objectives. Organizational structure encompasses the operating units, operational processes, and other structures management uses to achieve the objectives. This relationship is depicted in the form of a cube developed by COSO (see figure 4).

[Footnote 3]

Figure 4: The Components, Objectives, and Organizational Structure of Internal Control:

[Refer to PDF for image: illustration of the cube]

Source: GAO. GAO-14-704G.

[End of figure]

OV2.11

The three categories into which an entity's objectives can be classified are represented by the columns labeled on top of the cube. The five components of internal control are represented by the rows. The organizational structure is represented by the third dimension of the cube.

OV2.12

Each component of internal control applies to all three categories of objectives and the organizational structure. The principles support the components of internal control (see figure 5).

Figure 5: The 17 Principles Supporting the Five Components of Internal Control:

[Refer to PDF for image: illustration]

Control Environment: 5 principles; Risk Assessment: 4 principles; Control Activities: 3 principles; Information and Communication: 3 principles; Monitoring: 2 principles.

Source: GAO. GAO-14-704G.

[End of figure]

OV2.13

Internal control is a dynamic, iterative, and integrated process in which components impact the design, implementation, and operating effectiveness of each other. No two entities will have an identical internal control system because of differences in factors such as mission, regulatory environment, strategic plan, entity size, risk



tolerance, and information technology, and the judgment needed in responding to these differing factors.

Roles in an Internal Control System:

OV2.14

Because internal control is a part of management's overall responsibility, the five components are discussed in the context of the management of the entity. However, everyone in the entity has a responsibility for internal control. In general, roles in an entity's internal control system can be categorized as follows:

\* Oversight body - The oversight body is responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing management's design, implementation, and operation of an internal control system. For some entities, an oversight body might be one or a few members of senior management. For other entities, multiple parties may be members of the entity's oversight body. For the purpose of the Green Book, oversight by an oversight body is implicit in each component and principle.

\* Management - Management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of an entity's internal control system. Managers' responsibilities vary depending on their functions in the organizational structure.

\* Personnel - Personnel help management design, implement, and operate an internal control system and are responsible for reporting issues noted in the entity's operations, reporting, or compliance objectives. [Footnote 4]

OV2.15

External auditors and the office of the inspector general (OIG), if applicable, are not considered a part of an entity's internal control system. While management may evaluate and incorporate recommendations by external auditors and the OIG, responsibility for an entity's internal control system resides with management.

Objectives of an Entity:

OV2.16

Management, with oversight by an oversight body, sets objectives to meet the entity's mission, strategic plan, and goals and requirements of applicable laws and regulations. Management sets objectives before designing an entity's internal control system. Management may include setting objectives as part of the strategic planning process.

OV2.17

Management, as part of designing an internal control system, defines the objectives in specific and measurable terms to enable management to identify, analyze, and respond to risks related to achieving those objectives.

Categories of Objectives:

#### OV2.18

Management groups objectives into one or more of the three categories of objectives:

- \* Operations - Effectiveness and efficiency of operations:
- \* Reporting - Reliability of reporting for internal and external use:
- \* Compliance - Compliance with applicable laws and regulations:

Operations Objectives:

#### OV2.19

Operations objectives relate to program operations that achieve an entity's mission. An entity's mission may be defined in a strategic plan. Such plans set the goals and objectives for an entity along with the effective and efficient operations necessary to fulfill those objectives. Effective operations produce the intended results from operational processes, while efficient operations do so in a manner that minimizes the waste of resources.

#### OV2.20

Management can set, from the objectives, related subobjectives for units within the organizational structure. By linking objectives throughout the entity to the mission, management improves the effectiveness and efficiency of program operations in achieving the mission.

Reporting Objectives:

#### OV2.21

Reporting objectives relate to the preparation of reports for use by the entity, its stakeholders, or other external parties. Reporting objectives may be grouped further into the following subcategories:

- \* External financial reporting objectives - Objectives related to the release of the entity's financial performance in accordance with professional standards, applicable laws and regulations, as well as expectations of stakeholders.
- \* External nonfinancial reporting objectives - Objectives related to the release of nonfinancial information in accordance with appropriate standards, applicable laws and regulations, as well as expectations of stakeholders.
- \* Internal financial reporting objectives and nonfinancial reporting objectives - Objectives related to gathering and communicating information needed by management to support decision making and evaluation of the entity's performance.

