

**State Fiscal Year (SFY) 17  
Budget Formulation for  
Utah State Board of Education  
Zero-Line Item Budgeting**

**(Report format of the Powerpoint Presentation)**

**PAAA – Internal Auditors (PAA -22102)**

<u>Line Item</u>	<u>SFY 17 REQUEST</u>	<u>State</u>	<u>Federal</u>	<u>Indirect (In Pool)</u>
Salaries	538,273.76	-	-	538,273.76
Benefits	322,994.13			322,994.13
Purchased Services	21,235.54			21,235.54
Out of State Travel	5,325.00			5,325.00
In State Travel	2,700.00			2,700.00
Supplies and Materials	48,605.00			48,605.00
Unallocated Expenses	-			-
Equipment	12,369.50			12,369.50
Capital Expenditures	-			-
<b>Total:</b>	<b>951,502.93</b>			<b>951,502.93</b>
Indirect Costs (if not in pool)	159,033.00			-
<b>Revised Total:</b>	<b>1,110,535.93</b>			<b>951,502.93</b>

**Internal Audit Mission Summary:**

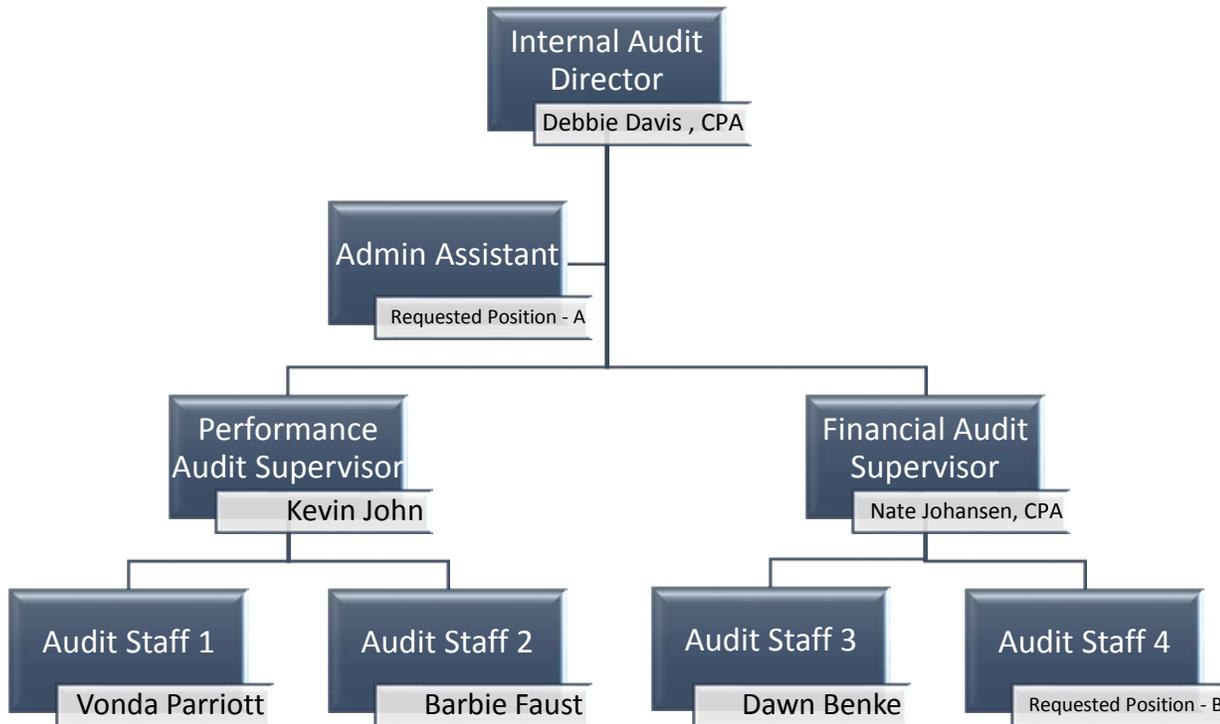
- 1) **Describe what your section does using the five Ws...Who, what, when, where, and why**  
The Internal Audit Department (IA) is required by Utah Code and Administrative Rule as indicated below. IA functions as the investigatory arm of the Utah State Board of Education and performs audits and reviews or consults as outlined in an annual audit plan approved by the Audit Committee and Board; IA work includes performance, financial and compliance areas. All entities governed by the Board (USOE, USOR, and USDB) or entities who receive sub-awards from the Board or its entities are subject to the IA function. IA reports directly to the Audit Committee on a monthly basis to ensure appropriate independence from management. As required by Utah Code, IA follows professional internal accounting standards.
- 2) **What programs are you required to fund and manage by the Federal Government?** None
- 3) **What programs are you required to fund and manage by the State?**  
Internal Audit Department (63I-5-201(4))
- 4) **What programs are you required to fund and manage by the Board of Education?**  
R277-116 Audit Procedure - The purpose of this rule is to outline the role of the Audit Director, Superintendent, and agency in the audit process; and outline the Board’s procedures for audits of agencies in compliance with the Utah Internal Audit Act (Utah Code 63I-5).
- 5) **What programs are you required to fund and manage by USOE?** None
- 6) **What other program requirements not mandated by Federal Government, State, Board, or USOE are you required to fund and manage?** None.
- 7) **List all codes, laws, policies, administrative rules that govern the requirements you list as you identify them.**

