

UTAH STATE OFFICE OF EDUCATION UPSTART Program

Report on Audit Procedures
and
Finding and Recommendation
For the Period March 1, 2009 through June 30, 2013

Report No. 13-46



OFFICE OF THE
UTAH STATE AUDITOR

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AUDIT LEADERSHIP:

Jon T. Johnson, CPA, Audit Director
Jolene Cooley, Audit Senior



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January 24, 2014

Members of the Utah State Board of Education and Audit Committee

Martell Menlove, Ph.D, State Superintendent of Public Instruction
Utah State Office of Education

John W. Montgomery, CFO and Vice President of Finance
Waterford Research Institute

We have performed the procedures described below to certain aspects of the Waterford Research Institute's (Waterford's) use of funds for the UPSTART program for the period of March 1, 2009 through June 30, 2013. The procedures performed were selected based on our determination of the significant compliance requirements. We determined the significant compliance requirements by reviewing *Utah Code* 53A-1a-1000 through 1006 and the contract between Waterford and the Utah State Office of Education (USOE) related to the UPSTART program. The significant compliance requirements included the following four areas: 1) Use of Funds, 2) Number of Children Served, 3) Low-income Family Participation, and 4) Limitation of Funding for Program Evaluation. We requested and obtained the necessary documentation from Waterford and the USOE. The results of our procedures are as follows:

1. Use of Funds

The contract and related amendments provide a detailed budget of allowable expenditures including licenses, internet, hardware, personnel, etc. We obtained a listing from the USOE of invoices paid to Waterford from March 1, 2009 through June 30, 2013. Of the 48 invoices paid to Waterford, we selected and reviewed 12 invoices (25% of the invoices and 83% of the dollars spent for the program). For the items selected, we obtained the detailed documentation from Waterford to ensure that the expenditures were in compliance with the related contract/amendments. We noted one instance of an immaterial unallowable charge to the UPSTART program and an internal control weakness at the USOE. See the finding and recommendation included at the end of this report.

We also determined that the total annual expenditures did not exceed budgeted amounts established by the contract.

2. Number of Children Served

The contract and related amendments require that Waterford serve a minimum number of children for each of the first four years of the UPSTART Program (1300, 1000, 1015, and 1175 children in years 1 through 4, respectively). For each year, we obtained listings of the students and reviewed Waterford's records for 25 children for each year (100 total) to determine appropriate participation in the program. Based on the procedures performed,

Waterford has properly served the contractually required number of children for each of the four years.

3. Low-income Family Participation

Utah Code 53A-1a-1004 requires at least 30% of the preschool children participating in the program to be from low-income families. Such families are eligible to receive help with computers and internet service to operate the instructional hardware. Because separate program evaluations performed by the USOE contractors have shown low-income family participation ranging from 56% to 64%, we did not specifically test this compliance requirement. Furthermore, based on the 100 student files we reviewed for other procedures, we reasonably conclude that at least 30% of the program participants were from low-income families, as required.

4. Limitation of Funding for Program Evaluation

Utah Code 53A-1a-1006 requires that no more than 7.5% of the money appropriated by the Legislature for UPSTART be used for the evaluation of the program (excluding funds used to provide for computers, peripheral equipment, and internet service to families). The USOE oversees the evaluation of the program and, based on our review of the related expenditures through June 30, 2013, has not exceeded the funding limitation for program evaluations.

Our procedures were more limited than would be necessary to express an audit opinion on compliance. Accordingly, we do not express an opinion. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is a matter of public record and its distribution is not limited.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of Waterford and the USOE during the course of the review, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,



Jon T. Johnson, CPA

Audit Director

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cc: Bruce Williams, Associate Superintendent for Business Services, Utah State Office of Education
Natalie Grange, Internal Audit Director, Utah State Office of Education
Claudia Miner, Waterford Research Institute, UPSTART Program Director
Jonathan Ball, Director, Office of Legislative Fiscal Analyst

UTAH STATE OFFICE OF EDUCATION
UPSTART Program

FINDING AND RECOMMENDATION
FOR THE PERIOD MARCH 1, 2009 THROUGH JUNE 30, 2013

INADEQUATE MONITORING OF UPSTART PROGRAM EXPENDITURES

We reviewed 12 of the 48 invoices paid to the Waterford Research Institute (Waterford) by the Utah State Office of Education (USOE) to test for the appropriate use of UPSTART funds over a four-year period. One of the 12 reimbursements reviewed included a \$69.90 charge for an unallowable cost. In our judgment, this unallowable cost was deemed to be a clerical error and not a significant issue. However, upon further review of the USOE's internal controls related to program disbursements to Waterford, we determined that the USOE does not have adequate internal controls over UPSTART program payments. The USOE does not obtain detailed supporting documentation for UPSTART program payments to Waterford and does not have other monitoring or review procedures to ensure that program payments are appropriate. While requiring supporting documentation for every contract payment may be excessive, the USOE should have reasonable and appropriate monitoring procedures in place to ensure that program funds are disbursed in compliance with program requirements.

Recommendation:

We recommend that the USOE establish reasonable and appropriate monitoring procedures over UPSTART program payments to help ensure that program funds are disbursed in compliance with program requirements.

January 22, 2014

John Dougall, State Auditor
Office of the State Auditor
Utah State Capitol Complex
East Office Building, Suite E310
P.O. Box 142310
Salt Lake City, UT 84114-2310

Dear Mr. Dougall:

Thank you for the opportunity to review your report regarding the Waterford Research Institute's use of funds for the UPSTART program. We value your office's willingness to conduct this review and the professional manner in which significant compliance requirements were identified and tested. We appreciate the opportunity to respond to the recommendation made in the report.

The USOE Teaching and Learning section, which manages the UPSTART contract, will work with the Internal Audit section to develop an appropriate monitoring plan for the UPSTART contract. The plan will include requesting full supporting documentation for sample invoices, monitoring for compliance with the contract, and any other internal controls that are deemed necessary.

Thank you for helping us to strengthen the policies and internal controls that govern the expenditures of public education funds. We strive to use tax dollars efficiently, effectively and in accordance with state law and policy.

Sincerely,



Martell Menlove, Ph.D.
State Superintendent of Public Instruction