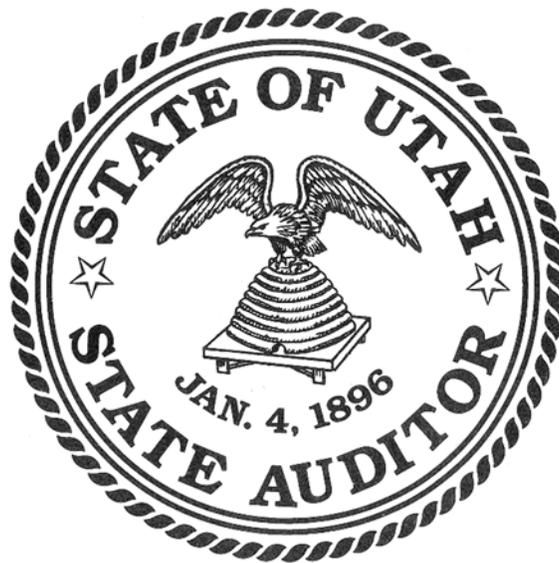


UTAH STATE BOARD OF EDUCATION

Single Audit Management Letter
For the Year Ended June 30, 2017

Report No. 17-11



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
Ariane Gibson, CPA, Audit Manager

UTAH STATE BOARD OF EDUCATION

Single Audit Management Letter FOR THE YEAR ENDED JUNE 30, 2017

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 Single Audit Reviews	Child Nutrition; Child & Adult Care Food Program	SD-f; RN-f	3
2. Inadequate Internal Controls Over Subrecipient Monitoring Pre-award Requirements	Career & Tech Ed; Special Ed Cluster; Supporting Effective Instruction	SD-f; RN-f	4
3. Lack of Documentation for Evaluation of Subrecipient Risk of Noncompliance	Career & Tech Ed	SD-f; RN-f	6

Finding Type:

SD Significant Deficiency of Internal Control
RN Reportable Noncompliance or Illegal Acts

Applicable To:

f Federal Program



OFFICE OF THE
STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 17-11

December 8, 2017

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, 2017. 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
- Child Nutrition Cluster
- Child and Adult Care Food Program
- Special Education Cluster (IDEA)
- Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)

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, 2017. 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.

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,



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
Thalea Longhurst, State Director of CTE
Jeannie Rowland, Educator Effectiveness Coordinator
Kathleen Britton, Director, Child Nutrition Programs
Kim Loveland, SNP Coordinator
Devon Parcell, Child and Adult Care Food Program Coordinator
Leah Voorhies, Assistant Superintendent of Student Support
Patty Norman, Deputy Superintendent of Student Achievement

FINDINGS AND RECOMMENDATIONS

1. INADEQUATE INTERNAL CONTROLS OVER SUBRECIPIENT SINGLE AUDIT REVIEWS

Federal Agency: **Department of Agriculture**

CFDA Numbers and Titles: **1) 10.553, 10.555, 10.556, 10.559 Child Nutrition Cluster**
2) 10.558 Child and Adult Care Food Program

Federal Award Numbers: **1) 173UT311N1099 2) 173UT311N2020**

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) has inadequate internal controls over its monitoring of Child Nutrition programs to ensure Child Nutrition subrecipients have Single Audits as required by federal regulations. According to 2 CFR 200 §200.331 (d)-(h), USBE must 1) verify that every subrecipient is audited as required, 2) follow-up and ensure that the subrecipient takes timely and appropriate action on all deficiencies detected through audits, etc., and 3) consider whether the results of a subrecipient's audit, etc., indicate conditions that necessitate adjustments to its records. We tested 20 subrecipients and noted the following:

1. Child Nutrition Program (CNP) – USBE failed to request an annual grant certification from one subrecipient that received \$384,278 from USBE in State fiscal year 2016. USBE uses the annual grant certifications to determine which agencies require a Single Audit.
2. Child and Adult Care Food Program (CACFP) – For two subrecipients, USBE's tracking spreadsheet indicated a single audit was not required, but the subrecipients' annual grant certifications indicated a single audit was required. Although USBE's tracking spreadsheet did not indicate the reports were required, USBE did provide us copies of each subrecipients' Single Audits from the Federal Audit Clearinghouse. In addition, for one of these two subrecipients, USBE did not document the Single Audit findings in the tracking spreadsheet and did not follow up on the findings.

These oversight errors were caused by employee turnover and a lack of written policies and procedures regarding monitoring subawards. Inadequate reviews of Single Audit reports can result in noncompliance with federal subrecipient monitoring requirements, inappropriate use of federal funds without detection, and possible failure to collect questioned costs identified in audit reports.

