**CHAPTER 2:**

**AUDIT PROCEDURES**

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

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

This chapter does not apply to nongovernmental nonprofit organizations EXCEPT FOR **charter schools structured as nonprofit organizations,** which are considered public schools and are, therefore, subject to this chapter similar to school districts.

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

1. **CASH MANAGEMENT**

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

| **Legal**  **Ref.** | **Appli-**  **cable**  **to: \*** | **AUDIT PROCEDURES** | **Performed by and Date** | **Workpaper Index** |
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| [UCA](http://le.utah.gov/xcode/Title51/Chapter7/51-7-S15.html)  [51-7-15(3)](http://le.utah.gov/xcode/Title51/Chapter7/51-7-S15.html) | ALL | 1. Entities are required to electronically file a report with the Money Management Council (Council) on or before January 31 and July 31 of each year. This report, the “Deposit and Investment Report,” (D&I) is accessed through the state reporting portal at [reporting.auditor.utah.gov/UtahTreasuryLogin](https://reporting.auditor.utah.gov/UtahTreasuryLogin) and contains information about the deposits and investments of that entity during the preceding six months ending December 31 and June 30, respectively. The Council uses this form to determine if the entity is in compliance with the Money Management Act.   Review the entity's fiscal yearend report and determine that the report agrees to financial institution statement year-end closing balances (‘bank’ balances NOT ‘book’ balances) and includes all accounts (both deposit and investment) held by the entity. |  |  |
|  |  | 1. As part of other testing or as a separate sample, select a sample of receipts and verify that they were deposited within three days (See Money Management Act) |  |  |

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

(See Auditor Alert 2014-01a for guidance)

**Accounting Treatment**

This *Guide* focuses on state compliance issues and generally does not include audit steps regarding appropriate accounting treatment. However, as concerns are raised about the appropriate accounting treatment for certain transactions, the OSA issues an auditor alert addressing the issue. Please review the applicable Auditor Alert 2014-01a at [auditor.utah.gov/category/auditor-alerts/](https://auditor.utah.gov/category/auditor-alerts/)

