



Utah State Board of Education  
Internal Audit Department

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**USBE and LEA Internal Control Systems**

20-01

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Report No. 20-01

## **USBE and LEA Internal Control Systems**

December 3, 2020

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**Audit Performed by:**

Chief Audit Executive      Debbie Davis, CPA

Audit Manager              Kevin John, CFE

Auditor                        Barbie Faust

Auditor                        Samuel Allan, CIA

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December 3, 2020

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

Dear Chair Huntsman,

On February 8, 2019, 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 of the internal control systems at the Utah State Board of Education (USBE) and local education agencies (LEAs). The audit is to specifically consider the systems' capability to ensure compliance with laws and regulations. IA started the audit in October 2019 once resources became available. IA obtained relevant documentation from the staff of the Utah State Board of Education (USBE) and a selection of sixteen local education agencies (LEAs) and performed the following procedures:

1. Gained an understanding, through research and inquiry, of applicable state code, administrative code, and internal control best practices
2. Reviewed and analyzed systems of internal control within the USBE and LEAs
3. Performed a compliance review of four distinct areas of applicable laws and regulations
4. Assessed the performance of the internal control systems

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

Internal audits are conducted in conformance 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 and the LEAs reviewed do not demonstrate various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the staff of the USBE and the LEAs during the audit. A response to the audit is provided by the USBE and is included in Appendix E.

This report is intended for the information and use of the USBE and LEAs. 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. Audit Objective, Scope, and Methodology

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In the February 8, 2019 Board meeting, the Board approved an audit of the systems of internal control at the Utah State Board of Education (USB E) and local education agencies (LEAs). The audit was started in October 2019 once resources became available. The audit’s objective was to specifically consider an education entity’s ability (i.e., internal control system) to comply with evolving and new regulations and to identify areas of improvement. The scope of the audit included the USB E and a selection of local education agencies (i.e., five districts and 11 charter schools). See *Appendix A – Audit Methodology* for details regarding the methodology used to conduct the audit.

## II. What is Internal Control?

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### Internal Control, Precedence

In 1992, The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released a report titled *Internal Control – Integrated Framework* that provided a framework to identify effective ways for oversight bodies to govern and administrative bodies to manage their entities and help ensure that organizational objectives related to operations, reporting, and compliance are achieved. Since 1992, the framework has been adopted and adapted to suit the needs of both private and public entities.

One adaptation of the framework was done by the United States Government Accountability Office. In September of 2014, the Comptroller General of the United States (US Comptroller) released *Standards for Internal Control in the Federal Government*, commonly referred to as the [Green Book](#), effective October, 2015. In the Green Book foreword, Gene L. Dodaro, US Comptroller states, “An effective internal control system helps an entity adapt to shifting environments, evolving demands, changing risks, and new priorities” and that “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.”

In the Green Book, the internal control standards are organized by five components, with each component having multiple principles. The five components apply to staff at all levels of an entity and include:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication, and
5. Monitoring

Overall, all components and principles are important in establishing an effective system of internal control. If a component or principle is not effective and/or not operating in an integrated manner, then an internal control system will not be fully effective.

## Internal Control, Application

Entities within the Utah public education system participate in a variety of [assurance services](#). These services, such as monitoring and audits, are designed to promote accountability, evaluate compliance with state and federal regulations, and assess performance. Although many of the assurance services provide a review of internal control, each is limited in scope.

Recently, federal and state governments, have considered the importance of internal control systems. In December of 2014, the Federal Government implemented The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (i.e., Uniform Guidance). The Uniform Guidance sets forth the rules and requirements for Federal awards and aims to reduce the burden on award recipients while safeguarding Federal funds. One way in which this is achieved is found in the requirement to establish and maintain effective internal controls over the Federal award (2 CFR §200.303).

In August of 2020, the Board revised Utah Admin. Code R277-113 to enhance the requirement of internal control. The revised regulation also requires LEA governing boards to ensure, considering the internal control guidance in the Green Book or the *Internal Control – Integrated Framework*, that their administration establishes and documents their internal control system.

## III. Findings

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Findings are included within this report and 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?

The Recommendation for both findings is summarized and presented in Section V as it pertains to each finding equally.

### A. Internal Control System, USBE

**Criteria:** Internal Control Program FIACCT 20-00.00 A. states, Agencies must establish and maintain sound internal controls based on the five components of internal control.

2 CFR §200.303 Internal controls states, the non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Standards for Internal Control in the Federal Government OV2.14 states,

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.

Standards for Internal Control in the Federal Government OV2.04 states,

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 (see OV2.09):

- a. Control Environment - The control environment is the foundation for an internal control system. It provides the discipline and structure, which affect the overall quality of internal control. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control.

Principles:

- 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.
- b. Risk Assessment - Having established an effective control environment, management assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses. Management assesses the risks the entity faces from both external and internal sources.



Principles:

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.

- c. Control Activities - Control activities are 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.