Compliance Objectives:

#### OV2.22

In the government sector, objectives related to compliance with applicable laws and regulations are very significant. Laws and regulations often prescribe a government entity's objectives, structure, methods to achieve objectives, and reporting of performance

relative to achieving objectives. Management considers objectives in the category of compliance comprehensively for the entity and determines what controls are necessary to design, implement, and operate for the entity to achieve these objectives effectively.

#### OV2.23

Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements. Some entities may set objectives to a higher level of performance than established by laws and regulations. In setting those objectives, management is able to exercise discretion relative to the performance of the entity.

#### Safeguarding of Assets:

#### OV2.24

A subset of the three categories of objectives is the safeguarding of assets. Management designs an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets.

#### Setting Subobjectives:

#### OV2.25

Management can develop from objectives more specific subobjectives throughout the organizational structure. Management defines subobjectives in specific and measurable terms that can be communicated to the personnel who are assigned responsibility to achieve these subobjectives. Both management and personnel require an understanding of an objective, its subobjectives, and defined levels of performance for accountability in an internal control system.

[End of section]

#### Section 3 - Evaluation of an Effective Internal Control System:

#### OV3.01

The purpose of this section is to provide management with factors to consider in evaluating the effectiveness of an internal control system. For federal entities, OMB Circular No. A-123 provides specific requirements on how to perform evaluations and report on internal control in the federal government. Nonfederal entities may refer to applicable laws and regulations as well as input from key external stakeholders when determining how to appropriately evaluate and report on internal control.

#### Factors of Effective Internal Control:

#### OV3.02

An effective internal control system provides reasonable assurance that the organization will achieve its objectives. As stated in section 2 of the Overview, an effective internal control system has:

\* each of the five components of internal control effectively

designed, implemented, and operating and:

\* the five components operating together in an integrated manner.

#### OV3.03

To determine if an internal control system is effective, management assesses the design, implementation, and operating effectiveness of the five components and 17 principles. If a principle or component is not effective, or the components are not operating together in an integrated manner, then an internal control system cannot be effective.

#### Evaluation of Internal Control:

#### OV3.04

In the federal government, FMFIA mandates that the head of each executive branch agency annually prepare a statement as to whether the agency's systems of internal accounting and administrative controls comply with the requirements of the act. If the systems do not comply, the head of the agency will prepare a report in which any material weaknesses in the agency's system of internal accounting and administrative control are identified and the plans and schedule for correcting any such weakness are described. OMB issues guidance for evaluating these requirements in OMB Circular No. A-123. Nonfederal entities may refer to applicable laws and regulations for guidance in preparing statements regarding internal control.

#### Design and Implementation:

#### OV3.05

When evaluating design of internal control, management determines if controls individually and in combination with other controls are capable of achieving an objective and addressing related risks. When evaluating implementation, management determines if the control exists and if the entity has placed the control into operation. A control cannot be effectively implemented if it was not effectively designed. A deficiency in design exists when (1) a control necessary to meet a control objective is missing or (2) an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in implementation exists when a properly designed control is not implemented correctly in the internal control system.

#### Operating Effectiveness:

#### OV3.06

In evaluating operating effectiveness, management determines if controls were applied at relevant times during the period under evaluation, the consistency with which they were applied, and by whom or by what means they were applied. If substantially different controls were used at different times during the period under evaluation, management evaluates operating effectiveness separately for each unique control system. A control cannot be effectively operating if it was not effectively designed and implemented. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

## Effect of Deficiencies on the Internal Control System:

### OV3.07

Management evaluates control deficiencies identified by management's ongoing monitoring of the internal control system as well as any separate evaluations performed by both internal and external sources. A deficiency in internal control exists when the design, implementation, or operation of a control does not allow management or personnel, in the normal course of performing their assigned functions, to achieve control objectives and address related risks.

### OV3.08

Management evaluates the significance of identified deficiencies. Significance refers to the relative importance of a deficiency to the entity's achieving a defined objective. To evaluate the significance of the deficiency, management assesses its effect on achieving the defined objectives at both the entity and transaction level. Management evaluates the significance of a deficiency by considering the magnitude of impact, likelihood of occurrence, and nature of the deficiency. Magnitude of impact refers to the likely effect that the deficiency could have on the entity achieving its objectives and is affected by factors such as the size, pace, and duration of the deficiency's impact. A deficiency may be more significant to one objective than another. Likelihood of occurrence refers to the possibility of a deficiency impacting an entity's ability to achieve its objectives. The nature of the deficiency involves factors such as the degree of subjectivity involved with the deficiency and whether the deficiency arises from fraud or misconduct. The oversight body oversees management's evaluation of the significance of deficiencies so that deficiencies have been properly considered.