See above. IA also has an Internal Audit Policy and Procedure Manual.

- 8) List all the Legislative Bills and the year they were passed (i.e HB 15-2012 Legislative Session) that appropriates your section funding and how much funding was appropriated in that Bill.**

Internal Audit is funded as part of the annual appropriation for the Board of Education; however, for SFY2017, Internal Audit is requesting to be added to the indirect cost pool.

## Internal Audit Org Chart



## Internal Audit Salaries and Benefits Line Item

Salaries	538,273.76
Benefits	322,994.13
<b>Total</b>	<b>861,267.89</b>

- 1) Total Funding Requested (from Slide 3):**

As requested includes 2% legislative salary increase & 10% benefit increase

- 2) List your FTE count and position titles here (example):**

6 Internal (Performance) Auditors (1 Director, 2 Supervisors, 3 Staff)

SFY17 IFR's requests: 1 additional internal auditor and an administrative secretary.

- 3) List the day to day activities of this position are here (brief but clear):**

Internal Auditors:

- Work as staff for the Audit Committee; monthly meetings.
- Attend Board meetings and committee meetings and participate as necessary.
- Evaluate governance, policies and procedures, controls, compliance, and efficiency and effectiveness of the Board, entities it governs and entities receiving sub-awards from Board entities.

- Maintain a hotline that stakeholders can call/email to report fraud, waste and abuse.
- Participate in performing an annual risk assessment for the Board to:
  - Prepare an annual prioritized audit plan
  - Ensure appropriate risk mitigation activities are applied.
- Facilitate external audits, responses to external audits, and tracking of findings and corrective action.
- Ensure compliance with internal auditing standards, including an annual internal assessment.

Administrative Secretary: Purchasing, travel, meeting materials preparation and minutes, scheduling, record retention, tracking CPE and training, budget monitoring, etc.

**4) What is the funding for each position (e.g., state, federal, other)?**

Currently funding for the Internal Audit Department is \$425K on-going appropriation, \$418K one-time discretionary funding. For SFY17, it is assumed that all positions will be funded through the Indirect Cost Pool.

**Internal Audit Purchased Services Line Item**

- 1) **Total funding requested from Slide 3:** \$21,235.54
- 2) **What contracts are funded from this line item (both new and on-going) and the amount:** None
- 3) **What other services are going to be paid or delivered out of this line item?**

These items are to receive services provided by other state agencies or cell phones for auditors to facilitate efficient and effective work, particularly when offsite.

Object	Description	Amount	Explanation of Charge
6115	Human Resources Services	4,968.00	\$621/FTE approved by Legislature SB8
6116	Payroll Services	432.00	\$54/FTE approved by Legislature SB8
6126	Wireless Communication	7,103.04	\$73.99/mo per employee (cell phone plan)
6132	Communication Services	8,000.00	Century Link - desk phones (estimate)
6136	Postage and Mailing	200.00	Estimate
6161	Rental of Land & Bldgs	532.50	\$.71/square foot
<b>Total</b>		<b>21,235.54</b>	

Note that if both an auditor and administrative secretary are hired in SFY17, the Internal Audit Department will need an additional location to house one of those positions. Ideally, all Internal Audit staff would be housed in the same location though we realize that is difficult given the confidential nature of the work we do which would require a secure location for documentation and discussions.