Principles:

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.

- d. Information and Communication - Management uses quality information to support the internal control system. Effective information and communication are vital for an entity to achieve its objectives. Entity management needs access to relevant and reliable communication related to internal as well as external events.

Principles:

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.

- e. Monitoring - Finally, since internal control is a dynamic process that has to be adapted continually to the risks and changes an entity faces, monitoring of the internal control system is essential in helping internal control remain aligned with changing objectives, environment, laws, resources, and risks. Internal control monitoring assesses the quality of performance over time and promptly resolves the findings of audits and other reviews. Corrective actions are a necessary complement to control activities in order to achieve objectives.

Principles:

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.

Standards for Internal Control in the Federal Government OV4.08 states,

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)

**Condition:** The USBE's internal control system, with its associated components, is partially effective in ensuring compliance with applicable rules and regulations. See *Appendix B – Internal Control Maturity Model* for a description of levels of effectiveness by component.

**Cause:** Several components of the internal control system were not effectively designed, implemented, operating, and/or operating together in an integrated manner.

Specifically, we noted the following:

1. Control Environment: Mostly Effective—The USBE has formally established a commitment to integrity and ethical values; however, the establishment has not been implemented consistently throughout the agency. The USBE has also established an organizational structure with assigned roles, responsibilities, and delegated authority; however, management has not formally established a consistent method to evaluate performance, develop competent individuals, and

hold individuals accountable for their internal control responsibilities. Finally, internal control does not appear to be a well understood practice and system at all levels within the USBE.

2. Risk Assessment: Partially Effective—In the past, the USBE attempted to design and implement a formal risk assessment. The most recent attempt was put on hold pending completion of the USBE strategic plan; therefore, the USBE does not currently have a formal, entity-wide risk assessment process to clearly identify and define objectives and identify, analyze, and respond to risks. The USBE relies on informal, siloed risk assessment processes.
3. Control Activities: Partially Effective—The USBE has made progress in formally designing and implementing control activities (i.e., policies and procedures); however, the USBE still lacks some necessary (i.e., comprehensive, current, risk-based) policies and procedures to help ensure achievement of objectives (e.g., compliance with applicable regulations).
4. Information and Communication: Partially Effective—Relevant data is not communicated in a timely manner to ensure compliance with regulatory requirements. Information and communication tools are ineffective and/or unreliable and data is not collected timely.
5. Monitoring: Partially Effective—Although the USBE has established some monitoring activities (i.e., ongoing monitoring and separate evaluations), it lacks comprehensive and formal ongoing monitoring activities to review the internal control system. Additionally, some monitoring activities reviewed appeared to be ineffective. Specifically, we noted:
  - a. Three out of three (100%) 2019 Internal Control Questionnaires (ICQ) required to be completed and retained by the USBE were not completed.
  - b. Two of the three (66%) 2019 ICQs required to be submitted to State Finance were not completed.

Since bringing this to the USBE Financial Operations attention, the USBE has taken steps to rectify concerns identified with the ICQ program. To date in 2020, the USBE has completed the required ICQs.

**Effect:** Possible effects include:

1. Operations will be less efficient and effective, information about the operations will be less reliable for both internal and external users, and there will be a greater risk of noncompliance with applicable laws and regulations. Observed occurrences of unreliable information, inefficiency, and/or noncompliance include:
  - a. The USBE did not comply with 12 out of 32 (38%) compliance requirements tested. See *Appendix C – Table of Compliance, USBE* for complete details. A few examples are provided below.
    - i. The USBE has not developed comprehensive emergency response plan models, though the requirement to develop model plans has been in effect since August 1, 2000.
    - ii. The December 5, 2019 USBE board meeting minutes were approved at the January 8, 2020 board meeting. The minutes were not posted to the public notice website until April 22, 2020.

- iii. The USBE did not prepare and submit a report on the state board's strategic efforts to address counseling services in schools to the Education Interim Committee by November 30, 2019.
  - b. In response to a programming issue, the School LAND Trust (SLT) team extended the October 20, 2019 deadline for School LAND Trust reports without getting board approval or a board waiver.
  - c. Four (12%) of the 33 unique administrative rules that were referenced on the 2019-20 Assurance Checklist at the time of this review were obsolete. Website links to the Assurance Checklists in R277-108 linked to the wrong documents.
  - d. Rules were published without clearly stated objectives (e.g., R277-477, district School Land Trust plan approval dates were included but submission dates were not) and obsolete requirements of Utah Code were left in Rule even after the amendment process (e.g., R277-477-8 (6)).
- 2. A questionable use of time and resources in developing rules and laws that are not followed or followed well.
- 3. A lack of confidence and trust from policy makers, taxpayers, and participants of public education.

