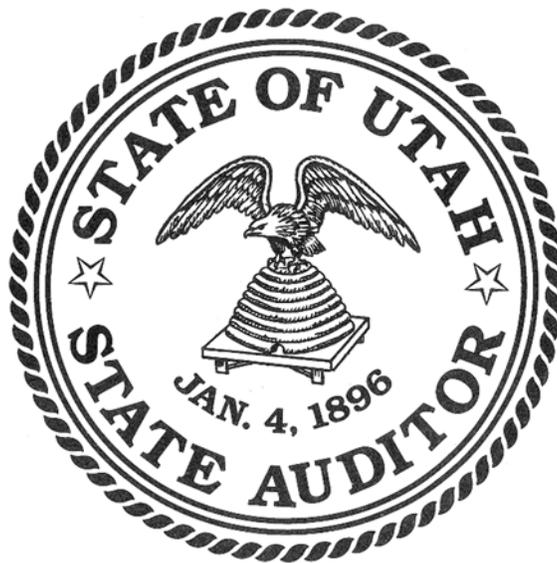


UTAH STATE BOARD OF EDUCATION

Single Audit Management Letter
For the Year Ended June 30, 2018

Report No. 18-08



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
Ryan Roberts, CPA, Audit Supervisor

UTAH STATE BOARD OF EDUCATION

Single Audit Management Letter FOR THE YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

			<u>Page</u>
SINGLE AUDIT MANAGEMENT LETTER			1
FINDINGS AND RECOMMENDATIONS:	<u>Federal Program</u>	<u>Type/ Applicability</u>	
1. Inadequate Internal Controls Over Subrecipient Monitoring	Title I Grants to Local Educational Agencies	SD-f; RN-f	3
2. Noncommunication of Pre-award Information to Subrecipients (Repeat Finding)	Title I Grants to Local Educational Agencies	SD-f; RN-f	5
3. No Verification of LEA Suspension and Debarment Status	Title I Grants to Local Educational Agencies	SD-f; RN-f	7
4. Insufficient Written Policies and Procedures Regarding Federal Regulations	Various	-	8
5. Inadequate Internal Controls over Period of Performance Waivers	Title I Grants to Local Educational Agencies	-	9

<u>Finding Type:</u>	<u>Applicable To:</u>
SD Significant Deficiency of Internal Control	f Federal Program
RN Reportable Noncompliance or Illegal Acts	



OFFICE OF THE
STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 18-08

November 19, 2018

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, 2018. 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.

In planning and performing our compliance audit of the Title I Grants to Local Educational Agencies program, 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, 2018. We also considered 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.

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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purposes described in the second paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, we did not identify any deficiencies in USBE's internal control that we consider to be material weaknesses. However, we consider the deficiencies in internal control over compliance presented in the accompanying schedule of findings and recommendations as Findings 1 through 3 to be significant deficiencies.

During our audit, we also became aware of deficiencies in internal control other than significant deficiencies or material weaknesses that are opportunities for strengthening internal controls and operating efficiencies. These other findings also included in the accompanying schedule of findings and recommendations.

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

Sincerely,



Hollie Andrus, CPA
Audit Director
801-808-0467
handrus@utah.gov

cc: Scott Jones, Deputy Superintendent of Operations
Debbie Davis, Director, Internal Audit
Natalie Grange, Assistant Superintendent of Financial Operations
Deborah Jacobsen, Director of Internal Accounting/Controller
Leah Voorhies, Assistant Superintendent of Student Support
Patty Norman, Deputy Superintendent of Student Achievement
Rebecca Donaldson, Title I Coordinator

FINDINGS AND RECOMMENDATIONS

1. INADEQUATE CONTROLS OVER SUBRECIPIENT MONITORING

Federal Agency: **Department of Education**

CFDA Number and Title: **84.010 Title I Grants to Local Educational Agencies**

Federal Award Numbers: **S010A150044-15B; S010A170044-17B**

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

The Utah State Board of Education (USBE) does not have adequate internal controls over subrecipient monitoring. As a result, the following errors occurred:

- a. The USBE has not performed subrecipient risk assessments that are then used to determine the appropriate level of subrecipient monitoring. According to federal regulations (2 CFR section 200.331(b)), “a pass-through entity must evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring related to the subaward.” The USBE is currently in the process of developing risk assessment procedures to meet these requirements.
- b. USBE disbursed grant funds to one of 14 LEAs we reviewed without completing monitoring procedures. According to its Title 1 Monitoring Handbook, the USBE is required to hold Title 1 funds until an LEA has completed its Annual Internal Review.
- c. The USBE’s subrecipient monitoring procedures do not include follow-up of subrecipient actions to correct deficiencies detected through audits, on-site reviews, and other means. This follow-up should be documented and performed in accordance with federal regulations and USBE’s own written policies.