**Materiality**

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

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| GASB Codification 1800.102 | C, M, D, IL | 1. **Services Provided by an Enterprise Fund to Other Funds**    1. Determine that services provided by an enterprise fund (water, electricity, etc.) to the general fund or other funds have been quantified or estimated and that the rates used are the same as those charged to other customers of the fund.    2. Determine that the services provided by the enterprise fund to other funds were properly recorded as a:  * **Nonreciprocal interfund transfer** (see Auditor Alert 2014-1a for guidance) if no cash or goods were exchanged or are not expected to be exchanged, or * **Reciprocal interfund services provided/used transaction** (see Auditor Alert 2014-1a for guidance) if cash or goods were exchanged. |  |  |
| UCA  Towns:  [10-5-114](http://le.utah.gov/xcode/Title10/Chapter5/10-5-S114.html)  Cities:  [10-6-117](http://le.utah.gov/xcode/Title10/Chapter6/10-6-S117.html)  Districts:  [17B-1-613](https://le.utah.gov/xcode/Title17B/Chapter1/17B-1-S613.html?v=C17B-1-S613_2016051020160510)  Counties:  [17-36-17](https://le.utah.gov/xcode/Title17/Chapter36/17-36-S17.html?v=C17-36-S17_1800010118000101)  Interlocals & GvtNPOs:  [11-13-513](https://le.utah.gov/xcode/Title11/Chapter13/11-13-S513.html?v=C11-13-S513_2016051020160510) | C, M, D, IL | 1. **General Fund Overhead Allocations to Other Funds**   Determine that:   1. General fund overhead costs (HR, accounting, legal services, etc.) allocated to other funds are based on a reasonable methodology. 2. The overhead allocation amount was included in the original or amended budget of the other fund as an expenditure/expense. 3. The allocation of the overhead was properly recorded as an **interfund reimbursement transaction** (see Auditor Alert 2014-1a for guidance) (reduction of general fund expenditures and increase of expenditures/expense) in the other fund. 4. If no cash or goods were exchanged or expected to be exchanged, in addition to the reduction/increase in expenditure/expense in each fund, an **interfund transfer** (see Auditor Alert 2014-1a for guidance) was recorded (‘transfer out’ in the general fund and a ‘transfer in’ in the other fund). |  |  |
| UCA  Towns:  [10-5-107.5](https://le.utah.gov/xcode/Title10/Chapter5/10-5-S107.5.html)  Cities:  [10-6-135.5](https://le.utah.gov/xcode/Title10/Chapter6/10-6-S135.5.html?v=C10-6-S135.5_2017050920170509)  Districts:  [17B-1-629](http://le.utah.gov/xcode/Title17B/Chapter1/17B-1-S629.html)  Counties:  [17-36-32](http://le.utah.gov/xcode/Title17/Chapter36/17-36-S32.html)  Interlocals & GvtNPOs:  [11-13-524 (3)(d)](http://le.utah.gov/xcode/Title11/Chapter13/11-13-S524.html?v=C11-13-S524_2015051220150512) | C, M, D, IL | 1. **Interfund Transfers from an Enterprise Fund (subsidy transfers or services provided without payment) – *Public Notice and Hearing Requirements*** 2. *For counties:* Determine whether the county included the interfund transfers in an original budget or in a subsequent budget amendment approved by the governing body for the fiscal year under audit. If the county did not, proceed to step c. 3. *For municipalities:* Determine that the governing body held an enterprise fund hearing and provided written notice of the:  * Date, time, and place of hearing. * Purpose of the hearing. * Explanation of intended transfer to another fund. * Specific enterprise fund information   + The amount/value of cash or goods transferred.   + The percentage of the total enterprise fund expenditures represented by each transfer.   Determine that the notice was:   * Mailed or transmitted to each enterprise fund customer. * Posted on the Utah Public Notice Website. * As applicable, posted on the municipality’s website. * As applicable, communicated through social media platform. * Distributed and posted at least 7 days before the hearing.   If budgeted transfer was approved, determine that the municipality:   * Mailed or transmitted a notice to each enterprise fund customer providing the specific enterprise fund information without 60 days of adoption. * As applicable, posted enterprise fund accounting data on the municipality’s website and published notice of the adoption of the budget containing the enterprise fund transfer using the municipality’s social media platform within 7 days of adoption.  1. *For all other local government entities or counties that did not appropriately include interfund transfers in budget or amendment:* Determine that the governing body held a public hearing and provided written notice of the:  * Date, time, and place of hearing. * Purpose of the hearing. * The enterprise fund from which the cash or goods would be transferred. * The fund to which the cash or goods would be transferred. * The amount/value of cash or goods transferred.   Determine that the notice was:   * Mailed or transmitted to each enterprise fund customer. * Distributed at least seven days before the hearing. * A separate notification from the customers’ utility bill.   ***Exception:*** *An entity may determine that the amount of the services provided without payment by the enterprise fund to the general fund is less than or equal to the amount of general fund overhead to be allocated to the enterprise fund. In this case, there would be an equivalent flow of resources between funds and the additional public notice and hearing requirements would not be applicable. The entity should still, however, determine and record the flow of those resources.* |  |  |
| UCA  Towns:  [10-5-120](http://le.utah.gov/xcode/Title10/Chapter5/10-5-S120.html)  Cities:  [10-6-132](http://le.utah.gov/xcode/Title10/Chapter6/10-6-S132.html)  Districts:  [17B-1-626](http://le.utah.gov/xcode/Title17B/Chapter1/17B-1-S626.html)  Counties: [17-36-30](http://le.utah.gov/xcode/Title17/Chapter36/17-36-S30.html)  Interlocals & GvtNPOs:  [11-13-523](http://le.utah.gov/xcode/Title11/Chapter13/11-13-S523.html?v=C11-13-S523_2015051220150512) | C, M, D, IL | 1. **Interfund Loans** – For enterprise funds loaned to another fund:   **[Note – not applicable to loans from the general fund to any other fund or short-term advances from a cash and investment pool to individual funds that are repaid by the end of the fiscal year.]**   1. Determine that the loan was in writing and contained the following terms and conditions:    * Effective date of the loan.    * Name of the fund loaning the money.    * Name of the fund receiving the money.    * Amount of the loan.    * Term of and repayment schedule of the loan (not to exceed 10 years).    * Interest rate of the loan (if less than one year, the interest rate cannot be less than the rate offered by the PTIF, if greater than one year the rate cannot be less than the greater of the PTIF rate or the rate of a US Treasury note of a comparable term).    * Method of calculating interest applicable to the loan.    * Procedures for applying interest and paying interest. 2. Determine that the governing body held a public hearing and provided written notice within at least 7 days of the hearing regarding the:    * Date, time, and place of the hearing,    * Purpose of the hearing, and    * The proposed terms and conditions of the interfund loan. 3. Determine that the governing body authorized the loan by ordinance or resolution at a public meeting. |  |  |