**Internal Audit Out-of-State Travel Line Item**

- 1) **Total funding requested from Slide 3:** \$5,325

This includes provision for the Internal Audit Director and 2 supervisors to attend an out-of-state training during the fiscal year. The actual training cost is in the Employee Training and Development code.

Internal Auditing standards, which the Internal Audit Department is required to follow per Utah Code and Administrative Rule, states, "Auditors **must** enhance their knowledge, skills, and other competencies through continuing professional education (IIA1230)." Continuing professional education (CPE) also helps auditors to enhance their ability to perform audit engagements, maintain professional licenses/certifications, and stay up-to-date on professional standards and regulations. Auditors will train the rest of the audit staff and/or other agency personnel as necessary on items learned at trainings. Auditors will also attend in-state trainings; however, national trainings have the top presenters in the auditing and government education fields and allow for networking with other states.

Specific trainings for SFY17 have not been determined at this time as specific dates for potential trainings are not available since the focus by trainers is on trainings during SFY16. The budget estimate is based on the following:

Object	Description	Cost	Quantity	Total
6052	Out-State Reduced Auto	50	3	150
6055	*Out-State Meal (Bkfst 10, Lun 14, Din 22)	125	3	375
6056	Out-State Lodging	1,000	3	3,000
6057	Out-State Transp.	600	3	1,800
				<b>5,325</b>

\*Assumes 4 days traveling, conference covers breakfast, 2 lunches = 116, rounded to 125 if travel is to a premium city)

Potential conferences include: Brustein & Manasevit on Grant Regulations, NASACT/NSAA Middle Managers Conference, IIA Conferences on Internal Auditing, etc.

## Internal Audit In-State Travel Line Item

### 1) Total funding requested from Slide 3: \$2,700

In-state travel is generally based on two factors; 1) the approved prioritized audit plan (projects in the plan would indicate if travel is necessary. For example, in 2016 the Washington County School District audit necessitates travel to southern Utah) and 2) continuing professional education.

The 2017 approved prioritized audit plan has not been prepared as yet since it is based on risk, which will be assessed at the end of SFY2016. Also, the audit plan is subject to modification as new information become available. Therefore, it seems prudent to prepare a travel reserve which could be modified throughout the year as necessary.

Specific in-state continuing professional education has also not been determined as specific conference details are not available for 2017 events. As noted in the previous slide, "Auditors must enhance their knowledge, skills, and other competencies through continuing professional education (IIA1230)." Most conferences are within 50 miles of SLC; therefore, travel for these conferences would be minor; additionally, IA staff will carpool or use state motor fleet to minimize travel costs.

Given the above, the in-state travel amount is an estimate based on prior years and the number of audit staff; for SFY17 we have requested an additional auditor. The table below outlines our calculation of this amount.

Object	Description	\$ Amt
6001	In-State S-t Motor Pool	700
6002	In-State Reduced Auto	300
6005	In-State Meal (Bkfst 10, Lun 13, Din 16)	400
6006	In-State Lodging	1,300
		<b>2,700</b>

## Internal Audit Supplies and Materials Line Item

### 1) Total funding requested from Slide 3: \$48,605

### 2) What Supplies and Materials are you buying using this funding?

Object	Description	Amount	Explanation of Charge
6171	Bldgs & Grnds - Op Supplies	6,190.00	Estimate
6181	Office Supplies	1,200.00	Provision for new auditor/new admin secretary, other reg. office items
6182	Printing & Binding	100.00	Estimate
6185	Books & Subscriptions	750.00	Estimate - Internal Auditing, Accounting, etc. items
6186	Photocopy Expense	4,200.00	Copier maintenance for IA's copier (\$350/mo estimate)
6263	Insurance & Bonds	7,960.00	Estimated \$995 per FTE (8 FTE's assumed)
6269	Employee Training& Dev	15,555.00	License renewal, CPE for staff, certification/license programs
6274	Membership Dues	1,750.00	1 -AICPA, 1-UACPA, 1-CFE, 2-IIA memberships
6282	Employee Educational Asst	10,500.00	1 emp. masters degree program, \$5250/calendar year (SFY covers 2 CY)
6582	Data Processing - Supplies	400.00	Toner for stand alone printer
<b>Total</b>		<b>48,605.00</b>	

Given the printing requirements for Audit Committee and other meetings, there is a substantial cost related to those types of materials.

