

# **OFFICE OF THE STATE BOARD OF EDUCATION UPSTART Program**

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Report on a Limited Review of Contractor's Use of UPSTART Funds  
and  
Findings and Recommendations  
For the Year Ended June 30, 2015

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Report No. 15-43



**OFFICE OF THE  
UTAH STATE AUDITOR**

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**AUDIT LEADERSHIP:**

Van Christensen, CPA, Audit Director  
Jolene Cooley, Audit Senior



OFFICE OF THE  
**UTAH STATE AUDITOR**

**Report No. 15-43**

March 10, 2016

Members of the Utah State Board of Education

Sydnee Dickson, Interim State Superintendent of Public Instruction  
Office of the State Board of Education

Claudia Miner, UPSTART Program Director  
Waterford Institute

We have performed the procedures described below to certain aspects of the Waterford Institute's (Waterford) use of funds for the UPSTART Program for the period of July 1, 2014 through June 30, 2015 (fiscal year 2015). 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 amended contract between Waterford and the Office of the State Board of Education (OSBE) 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 OSBE. 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 OSBE of reimbursements paid to Waterford for fiscal year 2015. Of the 20 reimbursements paid to Waterford, we selected and reviewed 5 reimbursements (25% of the invoices and 79% 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. Based on the procedures performed, we noted an internal control weakness at the OSBE related to program disbursements and two instances of unallowable charges totaling \$1,039 for the UPSTART program. See finding and recommendation No. 1 included with 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 in the UPSTART Program for fiscal year 2015 (4935 children). We obtained a listing of the students and reviewed Waterford's records for 50 children to determine appropriate

participation in the program. Based on the procedures performed, Waterford properly served the contractually required number of children for fiscal year 2015.

3. Low-income Family Participation

*Utah Code 53A-1a-1004* requires that at least 30% of the preschool children participating in the UPSTART program be from low-income families. Such eligible families are provided with computers and internet service to operate the instructional hardware. We obtained a listing of students and reviewed Waterford's records for 50 students to determine whether the students were from low-income families. Based on the procedures performed, 50% of those children were determined to be from low-income families, and thus, Waterford properly complied with the requirement.

4. Limitation of Funding for Program Evaluation

*Utah Code 53A-1a-1006(3)* requires that no more than 7.5% of the money appropriated by the Utah State Legislature for the UPSTART program, excluding funds used to provide computers, peripheral equipment, and internet service to families, be used for the evaluation of the program. The OSBE oversees the evaluation of the program and, based on our review of the contract/amendments and related expenditures through June 30, 2015, has incorrectly calculated the funding limitation for program evaluations. See finding and recommendation No. 2 included with this report.

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 OSBE during the course of the review, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,



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Audit Director  
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cc: Scott Jones, Deputy Superintendent of Operations, Office of the State Board of Education  
Debbie Davis, Internal Audit Director, Utah State Board of Education  
Tom Ness, Chief Financial Officer, Waterford Institute  
Jonathan Ball, Director, Office of Legislative Fiscal Analyst

**OFFICE OF THE STATE BOARD OF EDUCATION**

**UPSTART Program**

FOR THE YEAR ENDED JUNE 30, 2015

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# **OFFICE OF THE STATE BOARD OF EDUCATION**

## **UPSTART Program**

### **FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2015**

#### **1. UNALLOWABLE CHARGES FOR THE UPSTART PROGRAM**

(Repeat Finding)

We reviewed 5 of 20 reimbursements paid to Waterford by the Office of the State Board of Education (OSBE) to test for the appropriate use of UPSTART funds for the 2014-2015 school year. We noted the following errors:

- Waterford billed OSBE for unallowable computer hardware charges. OSBE's reimbursement for computer hardware included payment for shipping charges of \$1.55 per computer for 380 computers, totaling \$589.00. However, Waterford was unable to produce supporting documentation for the additional shipping charges.
- Waterford billed and OSBE paid for duplicate charges totaling \$450 related to UPSTART program coordination. The duplicate charges occurred when Waterford provided three separate invoices to OSBE of \$150 each and then included the amounts from these three separate invoices on a statement totaling \$450.

These overcharges appear to be clerical errors by the Waterford staff. Also, it appears that OSBE did not obtain sufficient evidence to support the amount of the invoices prior to making payments to Waterford, which allowed the errors to remain unnoticed. In response to the prior audit for the year ended June 2014, OSBE indicated they had designed and implemented a review process to ensure only allowable amounts were paid; however, this control was not fully implemented. To address the lack of appropriate internal controls over reimbursements, OSBE hired a contract analyst in July 2015 to monitor the contract and ensure payments were made only for allowable items, which included going back and verifying that previous payments to Waterford were appropriate. This post payment review may have eventually identified the overpayments noted above, but we cannot be certain.