### OV3.09

Deficiencies are evaluated both on an individual basis and in the aggregate. Management considers the correlation among different deficiencies or groups of deficiencies when evaluating their significance. Deficiency evaluation varies by entity because of differences in entities' objectives.

### OV3.10

For each principle, management makes a summary determination as to whether the principle is designed, implemented, and operating effectively. Management considers the impact of deficiencies identified in achieving documentation requirements as part of this summary determination. [Footnote 5] Management may consider the related attributes as part of this summary determination. If a principle is not designed, implemented, or operating effectively, then the respective component cannot be effective.

### OV3.11

Based on the results of the summary determination for each principle, management concludes on the design, implementation, and operating effectiveness of each of the five components of internal control. Management also considers if the five components operate together effectively. If one or more of the five components are not effectively designed, implemented, or operating effectively or if they are not operating together in an integrated manner, then an internal control

system is ineffective. Judgment is used in making such determinations, which includes exercising reasonable care.

[End of section]

#### Section 4 - Additional Considerations:

##### Service Organizations:

###### OV4.01

Management may engage external parties to perform certain operational processes for the entity, such as accounting and payroll processing, security services, or health care claims processing. For the purpose of the Green Book, these external parties are referred to as service organizations. Management, however, retains responsibility for the performance of processes assigned to service organizations. Therefore, management needs to understand the controls each service organization has designed, has implemented, and operates for the assigned operational process and how the service organization's internal control system impacts the entity's internal control system.

###### OV4.02

If controls performed by the service organization are necessary for the entity to achieve its objectives and address risks related to the assigned operational process, the entity's internal controls may include complementary user entity controls identified by the service organization or its auditors that are necessary to achieve the service organization's control objectives.

###### OV4.03

Management may consider the following when determining the extent of oversight for the operational processes assigned to the service organization:

- \* The nature of services outsourced:
- \* The service organization's standards of conduct:
- \* The quality and frequency of the service organization's enforcement of adherence to standards of conduct by its personnel:
- \* The magnitude and level of complexity of the entity's operations and organizational structure:
- \* The extent to which the entity's internal controls are sufficient so that the entity achieves its objectives and addresses risks related to the assigned operational process:

##### Large versus Small Entities:

###### OV4.04

The 17 principles apply to both large and small entities. However, smaller entities may have different implementation approaches than larger entities. Smaller entities typically have unique advantages, which can contribute to an effective internal control system. These may include a higher level of involvement by management in operational processes and direct interaction with personnel. Smaller entities may

find informal staff meetings effective for communicating quality information, whereas larger entities may need more formal mechanisms-- such as written reports, intranet portals, or periodic formal meetings--to communicate with the organization.

#### OV4.05

A smaller entity, however, faces greater challenges in segregating duties because of its concentration of responsibilities and authorities in the organizational structure.[Footnote 6] Management, however, can respond to this increased risk through the design of the internal control system, such as by adding additional levels of review for key operational processes, reviewing randomly selected transactions and their supporting documentation, taking periodic asset counts, or checking supervisor reconciliations.

#### Benefits and Costs of Internal Control:

#### OV4.06

Internal control provides many benefits to an entity. It provides management with added confidence regarding the achievement of objectives, provides feedback on how effectively an entity is operating, and helps reduce risks affecting the achievement of the entity's objectives. Management considers a variety of cost factors in relation to expected benefits when designing and implementing internal controls. The complexity of cost-benefit determination is compounded by the interrelationship of controls with operational processes. Where controls are integrated with operational processes, it is difficult to isolate either their costs or benefits.

#### OV4.07

Management may decide how an entity evaluates the costs versus benefits of various approaches to implementing an effective internal control system. However, cost alone is not an acceptable reason to avoid implementing internal controls. Management is responsible for meeting internal control objectives. The costs versus benefits considerations support management's ability to effectively design, implement, and operate an internal control system that balances the allocation of resources in relation to the areas of greatest risk, complexity, or other factors relevant to achieving the entity's objectives.

