

UTAH STATE BOARD OF EDUCATION UPSTART Program

Report on a Limited Review of Contractor's Use of UPSTART Funds
and
Finding and Recommendation
For the Year Ended June 30, 2016

Report No. 16-06



OFFICE OF THE
STATE AUDITOR

AUDIT LEADERSHIP:

Van Christensen, CPA, CFE, Audit Director
Jason Allen, CPA, CFE, Audit Supervisor

UTAH STATE BOARD OF EDUCATION
UPSTART Program
FOR THE YEAR ENDED JUNE 30, 2016

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OFFICE OF THE
UTAH STATE AUDITOR

Report No. 16-06

October 11, 2016

Members of the Utah State Board of Education

Sydnee Dickson, State Superintendent of Public Instruction
Utah 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, 2015 through June 30, 2016 (fiscal year 2016). 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 Utah State Board of Education (USBE) 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 USBE. The results of our procedures are as follows:

1. Use of Funds

The contract and related amendments provide a detailed budget for allowable expenditures including licenses, internet, hardware, personnel, etc. We obtained a listing from the USBE of reimbursements paid to Waterford for fiscal year 2016. Of the 20 reimbursements paid to Waterford, we selected and reviewed 5 reimbursements (25% of the invoices and 74% 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 did not note unallowable or unsupported expenditures. 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 2016 (budgeted to serve 6,622 children). We obtained a listing of the students and reviewed Waterford's records for 25 students to determine appropriate participation in the program. Based on the procedures performed, Waterford served 6,416 total students (6,639 enrolled less 223 withdrawn) for fiscal year 2016. We determined that Waterford served the minimum number of students as required by the contract.

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 (defined by *Utah Code* as below 185% of the federal poverty guideline). Such eligible families are provided with computers and internet service to operate the instructional software. We obtained a listing of students and reviewed Waterford's records for 25 students to determine whether the students were from low-income families. Based on the procedures performed, 56% of those children were determined to be from low-income families, and thus, Waterford properly complied with the requirement. However, we noted that Waterford relies on the applicant's statement of income rather than requesting documentation supporting the family's income to determine whether they meet the low-income threshold. We also noted that one student received the use of a computer whose income was not below 185% of the federal poverty guideline. See the finding and recommendation included with this report.

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 USBE oversees the evaluation of the program and, based on our review of the contract/amendments and related expenditures through June 30, 2016, has complied with the funding limitation for program evaluation.

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

Sincerely,



Van Christensen, CPA, CFE
Audit Director
801-538-1394
vchristensen@utah.gov

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

UTAH STATE BOARD OF EDUCATION
UPSTART Program

FINDING AND RECOMMENDATION
FOR THE YEAR ENDED JUNE 30, 2016

INADEQUATE OVERSIGHT OF LOW INCOME REQUIREMENTS

In our review of the Waterford Institute's (Waterford) participant determination for the UPSTART Program for the period July 1, 2015 through June 30, 2016, we noted the following weaknesses:

- Waterford does not request typical documentation (e.g. pay stubs, W-2s, etc.) to verify the family income levels of UPSTART applicants and instead relies solely on the applicant's statement to determine income level. *Utah Code 53A-1a-1004* specifies that at least 30% of the preschool children who participate in UPSTART shall be from low income families (defined by *Utah Code 53A-1a-1001* as below 185% of the federal poverty guideline). The Utah State Board of Education's (USBE's) contract with Waterford does not specify how Waterford should be collecting or verifying the participants' income information to ensure compliance with *Utah Code*.
- One of the 25 students sampled was granted use of a computer even though the family income level was above that required to receive the benefit. Per *Utah Code 53A-1a-1004*, low income families without a computer and/or internet access may be granted use of a state-provided computer and/or internet access during their participation in UPSTART. Waterford has allowed computers and/or internet access to be granted to UPSTART participants below 186% of the federal poverty guideline rather than below 185% of the federal poverty guideline outlined in the law.

