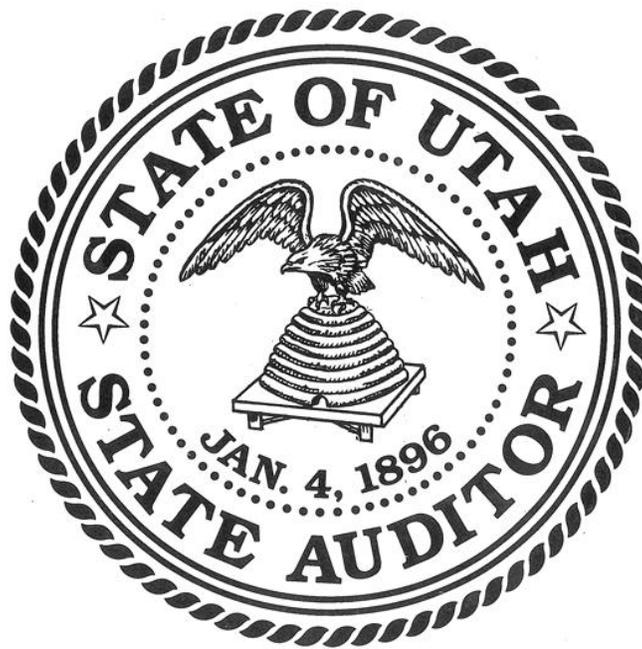


UTAH STATE BOARD OF EDUCATION

Single Audit Management Letter
For the Year Ended June 30, 2016

Report No. 16-19



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Van Christensen, CPA, Audit Director
Ariane Gibson, CPA, Audit In-Charge



OFFICE OF THE
UTAH STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 16-19

November 10, 2016

To the Utah State Board of Education
and
Sydnee Dickson, State Superintendent of Public Instruction

This management letter is issued as a result of the Utah State Board of Education's (USBE's) portion of the statewide federal compliance audit for the year ended June 30, 2016. Our final report on compliance and internal control over compliance issued to meet the reporting requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is issued under separate cover. We tested the following federal programs as major programs at USBE:

- Career & Technical Education
- Grants for State Assessments & Related Activities
- (SSI) Disability Determination
- Vocational Rehabilitation

As of October 1, 2016, the Vocational Rehabilitation and (SSI) Disability Determination programs are managed by the Department of Workforce Services (DWS). Findings related to our testing of those programs will be communicated in a separate letter. DWS's Utah State Office of Rehabilitation will then provide responses and corrective action plans, as considered necessary, for those programs.

In planning and performing our compliance audit of the programs listed above, we considered USBE's compliance with the applicable types of compliance requirements as described in the *OMB Compliance Supplement* for the year ended June 30, 2016. We also considered the USBE's internal control over compliance with the types of requirements described above that could have a direct and material effect on the major programs tested in order to determine the auditing procedures that were appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of USBE's internal control over compliance.

Our consideration of internal control over compliance was for the limited purposes described in the second paragraph and would not necessarily identify all deficiencies in the USBE's internal control that might be material weaknesses or significant deficiencies as defined in the following paragraphs. However, as discussed subsequently, based on the audit procedures performed, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct on a timely basis noncompliance with a type of compliance requirement of a federal program. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance presented in the accompanying schedule of findings and recommendations as Finding 1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance presented in the accompanying schedule of findings and recommendations as Finding 2 to be a significant deficiency.

USBE's written responses to and Corrective Action Plans for the findings identified in our audit were not subjected to the audit procedures applied in our audit and, accordingly, we express no opinion on them.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing. Accordingly, this communication is not suitable for any other purpose.

We appreciate the courtesy and assistance extended to us by the personnel of USBE during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,



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

cc: Scott Jones, Associate Superintendent for Business Services
Debbie Davis, Director, Internal Audit
Natalie Grange, Director, School Finance
Deborah Jacobsen, Director/Controller
Thalea Longhurst, State Director of CTE
JoEllen Shaeffer, Educational Director, Assessment and Accountability

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Finding Type:

MW Material Internal Control Weakness

SD Significant Deficiency of Internal Control

Applicable To:

f Federal Program

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FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2016