## B. Internal Control System, LEA

**Criteria:** For applicable regulations, see finding a. Internal Control System, USBE, Criteria.

Although not in effect during the scope of the audit, effective August 12, 2020, the Board moved to amend Utah Admin. Code R277-113-6 LEA Governing Board Fiscal Responsibilities, which now states,

(1) An LEA governing board shall have the following responsibilities:

(b) ensure, considering guidance in "Standards for Internal Control in the Federal Government," issued by the Comptroller General of the United States or the "Internal Control Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission, that LEA administration establish, document, and maintain an effective internal control system for the LEA.

**Condition:** Three out of 16 (19%) LEAs' internal control systems, with their associated components, are mostly effective in ensuring compliance with applicable rules and regulations. Thirteen out of 16 (81%) LEAs' internal control systems are partially effective in ensuring compliance with applicable rules and regulations. See *Appendix B – Internal Control Maturity Model* for a description of levels of effectiveness by component.

**Cause:** One or more components of the internal control system were not effectively designed, implemented, operating, and/or operating together in an integrated manner.

Specifically, we noted the following:

1. Control Environment: Nine out of 16 (56%) LEAs have control environments that are mostly effective while seven out of 16 (44%) LEAs have partially effective control environments. Examples of observations include:
  - a. Areas where no structure (i.e., assignment of responsibilities and delegation of authority) was put in place to ensure compliance,
  - b. A potential lack of commitment to integrity and ethical values and/or lack of competence and communication (i.e., an LEA representative statement later proved to be false),
  - c. A perceived indifference on complying with applicable regulations, possibly due to the overwhelming number of regulations,
  - d. Oversight bodies (e.g., local board) relied too heavily upon management for training and direction, and
  - e. A questionable level of accountability given the high percentages of noncompliance identified.
2. Risk Assessment: Two out of 16 (13%) LEAs' risk assessments are mostly effective; 13 out of 16 (81%) are partially effective; and one out of 16 (6%) is not effective. Examples include:
  - a. A lack of formal risk assessment processes to clearly identify and define objectives and identify, analyze, and respond to risks, and
  - b. A heavy reliance on the USBE or other outside parties to notify LEAs of changes to applicable regulations. In one instance (i.e., R277-464), ten out of 16 (63%) LEAs were unaware of the rule, its requirements, and/or its effective date.
3. Control Activities: Two out of 16 (12.5%) LEAs have control activities that are mostly effective while 14 out of 16 (87.5%) LEAs' have partially effective control activities. Necessary control activities are frequently not documented in policies and procedures or implemented. Some implemented control activities are not adequate (i.e., comprehensive, current, risk-based) to ensure compliance with applicable regulations and in extreme cases the control activities ensure the LEA will be out of compliance (e.g., policies and procedures designed to ensure the LEA will miss reporting deadlines).
4. Information and Communication: Two out of 16 (12.5%) LEAs have information and communication that are mostly effective while 14 out of 16 (87.5%) LEAs have information and communication that are partially effective. Required information is not being collected or appropriately disseminated in a timely manner. Internal and external communication is insufficient.
5. Monitoring: Fifteen out of 16 (94%) LEAs monitoring is partially effective while one out of 16 (6%) LEAs has monitoring that is not effective. Monitoring activities are limited. Existing activities are typically informal and do not comprehensively analyze the operational effectiveness of the internal control system, relying heavily upon self-reporting.

**Effect:** Possible effects include:

1. The LEAs' operations will be less efficient and effective, information about the operations will be less reliable for both internal and external users, and there will be a greater risk of

noncompliance with applicable laws and regulations. Examples of unreliable information, inefficiency, and/or noncompliance include:

- a. Using 51 different compliance requirements, with an average of 47 requirements per LEA, for a total of 749 requirements reviewed, we identified 296 (40%) occurrences of noncompliance. See *Appendix D – Table of Compliance, LEAs* for details. The LEAs' rate of noncompliance ranged from 27% to 50% with an average rate of 39%. A few examples are provided below.
    - i. Three out of 16 (19%) LEAs did not have a parent-student reunification plan for their schools. Of the remaining 13 LEAs, seven (54%) have reunification plans for their schools, but 19 of the 26 (73%) schools reviewed in those LEAs have not published the reunification plan on the school's website.
    - ii. Ten out of 13 (77%) LEAs that held a closed meeting did not announce and enter into the minutes of the open meeting the location where the closed meeting will be held.
    - iii. 16 out of 16 (100%) approving entities (i.e., local boards) do not ensure School Land Trust plans are compliant with statute and rule prior to submitting them to the USBE.
    - iv. 16 out of 16 (100%) LEAs do not ensure school counselor services are within the distribution designated by R277-464-4.
  - b. Twelve out of 16 (75%) LEAs submitted School Land Trust plans, but due to compliance concerns and/or goal-writing abilities, the plans were returned to the LEA/school for necessary corrections prior to being approved by School Children Trust staff.
  - c. Ten out of 16 (62%) LEAs submitted final School Land Trust reports included inconsistent data (e.g., principal's data did not align with the Business Administrator's data).
  - d. Nine out of 16 (56%) LEAs tested have inconsistencies within their School Land Trust principal's assurance form.
  - e. Five out of five (100%) LEAs who provided an explanation, consistent with Rule, of why their School Land Trust fund carryover was greater than 10% provided inadequate and unreliable information (e.g., stated, they "did not spend [the] allotted 2018-19 Trust Land Budget").
2. A lack of confidence and trust from policy makers, taxpayers, and participants of public education.
  3. Missed opportunities and/or a negative impact on student outcomes and employee morale.