These lapses in internal control occurred, in part, due to a lack of clear communication between the two Title I specialist functions. Since the majority of the Title I funds are passed through to subrecipients, subrecipient monitoring is critical to ensure that these funds are used for authorized purposes and comply with the federal requirements and terms and conditions of the program. A comprehensive subrecipient monitoring system should include procedures identified as necessary based upon the evaluation of subrecipient risk or otherwise specified by the terms and conditions of the award. Lack of clear communication between grant personnel could result in disbursement of grant funds in violation of federal and agency policy.

Recommendation:

We recommend the USBE establish internal controls over subrecipient monitoring and improve communication between Title I specialists to ensure:

- a. appropriate risk evaluations of subrecipients are performed,**
- b. funds are disbursed in accordance with federal and agency policy, and**
- c. identified deficiencies are followed-up on in a timely manner.**

USBE's Response:

The USBE agrees with this finding.

Corrective Action Plan:

The USBE has developed and implemented an overall financial statement and single audit review and risk assessment process. Financial Operations staff review financial statement and single audits, request corrective action plans and follow up on findings as required by the Uniform Guidance. The risk assessment from this process is communicated to the federal program staff at the USBE for use in programmatic risk assessment.

The USBE concurs that a programmatic risk assessment process has not been implemented for the Title I program. An agency wide standardized risk assessment process and policy is currently being developed jointly with all federal programmatic staff to be implemented in the grants management system in FY2020. In addition to policy and standardization of practice, a module is being developed to document subrecipient desktop, site visit, and reimbursement request monitoring instances. This module will document the data reviewed, create findings or other items and monitoring reports, and includes a follow up and resolution process. This will not be available until FY2020.

*Until the agency wide policy is implemented the USBE Title I Coordinator and Specialists have created an interactive spreadsheet that includes each local educational agency (LEA) by LEA number and LEA name. A specific member of the USBE staff is assigned to each LEA and serves as the first reviewer/approver. Each application will be checked by a second reviewer/approver. The spreadsheet will be used to track the following dates for each LEA: (1) date when each local educational agency (LEA) submits its annual application for Title I, Part A funds, (2) when the LEA application has been approved, (3) date the Desktop Monitoring Instrument Cycle (DMI) is submitted, (4) date the DMI Cycle is approved, (5) date the DMI Annual Core is submitted, and (6) date the DMI Annual Core is approved. The final column on the interactive spreadsheet titled "Release Funds" will be changed from **No (in red)** to **Yes (in green)** once the LEA has had all required annual documents submitted and approved by two USBE staff members. A new Compliance Manager/Auditor has been hired. She will join the team on November 5, 2018. The Compliance Manager will serve as a second reviewer before any funds are released to the LEAs. Funds will not be released to an LEA until all reviews/approvals for that LEA have been completed, validated, and documented.*

*Contact Person: Rebecca S. Donaldson, PhD, ESEA Program Coordinator, 801-538-7869
Anticipated Correction Date: Fiscal Year 2020*

2. **NONCOMMUNICATION OF PRE-AWARD INFORMATION TO SUBRECIPIENTS**

Federal Agency: **Department of Education**
CFDA Number and Title: **84.010 Title I Grants to Local Educational Agencies**
Federal Award Numbers: **Various**
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: **2017-007**

The USBE does not have adequate internal controls to ensure all required information is included in the subrecipient award documentation. According to federal regulations (2 CFR 200.331(a)(1)), all pass-through entities must ensure that every subaward includes specific information at the time of the subaward.

We reviewed subaward documents for Title I subrecipients and noted that the subaward letters lacked the following information:

- Clear identification of the award as a subaward
- Subrecipient's DUNS number
- Federal award date
- FAIN number
- Total amount of the federal award
- An indication of whether the award is for R&D
- Any applicable indirect cost rate

These errors occurred because the USBE did not adequately update its processes to ensure compliance with new Uniform Guidance requirements. Not including required information in subaward documentation prior to issuance of subawards increases the risk that subrecipients will not comply with program requirements.

Recommendation:

We recommend the USBE comply with Uniform Guidance (2 CFR 200.331(a)(1)) and ensure that all required information is properly included within each program's subaward contracts in accordance with all applicable laws and compliance requirements.