1. IMPROPER DETERMINATION OF MAINTENANCE OF EFFORT

Federal Agency: **Department of Education**

CFDA Number and Title: **84.048 Career and Technical Education (CTE)**

Federal Award Number: **V048A130044-13A**

Questioned Costs: N/A

Prior Year Single Audit Report Finding Number: **2015-11**

Pass-through Entity: N/A

We reviewed the CTE maintenance of effort (MOE) calculation prepared by the Utah State Board of Education (USBE) for fiscal year 2014 to determine compliance with MOE requirements. We noted that the MOE calculation improperly included \$13.9 million capital expenditures. According to Section 311(b)(1)(B) of Perkins IV, a State must exclude capital expenditures when computing the fiscal effort or aggregate expenditures. This error resulted from a misunderstanding of the MOE requirements. Since the purpose of the MOE requirements is to ensure that LEAs expend at least the same amount of local/state funding for CTE as in the previous fiscal year, not accurately reporting the required level of MOE could result in reductions in future grant funding or potential questioned costs. Because the USBE met the MOE requirements for fiscal year 2014 in spite of the error noted above, we have not questioned any costs.

Recommendation:

We recommend that the USBE take greater care in reviewing the grant requirements to ensure that only appropriate expenditures are included in the calculation of the MOE. We also recommend that the USBE improve internal controls over the CTE MOE calculation and consider having a second person who is also familiar with the grant requirements review the calculation.

USBE's Response:

The USBE agrees with this finding.

Corrective Action Plan:

The CTE section sent the auditors a preliminary MOE calculation, prior to the calculation being subject to the additional internal controls implemented to ensure the MOE calculation was accurate. USBE is unable to validate that the new internal control process would have detected the inclusion of capital costs because the auditors notified CTE staff prior to the calculation being reviewed.

The USBE feels the additional reviews planned would have detected the error in the calculation and that the CTE section has been adequately trained and understands the

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FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2016

requirements of the calculation of MOE. The USBE has implemented additional internal controls for the review of MOE, including reviewing source data and associated formulas. It should be noted that even with the error identified by the auditors, Utah did meet the MOE requirement for fiscal year 2014 and is in compliance.

Contact Person's Name: Thalea Longhurst, State CTE Director, 801-538-7889

Anticipated Completion Date: Implemented

2. INADEQUATE CONTROLS OVER ALLOCATION OF LEAVE BALANCES

Federal Agency: **1) Department of Education; 2) U.S. Department of Agriculture**

CFDA Numbers and Titles: **1) 84 Various Department of Education programs**

2) 10 Various Department of Agriculture programs

Federal Award Numbers: **Various**

Questioned Costs: N/A

Prior Year Single Audit Report Finding Number: **2015-009**

Pass-through Entity: N/A

During our review of payroll transactions charged to federal programs under the oversight of the USBE, we noted that in those cases where employees worked on more than one activity, the hours charged for leave taken (e.g. annual leave, sick leave, holidays, etc.) were not equitably allocated to all of the activities on which the employees had worked. As required by 2 CFR section 200.431, the cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job should be equitably allocated to all related activities. This error occurred because the payroll system charges leave taken to a predetermined account coding and there is no process to subsequently review, and allocate where necessary, leave charges to the actual activities on which the employees had worked. Failure to properly allocate leave costs may result in inequitable charges to all related activities, including federal programs. We noted no reportable noncompliance for any of the major federal programs tested.

Recommendation:

We recommend that the USBE implement appropriate procedures, internal controls, and payroll system changes to ensure that leave costs charged to federal awards are equitably allocated to all related activities in accordance with CFR section 200.431.

USBE's Response:

The USBE concurs with this finding.

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Corrective Action Plan:

This finding was initially noted in the FY2015 Single Audit. This issue only pertains to USBE employees that split their time between state and federal projects. In the current year this is 33 employees. To mitigate against the risk that federal programs could be overcharged corrective action was implemented that resulted in all leave being charged to state dollars rather than associated federal programs for FY2016. This decision was made based on the inability of the State's Payroll system to allow for allocation of holiday pay to more than one funding source for leave usage.

USBE staff has been in contact with State Finance and other State Agencies and is pursuing a leave additive rate methodology to allocate leave usage. This methodology must be approved by the USBE's cognizant Federal Agency, which is the Department of Education prior to implementation.

If approved, hours charged for leave taken will not be charged to a predetermined account coding in the payroll system. Instead, leave taken will be charged to a USBE Leave pool. USBE will apply the approved leave additive rate monthly to individual grants based upon direct labor charges. The leave additive rate is calculated by dividing the leave paid expenditures by regular salaries and wages. The leave additive rate will be fixed for the fiscal year. Annually USBE will recalculate and reconcile the rate based on actual expenditures and any over/under cover cumulative balance from the prior year. This process will be implemented through a FINET allocation that is calculated and posted within the same month which original direct labor is posted.

*Contact Person: Deborah Jacobson, Finance Director, 801-538-7621
Anticipated Completion Date: March 1, 2017*