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1. **TAX LEVY REVENUE RECOGNITION**

**Background**

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

**Taxes Imposed by Local Governments and Passed Through (Contributed) to Other Governments**

Redevelopment Agencies (RDA)

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

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

Local Option Sales Taxes for Transportation

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

Charter School Levy

Utah Code 53F-2-703 (effective July 1, 2017 for tax years beginning January 1, 2017) requires a portion of a school district’s board local levy to be paid to the statewide charter school levy account from which USBE will allocate to charter schools. A school district shall report this tax as tax revenue with an offsetting expenditure (i.e. contribution to other government) for its contribution to the statewide charter school account.

Basic Levy Recapture

Utah Code 53F-2-301 requires a school district to pay USBE any basic levy revenue received in excess of the amount generated by weighted pupil units. The payment should be reported as an expenditure by the school district.

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| GASB Codification N50.125 | ALL | 1. Identify all taxes imposed by the government and, if tax increment is provided to an RDA, determine whether the increment is included in the entity’s property tax revenue contributed to other governments and financial statement footnotes are compliant with standards.   For School Districts: Ensure tax increment is recorded in Fund 26.  See Auditor Alert 2020-04 and GASB 77 for guidance on footnote disclosure requirements for Tax Abatements. |  |  |
| GASB Codification N50.125 | ALL | 1. Verify the government included pass-through taxes as revenue with related receivables and deferrals in its funds. |  |  |

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1. **IMPACT FEES**

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

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| UCA  [11-36a-601](http://le.utah.gov/xcode/Title11/Chapter36a/11-36a-S601.html) | C, M, D, IL | 1. Determine that the entity prepared an impact fee schedule that shows:    1. The source and amount of all money collected, earned, and received during the fiscal year.    2. Each expenditure from impact fee funds during the fiscal year.    3. An accounting of impact fee funds on hand at the end of the fiscal year, including: 2. The year in which the impact fee funds were received; 3. The project from which the impact fees were collected; 4. The project for which the impact fee funds are budgeted; and 5. The projected schedule for expenditure. |  |  |
| UCA  [11-36a-602 (1)](http://le.utah.gov/xcode/Title11/Chapter36A/11-36a-S602.html) | C, M, D, IL | 1. Determine that impact fee proceeds disbursed in the current year were used only for public facilities identified in the capital facilities plan and for the specific public facility type for which the fee was collected. |  |  |
| UCA  [11-36a-602 (2)](http://le.utah.gov/xcode/Title11/Chapter36A/11-36a-S602.html) | C, M, D, IL | 1. Determine that the impact fee proceeds were used in a timely manner and that reasons for holding fees longer than six years were appropriate and documented. |  |  |
| UCA  [11-36a-603](http://le.utah.gov/xcode/Title11/Chapter36A/11-36a-S603.html) | C, M, D, IL | 1. Determine that the entity has appropriately refunded any unused impact fees. |  |  |

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

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| UCA  [17B-1-311](http://le.utah.gov/code/TITLE17B/htm/17B01_031100.htm) | D | 1. Through inquiry of management and scanning payroll or personnel records, determine that no member of the board is also an employee of the district at the same time. |  |  |
| UCA  [17B-1-312](http://le.utah.gov/code/TITLE17B/htm/17B01_031200.htm) | D | 1. Through inquiry with officials of the entity and observation of certificates or other relevant evidence, determine that each member of a board of trustees of a district, within one year after taking office or election to a new term, completed training developed by the Office of the State Auditor in cooperation with the Utah Association of Special Districts. |  |  |
| UCA  [17B-1-303(9)](https://le.utah.gov/xcode/Title17b/Chapter1/17b-1-S303.html) | D | 1. Ensure that the name, phone number, and email address of each current board member has been posted on the Utah Public Notice Website at pmn.utah.gov |  |  |

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1. **UTAH RETIREMENT SYSTEMS**

The procedures in this section should be performed if the governmental entity participates in any of the following systems of the Utah Retirement Systems (URS) or if the employer is paying the member contribution or a portion of it into the system:

* Noncontributory Retirement System
* Contributory Retirement System
* Public Safety Retirement System
* Firefighters’ Retirement System
* Tier 2 Public Employees Contributory Retirement System
* Tier 2 Public Safety and Firefighters Contributory Retirement System