#### Documentation Requirements:

#### OV4.08

Documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Management uses judgment in determining the extent of documentation that is needed. Documentation is required for the effective design, implementation, and operating effectiveness of an entity's internal control system. The Green Book includes minimum documentation requirements as follows:

\* If management determines that a principle is not relevant, management supports that determination with documentation that includes the rationale of how, in the absence of that principle, the associated component could be designed, implemented, and operated

effectively. (paragraph OV2.06):

\* Management develops and maintains documentation of its internal control system. (paragraph 3.09):

\* Management documents in policies the internal control responsibilities of the organization. (paragraph 12.02):

\* Management evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues. (paragraph 16.09):

\* Management evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies on a timely basis. (paragraph 17.05):

\* Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis. (paragraph 17.06):

#### OV4.09

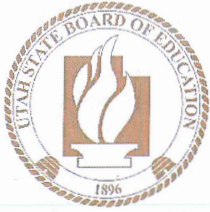
These requirements represent the minimum level of documentation in an entity's internal control system. Management exercises judgment in determining what additional documentation may be necessary for an effective internal control system. If management identifies deficiencies in achieving these documentation requirements, the effect of the identified deficiencies is considered as part of management's summary determination as to whether the related principle is designed, implemented, and operating effectively.

#### Use by Other Entities:

OV4.10 The Green Book may be applied as a framework for an internal control system for state, local, and quasi-governmental entities, as well as not-for-profit organizations. If management elects to adopt the Green Book as criteria, management follows all relevant requirements presented in these standards.



## Appendix E Management Response



# UTAH STATE BOARD OF EDUCATION

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October 2, 2019

Debbie Davis, CPA  
Chief Audit Executive  
Utah State Board of Education  
250 East 500 South  
Salt Lake City, UT 84114

Dear Ms. Davis:

The Utah State Board of Education (USBE) administration appreciates the close collaboration between the Board Internal Audit staff and the USBE program and operations staff in performing audits to assess risk and identify opportunities for improvement. We appreciate the opportunity to respond to the School Safety Audit.

- 1- **Recommendation:** The USBE should evaluate its accountability framework given internal control concerns appear to be recurring (see 19-01 Year End Financial Close, 18-06 Utah Science Technology and Research Initiative Centers Program, and 18-02 School Fees). The accountability framework should include proper design, implementation, and monitoring for operational effectiveness to ensure statutory requirements and performance outcomes can be met.  
**Response: USBE staff agree and are undertaking this process and working towards a better model.**
- 2- **Recommendation:** The USBE should decide upon a method to collect the required data elements in Utah Code Ann. §53E-3-516 as reported to the LEA by local law enforcement and design and implement formal, comprehensive policies and procedures to ensure data is collected. If questions still exist regarding the legality of collecting some data elements, the USBE should work with the Legislature to obtain additional clarity.  
**Response: USBE staff agrees and is currently working towards the accomplishment of this recommendation as noted in the audit.**
- 3- **Recommendation:** Internal Audit is aware the USBE has taken some steps to ensure LEAs are reporting data, as evident in the table above; however, the USBE should consider clarifying data reporting requirements, ensuring LEAs are aware of data reporting requirements, and establishing an effective monitoring system to ensure all LEAs report data and that reported data is accurate and reliable. In the event LEAs do not report data, the USBE should consider corrective action consistent with Utah Admin. Code R277-114 and/or Utah Code Ann. § 53E-3- 401(8)(a)(ii).

**Response: USBE staff is currently working towards this through establishing clear definitions for standardization of data reporting and monitoring.**

- 4- **Recommendation:** The USBE should design and implement formal, comprehensive policies and procedures to ensure required rules are released within required timelines.

**Response: USBE staff agrees and is working towards creating clear timelines and expectations.**

- 5- **Recommendation:** The USBE should update model policies to reflect current regulatory requirements and communicate those changes to LEAs. Further, the USBE should design and implement formal, comprehensive policies and procedures to ensure model policies will be regularly updated as required in statute.

**Response: USBE staff agrees and is working towards implementing these recommendations.**

The USBE is committed to utilizing data and resources for the continuous improvement of public education that will benefit the students and citizens of the State of Utah.

Sincerely,



Patty Norman  
Deputy Superintendent of Student Achievement  
Utah State Board of Education

cc: Brittney Cummins, Audit Committee Chair, Utah State Board of Education  
Sydnee Dickson, USBE, State Superintendent of Public Instruction