## IV. Recommendations

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Recommendations are provided as suggestions to address the Conditions and Causes noted above. Although recommendations are provided, it is the responsibility of the respective oversight bodies and management teams to understand the findings and take appropriate corrective action. Recommendations should not be construed as an audit requirement; they are suggestions to help promote continuous improvement that will mitigate the risk of future noncompliance and the other effects noted above.

The USBE and LEAs' management and the oversight bodies (i.e., those responsible for overseeing management's design, implementation, and operation of an internal control system) should ensure a comprehensive understanding of the components, principles, and attributes of an internal control system as found within the Green Book or comparable guidance. Management and the oversight body should evaluate the significance of the deficiencies found within this report, considering both the magnitude of impact and the likelihood that the deficiencies found may have on the entity in achieving its objectives.

Based on the outcome of the evaluation, the oversight body should reevaluate its systems of internal control, specifically focusing on the internal control weaknesses identified within the cause statements of these findings that resulted in the stated effects. Where necessary, the oversight body should direct management to design and implement the five components of internal control.

Management should consider the following, as outlined in the Green Book:

1. Redesign, implement, and document the internal control system. In the event management determines that an internal control principle is not relevant, management should document the rationale for said determination, explaining how the internal control component can effectively operate in absence of the principle. Documentation should assist in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to all staff. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few staff, as well as being a means to communicate that knowledge as needed to external parties, such as external auditors.
2. Define objectives in specific terms, so they are understood at all levels within the entity.
3. Ensure staff at all levels are aware and trained regarding their roles and responsibilities within the internal control system.
4. Monitor the internal control system to ensure the system of internal control is operating efficiently and effectively towards the achievement of the entity's objectives.

Finally, management and the oversight body should determine what, if any, steps can and should be taken to mitigate the areas of noncompliance identified in Appendix C and D.

## V. Appendices

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## Appendix A – Audit Methodology

To determine whether the systems of internal control established within the USBE and LEAs were helping the entities comply with applicable laws and regulations, we used the following methodology:

1. Given limited resources, we selected approximately 10% (16) of LEAs (10% of school districts and 10% of charter schools) for review, in addition to the USBE.
2. We met in-person or via video conferencing with a representative for each of the 17 entities selected to inquire about the entity's overall system of internal control. We asked questions related to the five components of internal control through in-person, survey, and/or video conferencing, which included a request for documentation to support their responses.
3. We analyzed the responses to the initial interviews and surveys to establish an understanding of the entities' design and implementation of their system of internal control. Based on our analysis, each entity was given a preliminary rating using a maturity model (see Appendix B) developed by a chapter of the Institute of Internal Auditors.
4. We selected four areas, representing both static and changing priorities, of applicable laws and regulations the entities are required to follow, which included:
  - a. School Counselor Services – Utah Code Ann. §53E-3-519 and Utah Admin. Code R277-464
  - b. School Land Trust – Utah Admin. Code R277-477, effective July 11, 2016 – June 7, 2018 & effective August 19, 2019 to April 15, 2020
  - c. School Emergency Response Plan – Utah Code Ann. §53G-4-402 (18) and Utah Admin. Code R277-400, effective January 22, 2020
  - d. Open and Public Meetings Act (OPMA) – Utah Code Ann. §52-4

We subjectively chose attributes within the four areas of compliance that

- a. Could be reasonably tested using limited Internal Audit resources,
  - b. Were clearly explained (e.g., precise) to limit misinterpretations of the requirement, and
  - c. Could adequately meet the objective of the audit as quickly as possible.
5. We reviewed each entity's components of internal control as they related to the four areas of compliance noted above.
6. We verified the entities' internal control performance by reviewing each entity's compliance with the identified attributes.
7. Finally, using the internal control maturity model, we reassessed our preliminary rating and assigned each LEA a final level of maturity based on our overall opinion.