USBE's Response:

The USBE agrees with this finding.

Corrective Action Plan:

The USBE concurs that award letters issued for the period under audit did not list all required information listed in the uniform guidance section 200.331. Prior to the time the uniform guidance became effective, an analysis was conducted of the BASE system, which is the only

system that issues award letters for USBE sub-awards. The cost to reprogram BASE, gather all required data points, and implement new award letters was not feasible or practical because the USBE was creating a new grants management system and the existing system was being decommissioned in phases from 2016-2018. Manually creating mail merge letters for over 300 sub-recipients and 34+ federal grants that are modified at least twice a year, was not efficient or practical for the agency.

An analysis was conducted of the elements required by the uniform guidance and not presently included in the award letters. The elements not included were not deemed to be a critical risk of noncompliance for the local education agencies (LEAs) or the USBE. The USBE validates sub-recipients DUNS numbers and has all DUNS numbers on file in order to complete compliant FFATA reporting. DUNS numbers are provided by all sub-recipients and are stored in FINET vendor profiles, which will be accessible to the new grants system (see further details below). Sub-recipients are notified of their award amount, the amount of award modifications, the CFDA number of a grant, and the period of availability of each grant. The USBE does not have R&D grants, and the FAIN number, total federal award amounts and federal award date have no impact on the subrecipients ability to adequately report and disclose the subrecipients schedule of expenditures of federal funds.

LEA indirect cost rates are calculated by the USBE and the LEA. These rates are visible in the UPEFS system and are disclosed to the LEA when the LEA signs their indirect cost agreement annually. Indirect costs rates and the schedule of applicable programs are published by LEA on the USBE's website annually. Non-LEA rates are negotiated separately or established by authorized agreements with other federal cognizant agencies. The rates are also loaded by program in the current grant management system for all ESSA and Special Education grants.

The new grants management system has been designed to collect all required elements at the creation point of the grant and the award letter issued through the system. The system went live in July 9, 2018. Awards in state fiscal year FY2019 are fully compliant with all required elements in the uniform guidance section 200.331. As part of the annual follow up by the US Department of Education various departments have requested the new award letter being issued from the UtahGrants system, determined all required elements are now included, and have closed this finding from our FY2017 single audit. As of July 9, 2018 this matter is resolved.

*Contact Person: Natalie Grange, Assistant Superintendent of Financial Operations, 801-538-7668
Anticipated Correction Date: July 9, 2018*

3. NO VERIFICATION OF LEA SUSPENSION AND DEBARMENT STATUS

Federal Agency: **Department of Education**
CFDA Number and Title: **84.010 Title I Grants to Local Educational Agencies**
Federal Award Numbers: **S010A150044-15B; S010A170044-17B**
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

The USBE does not have a policy to verify that LEAs are not suspended or debarred from receiving federal funds and, as a result, does not perform this verification before awarding federal funds to an LEA. In accordance with federal regulations (2 CFR 180), the USBE is required to establish internal controls to ensure it either 1) includes an appropriate suspension and debarment clause in the contract or grant agreement with the entity, 2) collects a certification from the entity, or 3) checks for excluded parties in the System for Award Management (SAM) maintained by General Services Administration (SAM.gov website). This verification has not occurred because the USBE believed it only had to check for suspension and debarment when an LEA receives federal funds as a vendor and not when an LEA receives federal funds as a subrecipient. Inadequate internal controls over the process to verify whether an entity has been suspended or debarred could result in federal funds being disbursed to ineligible entities.

Recommendation:

We recommend the USBE establish written policies and internal controls to properly verify whether an LEA has been suspended or debarred from receiving federal funds as a subrecipient before entering into a contract or grant agreement with the LEA.

USBE's Response:

The USBE agrees with this finding.

Corrective Action Plan:

The USBE checks every vendor against the SAM.gov website to determine their suspension and debarment status. This has been part of the contract checklist for the entirety of FY2018. When LEA vendor information is changed in the accounting system each LEA was checked against SAM.gov. Because LEA vendor profiles are not always updated annually the suspension and debarment status was not being reviewed annually.

The USBE is developing grant management policies and will include an annual check of all LEAs as part of the eligibility and vendor update protocol moving forward. We anticipated having a full set of grants policies adopted and implemented by July 1, 2019.

Additionally, an assurance was added to the FY2019 federal assurances document that is required to be completed by the LEA Superintendent before any federal funds are awarded. The

FY2019 assurances were due July 1, 2018 and all but one LEA certified they were not suspended or debarred. One LEA responded that they were. Upon validation in SAM.gov that they were not on active debarment status it was noted the LEA was confused by the question. The USBE is in compliance with this requirement for FY2019 awards.