This testwork is performed to support the annual financial statement audit of URS. **Any errors or noncompliance noted should also be reported to the URS Chief Financial Officer, Robert Dolphin, at rob.dolphin@urs.org**

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| UCA  [49-11-801](http://le.utah.gov/xcode/Title49/Chapter11/49-11-S801.html),  also  [IRS Rev. Rul. 2006-43](http://www.irs.gov/irb/2006-35_IRB/ar08.html) | ALL | 1. For entities participating in a URS Contributory System where the entity is paying any portion of the member (employee) required contribution, determine whether the entity’s governing board authorized the payment of that portion through a formal action of the board. (Note:  This action could have occurred in previous years.) Ensure that the authorization covers the year under audit.     Example: The member/employee contribution rate in the URS Contributory System is 6%, so if an employer is paying 4.5% of the 6% required contribution for its employees, IRS rules require the governing body to approve the payment of the 4.5% through a formal action. |  |  |
| See Suggested Audit Procedures | ALL | 1. Select a sample of newly hired employees from the payroll register and determine that eligible employees were immediately and accurately enrolled in the Utah Retirement Systems unless the employee qualifies to be exempt from retirement coverage.   Eligibility rules vary by retirement system:   * Tier 1 Public Employees Noncontributory Retirement System ([UCA 49-13-201](http://le.utah.gov/xcode/Title49/Chapter13/49-13-S201.html)) * Tier 1 Public Employees Contributory Retirement System ([UCA 49-12-201](http://le.utah.gov/xcode/Title49/Chapter12/49-12-S201.html)) * Tier 1 Public Safety Noncontributory Retirement System ([UCA 49-15-201](http://le.utah.gov/xcode/Title49/Chapter15/49-15-S201.html)) * Tier 1 Public Safety Contributory Retirement System ([UCA 49-14-201](http://le.utah.gov/xcode/Title49/Chapter14/49-14-S201.html)) * Tier 1 Firefighters Retirement System ([UCA 49-16-201](http://le.utah.gov/xcode/Title49/Chapter16/49-16-S201.html)) * Tier 2 Public Employees Contributory Retirement System ([UCA 49-22-201](http://le.utah.gov/xcode/Title49/Chapter22/49-22-S201.html)) * Tier 2 Public Safety and Firefighter Contributory Retirement System ([UCA 49-23-201](http://le.utah.gov/xcode/Title49/Chapter23/49-23-S201.html)) |  |  |
|  | ALL | 1. Select a sample of employees on leave of absence and determine that the employer maintained accurate records relating to leave of absence and notified the retirement office of the beginning and ending dates of leave. |  |  |

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1. **CRIME INSURANCE FOR PUBLIC TREASURERS**

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| UCA  [51-7-15](http://le.utah.gov/xcode/Title51/Chapter7/51-7-S15.html)  UCA  [17-16-11](https://le.utah.gov/xcode/Title17/Chapter16/17-16-S11.html) | ALL | Determine if the treasurer is properly insured in accordance with Utah Administrative Code [R628-4-4](http://utrules.elaws.us/uac/r628-4) for the Money Management Council.   |  |  |  | | --- | --- | --- | | **Budget** | **Percent**  **For Insurance** | **Minimum**  **Insurance** | | 0 to 10,000  10,001 to 100,000  100,001 to 500,000  500,001 to 1,000,000  1,000,001 to 5,000,000  5,000,001 to 10,000,000  10,000,001 to 25,000,000  25,000,001 to 50,000,000  50,000,001 to 500,000,000  over 500,000,000 | N/A  9% but not less than  8% but not less than  7% but not less than  6% but not less than  5% but not less than  4% but not less than  3% but not less than  2% but not less than | 0  5,000  9,000  40,000  70,000  300,000  500,000  1,000,000  1,500,000  10,000,000 |   The basis used should be all budgeted gross revenue for the previous fiscal year (final budget). Budgeted gross revenue is further defined by the Money Management Council as also including proceeds from the sale of assets, borrowing proceeds, receipts into fiduciary funds and any other revenues collected or handled by the treasurer during the previous fiscal year.  Crime insurance must be issued by an insurer licensed to do business in the state of Utah with a current A.M Best Rating of “A” or better, or by an interlocal agency created under UCA 11-13-101 operating as a joint self-insurance fund. A joint self-insurance fund providing coverage under this section must maintain a restricted account in the PTIF equal to 50% of the per-occurrence limit of coverage.  UCA 51-7-3(28) states that “A ‘Public Treasurer’ includes … the official of any … political subdivision, or other public body, who has the responsibility for the safekeeping and investment of any public funds.” |  |  |