**Appendix B**  
**Internal Control Maturity Model**

Maturity Model (Scale, Effectiveness, Frequency)																								
Fully Effective	Mostly Effective	Partially Effective	Not Effective	Fully Effective	Mostly Effective	Partially Effective	Not Effective	Fully Effective	Mostly Effective	Partially Effective	Not Effective	Fully Effective	Mostly Effective	Partially Effective	Not Effective	Fully Effective	Mostly Effective	Partially Effective	Not Effective					
Almost Always	Often	Some-times	Almost Never	Almost Always	Often	Some-times	Almost Never	Almost Always	Often	Some-times	Almost Never	Almost Always	Often	Some-times	Almost Never	Almost Always	Often	Some-times	Almost Never					
5 Internal Control System Components with the 17 Associated Principles																								
Control Environment					Risk Assessment					Control Activities					Information & Communication					Monitoring				
1) The oversight body and management demonstrates a commitment to integrity and ethical values. 2) The oversight body should oversee the entity's internal control system. 3) Management established an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. 4) Management demonstrates a commitment to recruit, develop, and retain competent individuals. 5) Management evaluates performance and hold individuals accountable for their internal control responsibilities.					6) Management defines objectives clearly to enable the identification of risks and define risk tolerances. 7) Management identifies, analyzes, and responds to risks related to achieving the defined objectives. 8) Management considers the potential for fraud when identifying, analyzing, and responding to risks. 9) Management identifies, analyzes, and responds to significant changes that could impact the internal control system.					10) Management designs 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.					13) Management uses quality information to achieve the entity's objectives. 14) Management internally communicates the necessary quality information to achieve the entity's objectives. 15) Management externally communicates the necessary quality information to achieve the entity's objectives.					16) Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results. 17) Management remediates identified internal control deficiencies on a timely basis.				

**Appendix C  
Table of Compliance, USBE**

**Legend**

Exceptions Noted	<b>X</b>
No Exceptions Noted	✓

**USBE - Compliance Summary**

<b>Regulation</b>	<b>Error Rate</b>
53E-3-519 Counselor Services	40%
R277-477 School LAND Trust	33%
R277-400 School Emergency	100%
52-4 Open & Public Meetings Act	36%

**USBE - Compliance Details**

<b>Regulation</b>	<b>Exceptions</b>
53E-3-519(1)	<b>X</b>
53E-3-519(1)(a)	✓
53E-3-519(1)(b)	✓
53E-3-519(1)(c)	✓
53E-3-519(2)	<b>X</b>
R277-477-3(12)(a)	<b>X</b>
R277-477-3(12)(b)	✓
R277-477-5	✓
R277-477-6(3)(b)	<b>X</b>
R277-477-7(1)(a)	<b>X</b>
R277-477-7(1)(b)	✓
R277-477-7(1)(c)	<b>X</b>
R277-477-7(3)(a)	✓
R277-477-7(13)(b)	✓
R277-477-8(2) and (4)	✓
R277-477-8(3)	✓
R277-477-8(5)	✓
R277-477-8(6)	✓
R277-477-8(7)	✓
R277-477-8(8)	<b>X</b>
R277-400-3(6)	<b>X</b>
52-4-104(1)	✓
52-4-202(1)(a)(i)	✓
52-4-202(6)(a)	<b>X</b>
52-4-202(1)(b)(i)-(iv)	✓
52-4-202(2)(a)	<b>X</b>
52-4-203(4)(e)(ii)(A)	<b>X</b>
52-4-204(4)(c)	✓
52-4-204(4)(b)	<b>X</b>
52-4-204(2)	✓
52-4-204(4)(a)	✓
52-4-207	✓
<b>Exceptions</b>	12
<b>Total Attributes Tested</b>	32
<b>Error Rate</b>	38%

## Appendix D Table of Compliance, LEAs

### Legend

Exceptions Noted	X
No Exceptions Noted	✓
Not Applicable/Available	NA

### LEA - Compliance Summary

Regulation	LEA 1	LEA 2	LEA 3	LEA 4	LEA 5	LEA 6	LEA 7	LEA 8	LEA 9	LEA 10	LEA 11	LEA 12	LEA 13	LEA 14	LEA 15	LEA 16	Overall Error Rate
R277-464 Counselor Services	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
R277-477 School LAND Trust	52%	60%	52%	60%	40%	40%	32%	32%	40%	32%	20%	32%	32%	36%	24%	24%	42%
R277-400 School Emergency	67%	17%	67%	33%	42%	0%	33%	58%	50%	33%	42%	25%	50%	50%	25%	42%	42%
52-4 Open & Public Meetings	17%	33%	8%	8%	8%	0%	8%	25%	25%	50%	17%	25%	50%	8%	17%	0%	21%