Per Administrative Rule R277-116, "The Audit Director shall ensure that collectively the audit department possesses the knowledge, skills, and experience essential to the practices of the profession and are proficient in applying internal auditing standards, procedures, and techniques." Also, as indicated earlier,

Internal Auditing standards state, "Auditors **must** enhance their knowledge, skills, and other competencies through continuing professional education (IIA1230)." Therefore, the employee training and development, memberships – which give discounts on CPE- and educational assistance is critical to maintaining a competent internal audit staff to act as the investigatory arm of the Board. Additional documentation with membership and CPE rates is available if requested.

## Internal Audit Unallocated Expenses Line Item

- 1) Total funding requested from Slide 3: \$0
- 2) What makes up this dollar amount? N/A
- 3) Why can't this funding be applied to any of the other budget line item categories? N/A

## Internal Audit Equipment Line Item

- 1) Total funding requested from Slide 3: \$12,369.50
- 2) What Equipment are you buying using this funding?

Object	Description	Amount	Explanation of Charge
6189	Small Equip/Supplies	3,500.00	Estimate - with cell phone upgrade for 3 staff
6468	DP Software <\$5K Netw	869.50	Renewal charge for electronic audit wp (8 seats in CSA)
6469	DP Hardware <\$5K Laptop	6,000.00	Computer setup 2 new staff - est. based on prior costs
6473	DP Software <\$5K Other	2,000.00	Renewal charge for IDEA data analysis application
<b>Total</b>		<b>12,369.50</b>	

Cell phone upgrades are necessary to ensure staff have appropriate resources and technology to perform critical audit functions in an efficient manner.

CSA and IDEA audit software, though not required, are specific tools to help ensure efficiency and effectiveness when auditing. They also represent the industry standard and are used by the State Auditor's Office, DWS, and other state internal audit shops. CSA, in particular, helps ensure compliance with Internal Auditing Standards, which Utah Code requires the Internal Audit Department to follow. Further, other sections have the ability to use and do on occasion use the Internal Audit IDEA application

to facilitate efficiencies in their critical functions. USOR has also just purchased an IDEA license to facilitate efficiencies and effectiveness in their budgeting process.

If new staff (auditor and administrative secretary) are hired a computer setup is required for them.

## Internal Audit Capital Expenditures Line Item

- 1) Total funding requested from Slide 3: \$0
- 2) What Capital Expenditures are you buying using this funding? N/A
- 3) Who will receive the items/materials/equipment? N/A
- 4) What will they do with the items/materials/equipment? N/A
- 5) Are any of these purchases required? If so, which ones and why? N/A

## SFY 16 Carry Forward Estimates

<u>Carry Forward</u>	<u>From SFY 16</u>	<u>From SFY 15</u>	<u>From SFY 14</u>
Budget	\$ 843,201.00	\$ 402,300.91	\$ 368,531.61
Expenditures	N/A	\$ 357,945.56	\$ 368,531.61
<b>Difference (Carryforward)</b>	<b>\$ -</b>	<b>\$ 44,355.35</b>	<b>\$ -</b>

The table above shows carryforward for Internal Audit for the past 2 years.

SFY14 – it is likely that the budget was changed to exactly match expenditures for yearend closeout; therefore, no carryforward would be shown. The original budget was \$370,350.

SFY15 – Yearend close has not been completed, so it is unknown if the budget and expenditure numbers are final. A query of actual expenditures at year end shows \$357,945.56; however, that is after indirect costs of \$42,622.39 were booked (7523) and then reversed (7591), making it appear that Internal Audit did not pay any indirect costs for SFY15. If the entries are correct and indirect costs are to be netted then the carryforward will be \$44,355.35 as shown; however, if IA actually did pay indirect costs then carry forward will actually be only \$1,732.96. Any carryforward shown is likely due to vacancy savings of having audit positions open for several months of the year. Also noteworthy is that \$160,000 of discretionary funds were set aside for Internal Audit positions; however, again due to vacancy savings those dollars were not used. Additionally, USDB had set aside \$40,000 to pay for internal audit services; however, though an audit was completed nothing was charged to USDB so those funds were also not used.

SFY16 - It is unlikely that the Internal Audit Department will have any carryforward from SFY16. Currently almost half of the funding for the Internal Audit Department is discretionary; however, there is potential that all of the Internal Audit Department will be funded through the Indirect Cost pool.