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1. **OPEN AND PUBLIC MEETINGS ACT**

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| UCA  [52-4-104](http://le.utah.gov/xcode/Title52/Chapter4/52-4-S104.html) | ALL | 1. Through inquiry with officials of the entity and observation of meeting agendas, certificates or other relevant evidence, determine that the presiding officer of a governing body ensured that members of the governing body were provided with annual training on the requirements of open and public meetings. |  |  |
|  |  | 1. Select and obtain the agenda and meeting minutes for two public meetings held during the year under audit and perform the following: |  |  |
| UCA  [52-4-202 (1)&(3)](http://le.utah.gov/xcode/Title52/Chapter4/52-4-S202.html) | ALL | * 1. Determine that the entity gave proper notice of the meeting at least 24 hours before each meeting by posting the notice on the Utah Public Notice Website. |  |  |
| UCA  [52-4-202 (6)(a)](http://le.utah.gov/xcode/Title52/Chapter4/52-4-S202.html) | ALL | * 1. Determine that the agenda was reasonably specific to enable lay persons to understand the topics to be discussed. |  |  |
| UCA  [52-4-202 (6)(c)](http://le.utah.gov/xcode/Title52/Chapter4/52-4-S202.html) | ALL | * 1. Determine that the public body did not take any final actions on a topic in the meeting unless the topic was listed under an agenda item. |  |  |
| UCA  [52-4-203 (4)(f)](http://le.utah.gov/xcode/Title52/Chapter4/52-4-S203.html) | C, M, and LEAs | * 1. Determine that within three days of the meeting minutes being approved, the minutes and any public materials distributed at the meeting were posted to the Utah Public Notice Website. (Exception: LEA’s are required only to make the meeting minutes available to the public within three days of being approved.). |  |  |
| UCA  [52-4-204(2)-(4)](http://le.utah.gov/xcode/Title52/Chapter4/52-4-S204.html) | ALL | * 1. If a portion of the meeting was closed to the public, determine that 1) before the meeting was closed, the reason for holding the closed meeting was documented in the meeting minutes and a roll call vote was taken, 2) the reason for closing the meeting was permitted under UCA 52-4-205, and 3) an audio recording of the closed meeting was made, or in the case of meetings closed to discuss issues noted in UCA 52-4-205(1)(a), (1)(f) or (2), view the sworn statement that the sole purpose of the closed meeting was to discuss those issues. |  |  |
| UCA  Towns:  [10-5-106](http://le.utah.gov/xcode/Title10/Chapter5/10-5-S106.html)  thru 108  Cities:  [10-6-110](http://le.utah.gov/xcode/Title10/Chapter6/10-6-S110.html),  [113](http://le.utah.gov/xcode/Title10/Chapter6/10-6-S113.html), [135](http://le.utah.gov/xcode/Title10/Chapter6/10-6-S135.html)  Districts:  [17B-1-605](http://le.utah.gov/xcode/Title17B/Chapter1/17B-1-S605.html)  thru 607, 609  Counties:  [17-36-9](http://le.utah.gov/xcode/Title17/Chapter36/17-36-S9.html),  [10.1](http://le.utah.gov/code/TITLE17/htm/17_36_001001.htm), [12](http://le.utah.gov/code/TITLE17/htm/17_36_001200.htm)  LEAs:  [53G-7-302](https://le.utah.gov/xcode/Title53G/Chapter7/53G-7-S302.html?v=C53G-7-S302_2018012420180124)  Interlocals & GvtNPOs:  [11-13-509](http://le.utah.gov/xcode/Title11/Chapter13/11-13-S509.html?v=C11-13-S509_2015051220150512) | ALL | 1. Ensure the entity provided the required notice for its original and final budget adoption hearing by reviewing the certified copy of the notice. 2. Municipalities, counties, districts, interlocal entities, and Governmental Nonprofits are required to provide a 7-day notice. 3. LEAs (except charter schools) are required to provide a 10-day notice.   **Note on charter schools:** While charter schools are required to prepare a budget in accordance with UCA 53G-7-303, they are still not required to publish notice. |  |  |
| UCA  [52-4-201](http://le.utah.gov/xcode/Title52/Chapter4/52-4-S201.html) | ALL | 1. Determine if the governing board regularly holds “work meetings” before its regularly scheduled board meetings. If so, select two meetings and determine that notice and minutes requirements in step 2 were met if a quorum was present. |  |  |

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