### LEA - Compliance Details

Regulation	LEA 1	LEA 2	LEA 3	LEA 4	LEA 5	LEA 6	LEA 7	LEA 8	LEA 9	LEA 10	LEA 11	LEA 12	LEA 13	LEA 14	LEA 15	LEA 16	Errors	Total Tested	Error Rate
R277-464-4(1)	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	16	16	100%
R277-464-4(2) and (3)	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	16	16	100%
R277-477-3(3)(c); R277-477-3(11)(c)	✓	X	X	X	✓	X	X	X	X	X	✓	X	X	X	✓	X	12	16	75%
R277-477-3(1)	✓	X	X	✓	✓	X	X	X	✓	✓	✓	✓	✓	X	✓	✓	6	16	38%
R277-477-3(2)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	16	0%
R277-477-3(10)	✓	X	✓	X	✓	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	2	5	40%
R277-477-4(1)	X	X	X	X	X	X	X	X	X	X	✓	X	X	X	X	X	15	16	94%
R277-477-3(11)(a)(i)	X	X	X	X	✓	X	X	X	X	✓	X	X	✓	X	✓	✓	11	16	69%
R277-477-3(11)(a)(iii)	X	X	X	X	X	X	X	X	X	X	✓	X	X	X	✓	X	14	16	88%
R277-477-4(2)	X	X	X	X	X	X	X	X	X	X	X	X	X	NA	✓	X	14	15	93%
R277-477-3(5)	X	✓	✓	X	✓	X	✓	X	X	X	X	X	✓	✓	X	✓	9	16	56%
R277-477-3(5)(a); R277-477-3(5)(b); R277-477-3(10)(c)	✓	X	✓	✓	✓	✓	✓	✓	X	X	✓	X	X	X	X	✓	7	16	44%
R277-477-3(7)(a), (8), and (9)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	16	0%
R277-477-6(4)(b)	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	16	16	100%
R277-477-6(4)(a)	X	X	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3	16	19%
R277-477-3(5) and (6)	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	16	6%
R277-477-3(12)(c)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	16	0%
R277-477-6(2)	X	NA	✓	NA	✓	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1	3	33%
R277-477-6(1)	X	X	X	X	X	X	✓	✓	✓	✓	✓	✓	X	X	✓	✓	8	16	50%
R277-477-4(5)	✓	X	X	X	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	4	16	25%
R277-477-4(3)	✓	✓	✓	X	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	16	13%
R277-477-4(4)	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	16	13%
R277-477-6(3)(a)	X	X	X	X	X	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	5	5	100%
R277-477-5(1)	✓	✓	X	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	16	13%
R277-477-6(5)(a)	X	X	X	X	X	✓	✓	✓	X	✓	X	✓	✓	✓	X	✓	8	16	50%
R277-477-6(5)(b)	X	X	X	X	X	✓	✓	✓	✓	✓	✓	✓	X	X	X	X	9	16	56%
53E-9-201(2); 53E-9-301(2)	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	16	6%
R277-400-3(3)(a)	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	X	3	16	19%
R277-400-3(3)(c)	X	✓	NA	✓	✓	✓	X	X	X	✓	X	✓	X	NA	✓	NA	6	13	46%
R277-400-4(1)	X	✓	X	✓	✓	✓	✓	X	X	✓	✓	✓	✓	✓	✓	✓	4	16	25%
R277-400-3(5)	X	✓	X	✓	✓	✓	✓	NA	X	X	✓	✓	X	X	X	✓	7	15	47%
R277-400-6(10)(a)	X	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	X	✓	✓	✓	✓	3	16	19%
R277-400-6(10)(c)	NA	X	X	X	X	✓	✓	NA	✓	X	✓	NA	✓	✓	X	X	7	13	54%
53G-4-402(18)(d)	✓	✓	✓	✓	X	✓	✓	X	✓	✓	X	✓	✓	X	✓	X	5	16	31%
R277-400-4(3)	X	✓	✓	✓	X	✓	✓	✓	✓	✓	X	✓	X	X	X	X	7	16	44%
R277-400-6(5)	X	✓	X	✓	✓	✓	X	X	✓	✓	✓	X	X	✓	✓	NA	6	15	40%
R277-400-6(5)	X	✓	X	X	X	✓	X	X	X	X	X	X	X	X	✓	NA	11	15	73%
R277-400-6(2)	X	X	X	X	X	✓	X	X	X	X	X	X	X	NA	NA	NA	12	13	92%
R277-400-7(1)(a)	✓	✓	X	X	✓	✓	✓	✓	X	✓	✓	✓	✓	X	✓	X	5	16	31%
52-4-104(1)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	1	16	6%
52-4-202(1)(a)(i)	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	X	✓	✓	✓	2	16	13%
52-4-202(6)(a)	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	1	16	6%
52-4-202(1)(b)(i)-(iv)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	1	16	6%
52-4-202(2)(a)	X	X	X	✓	✓	✓	✓	X	X	X	X	NA	NA	NA	X	✓	8	13	62%
52-4-203(4)(g)(i)	✓	✓	✓	X	✓	✓	✓	X	✓	X	✓	X	X	NA	✓	✓	5	16	31%
52-4-203(4)(g)(iii)	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	X	✓	✓	✓	2	16	13%