Recommendation:

We recommend USBE establish adequate internal controls to ensure it performs the required monitoring of subrecipient Single Audit reports, including following up on all audit findings.

USBE's Response:

The USBE agrees with this finding.

Corrective Action Plan:

The USBE CNP section had an existing practice in place to ensure that monitoring occurs of nonprofit and for profit organization sub-recipient audits; however, during the transition period caused by employee turnover, this process was not completed. When this noncompliance was noted, monitoring and follow up for the 2016 fiscal year occurred. This oversight occurred only for sub-recipients that are not school districts or charter schools. School districts and charter school audits are reviewed and monitored by the Financial Operations section.

A standard operation procedure has been created and put into place that documents the timelines and steps that will occur annually to ensure compliance with the uniform guidance sub-recipients monitoring requirements. The CNPweb system will be used to gather data from non-lea subrecipients and help to ensure that monitoring and follow up occurs using the correct threshold.

Contact Person: Devon Parcel, CNP Program Lead, 801-538-7689

Anticipated Correction Date: Implemented

2. INADEQUATE INTERNAL CONTROLS OVER SUBRECIPIENT MONITORING PRE-AWARD REQUIREMENTS

Federal Agency: **Department of Education**

CFDA Numbers and Titles: **1) 84.048 Career and Technical Education**
2) 84.027, 84.173 Special Education Cluster (IDEA)
3) 84.367 Supporting Effective Instruction (Title IIa)

Federal Award Numbers: **Various**

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

USBE does not have adequate internal controls to ensure all required information is included in 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 9 Career and Technical Education (CTE) subrecipients, 43 Special Education Grants to States (IDEA) subrecipients, and 30 Supporting Effective Instruction State Grants (Title IIa) subrecipients and noted that all subaward letters lacked the following information:

- Clear identification that the award is a subaward
- Subrecipient's unique entity identifier (DUNS number)

- Federal award date
- Federal Award Identification Number (FAIN)
- Total amount of the federal award
- Identification of whether the award is R&D
- Any applicable indirect cost rate

These errors occurred because USBE did not adequately update its processes to ensure compliance with 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 USBE strengthen internal controls for its respective programs to ensure that all required information is properly included within each program's subaward contracts in accordance with applicable laws and compliance requirements.

USBE's Response:

The USBE partially agrees with this finding.

Corrective Action Plan:

The USBE concurs that award letters issued for the period under audit do 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 is 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 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. 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 sub-recipients ability to adequately report and disclose the subrecipients 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. CTE grants are not included in the current system.

The new grants management system is being designed to collect all required elements at the creation point of the grant and the award letter issued through the system. The system is set to go live in July of 2018. Awards in state fiscal year FY2019 will be fully compliant with all required elements in the uniform guidance section 200.331.

*Contact Person: Natalie Grange, Assistant Superintendent of Financial Operations,
801-538-7668*

Anticipated Correction Date: July 1, 2018

3. LACK OF DOCUMENTATION FOR EVALUATION OF SUBRECIPIENT RISK OF NONCOMPLIANCE

Federal Agency: **Department of Education**

CFDA Number and Title: **84.048 Career and Technical Education**

Federal Award Numbers: **Various**

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

USBE could not provide documentation showing that it had performed risk evaluations 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." Inability to provide documentation of risk evaluations was due to personnel turnover at USBE, which impacted the time available to develop procedures for new subrecipient risk evaluation requirements. Without documentation, we could not determine whether USBE performed proper risk evaluations or performed adequate subrecipient monitoring procedures based on the risk evaluations.

Recommendation:

We recommend USBE implement procedures to document subrecipients' risk of noncompliance and the effect on monitoring procedures.

USBE's Response:

The USBE partially agrees with this finding.

Corrective Action Plan:

The CTE section agrees that a tracking sheet with each sub-recipients Perkins related risk clearly identified was not available for the year reviewed. However, the CTE section provided documents to the state auditors that identified the general risk categories and focused risk monitoring of Perkins grant recipients. The CTE section regularly monitors grant recipients through desk monitoring and site visits and completed required monitoring for the 2016 grant year. CTE has already taken steps to ensure that sub-recipients' risk is formalized through a tracking document. CTE has hired new compliance specialist staff to assist in the oversight and to implement improvements.

*Contact Person: Thalea Longhurst, State Director of Career and Technology Education,
801-538-7889*

Anticipated Correction Date: July 1, 2018