#### **Recommendations:**

**We recommend that: 1) Waterford only request reimbursement for allowable UPSTART charges; 2) OSBE only reimburse Waterford for allowable UPSTART charges, and 3) OSBE recover inappropriate reimbursements paid to Waterford. We also recommend that OSBE ensure that monitoring and review procedures ensure that payments are appropriate.**

#### **Waterford's Response:**

*The Waterford Institute will continue to operate our control structure to minimize the risk of an error such as those found by the auditor. We design our control structure to balance the cost effectiveness of eliminating a risk relative to its inherent value. Considering the errors found total 0.024% of our budget, we do not anticipate making any material change to our infrastructure but will ensure that training on these specific errors is conducted to reduce the likelihood of a reoccurrence.*

**OFFICE OF THE STATE BOARD OF EDUCATION**  
**UPSTART Program**

FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2015

OSBE's Response:

*As indicated, in response to an audit finding for state fiscal year (SFY) ended June 30, 2014 the State Office of Education (USOE) indicated we had initiated a new internal control process over reimbursement requests. Shortly after the SFY2014 audit was completed in June 2015, the USOE analyzed the operating effectiveness of the new control and we identified that we lacked resources to adequately maintain the control. Therefore, in July 2015 we hired a contract analyst. The contract analyst's review of UPSTART included extensive research on invoices previously submitted without adequate documentation during SFY2015 and review of invoices currently submitted for reimbursement in SFY2016.*

*The SFY2015 audit of UPSTART began just after the new contract analyst was hired and the control was implemented; therefore the internal and external reviews ran concurrently. Though the auditors request for documentation for their review helped the USOE identify that we had been given incomplete documentation for our review of the shipping charges, the USOE believes that given time to complete the internal review before the audit we would have identified the incomplete documentation. Upon receiving the additional documentation the USOE identified the \$589 error and corrected it, receiving a credit on the next invoice. This information was then provided to the auditors, who noted the error we identified. The internal review process, which is now done as reimbursement requests are received, has caught inadequate documentation on subsequent reimbursement requests prior to payment being made; therefore, it appears to be operating effectively.*

*The duplicate payment resulted from items paid from a statement and not an invoice. The USOE has received confirmation that the total overpayment of \$450.00 will be taken against the next invoice due to Waterford. Since the audit, the USOE Finance Director has conducted training internally within the USOE that payments can only be made from invoices and not statements.*

Auditor's Concluding Remark:

We are concerned with OSBE's response, specifically related to the \$589 overpayment. Neither OSBE's initial approval of the payment nor its post payment review identified the error prior to our audit inquiry. When we questioned OSBE about the transaction, they did not have documentation and had to request it from Waterford. When OSBE received the documentation, they did review it and notice the overpayment. However, if not for our audit request, OSBE may not have identified the overpayment.

**OFFICE OF THE STATE BOARD OF EDUCATION**

**UPSTART Program**

FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2015

2. **ALLOWABLE DOLLAR LIMIT FOR PROGRAM EVALUATION NOT CALCULATED PROPERLY** (Repeat Finding)

In accordance with *Utah Code 53A-1a-1006*, of the money appropriated by the Legislature for the UPSTART program – excluding funds used to provide for computers, peripheral equipment and internet service to families – no more than 7.5% may be used for the evaluation of the program, including audit costs. For fiscal year 2015, OSBE improperly calculated the dollar limit when they did not exclude the funds used for computers, equipment, and internet service. This error occurred because OSBE personnel overseeing the UPSTART program found it difficult to estimate the amount of the dollar limit as required by the *Utah Code* sections governing UPSTART. During fiscal year 2015, the UPSTART program did not have program evaluation costs that exceeded the 7.5% maximum. However, if OSBE does not correctly calculate this dollar limit, noncompliance may occur, and OSBE may exceed the amount of funding allowed for the evaluation of the program.

**Recommendation:**

**We recommend that OSBE ensure compliance with the requirements of *Utah Code 53A-1a-1006* by appropriately calculating and limiting the maximum allowable costs for the UPSTART program evaluations.**

**OSBE's Response:**

*As acknowledged, the USOE is in compliance with the 7.5 percent requirement in statute. We have hired a contract analyst to work in coordination with the accountant to ensure appropriate fiscal management of this contract, which will include proper exclusion of computers, equipment, and internet service when calculating the 7.5 percent requirement; we will document the calculations annually. Additionally, the USOE will be working to have the statute with the 7.5 percent requirement clarified as it is our interpretation that the 7.5 percent should be calculated using actual costs, which means it may only be calculated after year end.*