*Contact Person: Natalie Grange, Assistant Superintendent of Financial Operations, 801-538-7668
Anticipated Correction Date: July 1, 2019*

4. INSUFFICIENT WRITTEN POLICIES AND PROCEDURES REGARDING FEDERAL REGULATIONS

Federal Agencies: **Department of Education and Department of Agriculture**

CFDA Number and Title: **Various**

Federal Award Numbers: **Various**

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

The USBE has not formalized written policies and procedures to ensure compliance with federal regulations, statutes, and terms and conditions of its federal awards. Over the last several years, the USBE has experienced high turnover (approximately 20% a year). A recent audit by Utah's Office of the Legislative Auditor General (Report #2017-12) indicated that the USBE's high turnover disrupts the continuity of the USBE's operations. As new or inexperienced employees are responsible for federal program compliance, formalized written policies and procedures would provide guidance to them and increase continuity in the USBE's operations. The lack of written policies and procedures could increase the risk of noncompliance with federal regulations, statutes, and terms and conditions of federal awards.

Recommendation:

We recommend USBE formalize written policies and procedures for management of its federal programs.

USBE's Response:

The USBE agrees with this finding.

Corrective Action Plan:

Various sections within the USBE are engaged in a policy writing. Presently the Financial Operations staff is reviewing State Finance policies for adoption by the Board of Education and writing grants management and compliance policies. We anticipated having a full set of grants policies adopted and implemented by July 1, 2019.

Contact Persons: *Scott Jones, Deputy Superintendent of Operations, 801-538-7614*
Natalie Grange, Assistant Superintendent of Financial Operations 801-538-7668
Anticipated Correction Date: *July 1, 2019*

5. **INADEQUATE CONTROLS OVER PERIOD OF PERFORMANCE WAIVERS**

Federal Agency: **Department of Education**

CFDA Number and Title: **84.010 Title I Grants to Local Educational Agencies**

Federal Award Numbers: **S010A150044-15B; S010A170044-17B**

Questioned Costs: *N/A*

Pass-through Entity: *N/A*

Prior Year Single Audit Report Finding Number: *N/A*

The USBE has not established internal controls over the granting of waivers to carry over grant funds. According to 34 CFR 76.709 and 20 USC 6339(a), LEAs can carryover *up to* 15% of their yearly grant award to the last 12 months of the period of performance. However, 20 USC 6339(b) and the Tyding Amendment to the Elementary and Secondary Education Act (ESEA) allow the USBE to grant a waiver to an LEA once every 3 years allowing the LEA to carry over and spend *in excess* of 15% of the grant award in the last 12 months of the period of performance. A USBE grant specialist has sole discretion for granting waivers to LEAs, but adequate internal controls would dictate that a second individual review and approve the waivers. Although we did not find any waivers that were inappropriately granted during our audit period, inadequate internal controls could allow waivers to be granted inappropriately without detection.

Recommendation:

We recommend the USBE establish internal controls over the granting of period of performance waivers in accordance with the Tyding Amendment.

USBE's Response:

The USBE agrees with this finding.

Corrective Action Plan:

The USBE Title I Coordinator and Specialists revised the Title I, Part A of the Every Student Succeeds Handbook that was provided to LEAs during the 2017-2018 school year. A draft of the revised handbook was presented to all new LEA Title I Directors on September 17, 2018. An edited version of the revised handbook (in hard copy) will be provided to all LEA Title I Directors at the fall meeting on November 30, 2018. Meetings are streamed live and archived on the website along with all materials provided. Section R of the handbook, pps. 56-57, outlines the Title I, Part A Carryover Provision requirements under the Elementary and Secondary Education Act (ESEA) as amended by the Every Student Succeeds Act (ESSA). Appendix A of the

handbook provides a template for a formal letter from the LEA, that must be on LEA letterhead, and submitted to the Title I Coordinator by November 1. The Title I Coordinator will review all carryover requests submitted. Requests will be reviewed a second time by the Fiscal Specialist and Compliance Manager before being granted or denied. A formal written response indicating whether or not the LEA request has been approved will be sent back to the LEA with the reasons for the decision. An email message about the Title I Carryover Provision was sent to all LEA Title I Directors on October 10, 2018. A copy of the handbook and the waiver request letter was included.

*Contact Person: Rebecca S. Donaldson, PhD, ESEA Program Coordinator, 801-538-7869
Anticipated Correction Date: November 30, 2018*