These compliance issues occurred due to Waterford's differing interpretation of the low income requirements. Insufficient income verification could allow ineligible participants to receive the use of a state-provided computer and/or internet service and could cause noncompliance with the minimum 30% low income family requirement.

Recommendation:

We recommend that USBE and Waterford amend their contract for the UPSTART Program to require Waterford to implement policies and internal controls to ensure that:

- **The family income of UPSTART Program applicants is properly verified; and**
- **All participants receiving state-provided computers and/or internet access are below 185% of the federal poverty guideline as defined by *Utah Code 53A-1a-1001*.**



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October 3, 2016

Van Christensen, CPA, CFE
Audit Director
Office of the State Auditor
East Office Building, Suite E310
Utah State Capitol Complex
Salt Lake City, UT 84114

Dear Mr. Christensen:

The Utah State Board of Education (USBE) concurs with the findings and recommendations of the audit. USBE staff will engage with the vendor, Waterford, to amend the contract. The contract amendment will specifically state the requirement of the vendor, Waterford, to obtain proper income verification in the form of two years of tax returns (most recent), or two years of W-2 forms. In the event the qualifying parent(s) of the children participating in the program have changed jobs within the last year since the of verification of income, the vendor, Waterford, will acquire verification of employment, and/or check stubs. Waterford will maintain records of the household income for participants in the UPSTART program for a period of five years and two months. These records of income are subject to sampling as part of periodic audits. A meeting is scheduled with Waterford on Wednesday, October 5, 2016 to further develop corrective actions with them and to look at the potential for Waterford to utilize the Department of Workforce Services records for input for eligibility determination of individual participants.

The USBE recognizes by amending the contract to require the vendor to obtain sufficient verification of income, it will also mitigate against the risk of improperly providing automation (i.e. laptops) to unqualified participants. Waterford will maintain written policy as an internal control that all participants receiving state-provided computers and internet access are below 185 percent of the federal poverty guideline. No participant above the 185 percent federal poverty level is eligible for computers and/or internet access. Waterford will provide an inventory control list of specific individual participants by name receiving laptop computers, the type of computer(s), an inventory control number and/or internet access as part of future audit processes where sampling occurs.

Mr. Christensen
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As part of the on-going assessment of individual participant qualification once an individual is determined eligible the vendor, Waterford, is required to renew eligibility by individual participant in the program annually. This will mitigate against the risk of initial entry or qualification of individuals into the program and provide controls for increases in income by the household in future years.

The USBE anticipates having the contract amended no later than January 15, 2017 to effectively resolve the findings of this audit and follow the recommendations. If during the course of the amendment process with the vendor, Waterford, a change in the corrective action proposed here, takes place or additional controls or processes are implemented, the USBE will advise the Office of the State Auditor accordingly.

Sincerely,

A handwritten signature in cursive script that reads "Sydnee Dickson". The signature is written in black ink and is positioned above the printed name.

Sydnee Dickson, Ed.D.
State Superintendent of Public Instruction



Inspire a Great Start for **Every Child**

Waterford Response to Audit Findings:

- 1) Waterford has already adjusted the inclusion or exclusion of participants to reflect the use of 184.9% as the inclusion threshold for participating as a low income household and concur with adjusting the contract to document this threshold going forward.
- 2) Waterford's prior accepted practice for income validation was either the use of a web form certification of information or an over the phone or in person conversation with the Parent/Guardian of the participant to determine eligibility. After reviewing other practices within the State for similar programs and consulting with our funding partners, Waterford would recommend that for years 9 and 10, the use of a signed form by the Parent/Guardian be implemented during the registration process. This form would document the reason for eligibility and require the participant to affirm their eligibility based on that criteria. This is an accepted practice by our plan sponsors here in Utah. See attached HQSR-E eligibility form as an example of what our form might look like – we received this from USBE as an example of what they currently do and could accept. Year 8 should not be considered for adjustment from current practice as we have essentially completed the process of both registration and training and it would be prohibitive to re-work the entire population to meet this new requirement.