**Appendix D Continued  
Table of Compliance, LEAs**

**LEA - Compliance Details**

<b>Regulation</b>	<b>LEA 1</b>	<b>LEA 2</b>	<b>LEA 3</b>	<b>LEA 4</b>	<b>LEA 5</b>	<b>LEA 6</b>	<b>LEA 7</b>	<b>LEA 8</b>	<b>LEA 9</b>	<b>LEA 10</b>	<b>LEA 11</b>	<b>LEA 12</b>	<b>LEA 13</b>	<b>LEA 14</b>	<b>LEA 15</b>	<b>LEA 16</b>	<b>Errors</b>	<b>Total Tested</b>	<b>Error Rate</b>
52-4-204(4)(c)	X	✓	✓	NA	✓	NA	✓	✓	X	✓	✓	X	X	NA	✓	✓	4	13	31%
52-4-204(4)(b)	✓	X	✓	NA	X	NA	X	X	X	X	X	X	X	NA	X	✓	10	13	77%
52-4-204(2)	✓	X	✓	NA	✓	NA	✓	✓	✓	✓	✓	✓	✓	NA	✓	✓	1	13	8%
52-4-204(4)(a)	✓	X	✓	NA	✓	NA	✓	✓	✓	✓	✓	✓	✓	NA	✓	✓	1	13	8%
52-4-207	✓	✓	NA	NA	NA	✓	✓	✓	✓	✓	✓	✓	NA	✓	✓	✓	0	12	0%
<b>Exceptions</b>	25	23	24	22	18	12	15	20	21	20	14	16	22	18	13	13	296	749	40%
<b>Total Attributes Tested</b>	50	50	49	45	50	44	48	46	48	48	48	46	46	40	47	44	749		
<b>Error Rate</b>	50%	46%	49%	49%	36%	27%	31%	43%	44%	42%	29%	35%	48%	45%	28%	30%	40%		

November 3, 2020

Deborah Davis, CPA  
Chief Audit Executive  
Utah State Board of Education  
PO Box 144200  
Salt Lake City, UT 84114-4200

Dear Ms. Davis:

The Utah State Board of Education (USBE) management team appreciates the work of you and your team in conducting and presenting us with the results of Audit Report No. 20-01, USBE and LEA Internal Control Systems. The USBE is a continual learning and improving organization. We seek honest assessments of our operation to ensure improvement in the interest of the individual student and educator. This audit provides us opportunities to further our accomplishments, achievements, and/or improvements to date.

We concur with the findings of this audit. We do want to address the findings and provide our corrective actions to the identified cause as it relates to the USBE. We do so in the interest of demonstrating our responsibility to our board members and the public for getting to what right is with our internal controls in a continual process of improvements.

Your application of the Standards for Internal Control in the Federal Government commonly referred to as the Green Book, effective October 2015 is fitting. As stated, in the Green Book foreword, Gene L. Dodaro, US Comptroller states, "An effective internal control system helps an entity adapt to shifting environments, evolving demands, changing risks, and new priorities" and that "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." We have adopted the Green Book as our framework. Therefore, we have adopted the five components and the seventeen principles that you applied to our organization for the purposes of this audit. We have adopted these components and framework from a regulatory requirements standpoint to ensure compliance to public education governing statutes, rules, and/or policies.

As a learning and improving organization we continue to mature along the lines of the model you applied during this audit. You did provide an alternate Internal Control

Maturity Model (Appendix B) for ease of interpretation by any user/reader of this audit. Our framework uses the following maturity model:

**Maturity Level 1: Informal or Ad-hoc**

- Control activities fragmented
- Control activities may be managed in “silo” situations
- Control activities dependent upon individual heroics
- Inadequate documentation and reporting methods
- Inadequate monitoring methods

**Maturity Level 2: Standard**

- Control awareness exists
- Control activities designed
- Control activities in place
- Some documentation and reporting methodology exists
- Automated tools and other control measures may exist, but are not necessarily integrated within all functions
- Accountability and performance monitoring requires improvement

**Maturity Level 3: Managed and Monitored**

- Key Performance Indicators (KPI) are defined for monitoring effectiveness
- Well-understood chains of accountability exist
- A formal controls framework exists
- Automated tools and other control measures are used to generate more standardized assessments

**Maturity Level 4: Optimized**

- Highly-automated control infrastructure
- Benchmarking, best practices and continuous improvement elements incorporated into monitoring efforts
- Real-time monitoring

Based on our interpretation of your findings, and related to the five components and seventeen principles, we are at Maturity Level 2: Standard across our organization. By this interpretation and application, we feel we are better positioned along our improvement path across our entire organization with our internal controls. Again, we understand your modification of this and equate the term “partially effective” with the “Standard” designation of the maturity model and the term “mostly effective” with the “Managed and Monitored” designation of the maturity model. We seek Maturity Level 4: Optimized in all our internal controls/control infrastructure. With the preceding in mind we move to the findings/causes and our intended corrective actions.

**Condition:**

The USBE’s internal control system, with its associated components, is partially effective in ensuring compliance with applicable rules and regulations. See Appendix

B – Internal Control Maturity Model for a description of levels of effectiveness by component.

**Cause:**

Several components of the internal control system were not effectively designed, implemented, operating, and/or operating together in an integrated manner.