## If there were budget cuts...

As noted above, the Internal Audit Department is a fairly lean department.

For SFY16, salaries and wages make up 78% of the budget and indirect costs make up 14%, for a total of 92% of the budget. Supplies and Equipment as a category and Professional Development and Audit Applications as a category both are budgeted at about 4% of the total budget.

First cut – It probably wouldn't be considered a cut to remove indirect costs if Internal Audit were made part of the Indirect cost pool, but this would be my first consideration.

Second cut – Supplies and Equipment to the extent possible, which would entail reducing printing/postage costs, using equipment over a longer life span, etc.

Third cut - Looking for cheaper professional development opportunities. Because this is required by professional standards that we are required to follow, this would be the last area I'd consider for cuts.

## **Wish List**

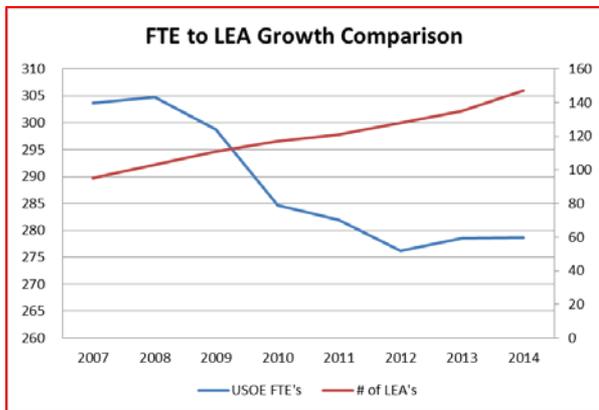
Increased Funding Requests (IFR's) – SFY2017

- ❖ Change discretionary part of budget (approx. \$418K) to on-going and minor increases for salaries, benefits, etc.
- ❖ Administrative Secretary
- ❖ 1 Additional Financial/Compliance Auditor

# Internal Audit - Other Information

## Internal Audit Trend Analysis

State Fiscal Year	2010	2011	2012	2013	2014	2015
Revised Total Expenditures	112,087.19	203,968.30	248,318.44	318,407.48	368,531.61	400,567.95
IA Staff (at yearend)	1	2	2	3	3	6



## Why more auditors?

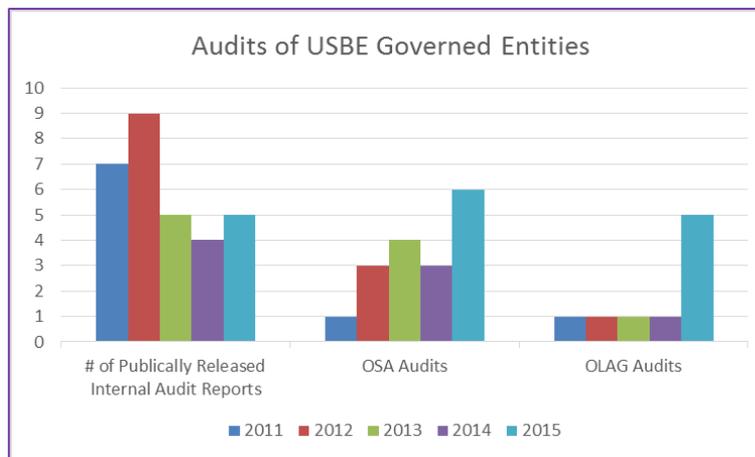
USBE has experienced **increased responsibility**, **financial & performance accountability**, and **external scrutiny** with **less internal review** and **institutional knowledge**.

SFY	Educ. Actual Expenditures (Per CAFR)	% Increase from Prior Year
2010	2,939,144,000	
2011	3,035,227,000	3.27%
2012	3,028,720,000	-0.21%
2013	3,105,275,000	2.53%
2014	3,229,793,000	4.01%
2015*	3,334,880,000	3.25%
*Estimate		

Increased turnover in almost every Superintendent and Section Director position in the past 2 years, which increases inherent risk for the organization.

	IA Staff	2014 Annual Expenditures	Exp to IA Staff Ratio
ED	4	3,229,793,000	807,448,250
DWS	5	709,031,000	141,806,200
DOH	6	2,670,932,000	445,155,333

DWS/DOH also have other units that help investigate fraud.



Extremely high risk internal audit reports completed in 2015 include: Indirect Cost Review and the Year-end Financial Close Process.