We completely concur with this assessment. This substantiates, as well, that we are at Maturity Level 2: Standard.

**Corrective Actions(s):**

As it relates to Component #1: Control Environment.(Principles 1-5) - **Mostly Effective**

By January 30, 2021 we will provide ethics training to all USBE employees. The Superintendent will provide written guidance on her commitment to integrity and ethical values and her insistence that all employees do the same during Leadership Council and and continue this agenda item with Leadership Sync meetings prior to January 30, 2021. The Superintendent will, in collaboration with the oversight body, develop and provide to all USBE employees written Standards of Conduct to effectively establish the tone at the top. The organization will follow this process with necessary updates or changes in every subsequent year to ensure consistency and application to all USBE employees given attrition rates and changes in roles and responsibilities of our employees.

As it relates to Component #2: Risk Assessment (Principles 6-9) **Partially Effective**

By June 30, 2021 USBE management will design, train on, and implement a comprehensive risk assessment template for consistent use by USBE sections to eliminate the current silo approach to risk. We will incorporate it to support Principles 6 through 9 of the framework. Our risk assessments are strictly to the regulatory aspects of the governance of the public education system.

As it relates to Component #3: Control Activities (Principles 10-12) **Partially Effective**

By June 30, 2021 we will have designed control activities to achieve objectives and respond to risk. We do want readers/users of the audit to note that we are further along in our information systems than anywhere else in our organization as to our control activities. Our financial and information systems meet many of the internal control principles of Component #3. We will also decisively engage with our oversight body to balance internal control requirements with reporting requirements. At no time in the history of the USBE has there been better control activities within information and financial systems. However, with those control activities there are required reporting and compliance activities on the part of LEAs and internally. Parallel audits have identified concerns with the magnitude of reports and requirements resulting from the effective control environment and activities our systems create. We will work to find the balance.

As it related Component #4: Information and Communication (Principles 13-15)

**Partially Effective**



By June 30, 2021 management will identify the information that is required both internally (USBE sections) and externally (LEAs) to achieve our Strategic Plan and Portrait of a Graduate objectives. We will do so in writing (policies) and by way of our standard settings (metrics) with LEAs across our enterprise.

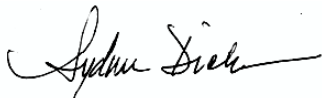
As it relates to Component #5: Monitoring (Principles (16-17) **Partially Effective**

By June 30, 2021 management will improve on our monitoring activities to monitor our own internal control system and that of the LEAs. We will continually remediate internal control deficiencies on a timely basis. We will support our monitoring plans and procedures with written policies.

We will also work to differentiate the regulatory function associated with our strategic plan while incorporating a continuous quality improvement cycle that includes the basic steps of plan, implement, assess, adjust, and repeat. This will include examining whether a set of activities and outputs are meeting our goals in an effective and efficient manner while applying the COSO framework to our regulatory role and assessing compliance therein.

Thank you again for your time and attention to this very important requirement of our organization and that of our LEAs. Mature, effective Internal Control frameworks that are highly optimized will ensure the most effective support to our students and educators across Utah's public education system. We look forward to continuing our journey with you towards operational excellence in this area.

Sydnee Dickson, Ed.D.



Superintendent of Public Instruction



Deputy Superintendent of Operations

## Appendix F

### Auditor Concluding Remarks

Based on the response provided by the Utah State Board of Education (i.e., Management Response Appendix E), the following concluding remarks by Internal Audit are included to ensure elements of the Report are clearly understood and considered as corrective action is further developed and implemented.

On multiple occasions within the management response, it appears the concept of the internal control system is limited to “a regulatory requirements standpoint” and only applied to “[USBE’s] regulatory role and assessing compliance therein.” Although one objective of the USBE is to achieve compliance with regulation, a fully effective internal control system will achieve objectives in three categories: operations, reporting, and compliance. The Greenbook (OV2.18) defines these categories as follows:

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

As stated in Section IV. of the Report, we recommend the USBE “define objectives in specific terms, so they are understood at all levels within the entity.” This statement is meant to convey a responsibility within the USBE to ensure objectives in all categories (i.e., operations, reporting, and compliance) and at all levels (i.e., departments/programs/staff) are established, clear and well defined. Clearly defining and communicating all objectives the USBE is seeking to achieve will help ensure that at all levels risks can be adequately assessed and addressed, necessary control activities can be established, internal and external communication and data will be sufficient, and that effective monitoring can occur. In other words, as stated by the Greenbook (OV3.02), “An effective internal control system provides reasonable assurance that the organization [at all levels] will achieve its objectives.”

In conclusion, we support the USBE’s desire to “continue” to develop and implement a more “mature” system of internal control, recognizing that in accordance with the adoption of the Greenbook framework, efforts should be applied to objectives in all categories and with staff at all levels of the organization to ensure a fully effective and interoperable system of internal control.