

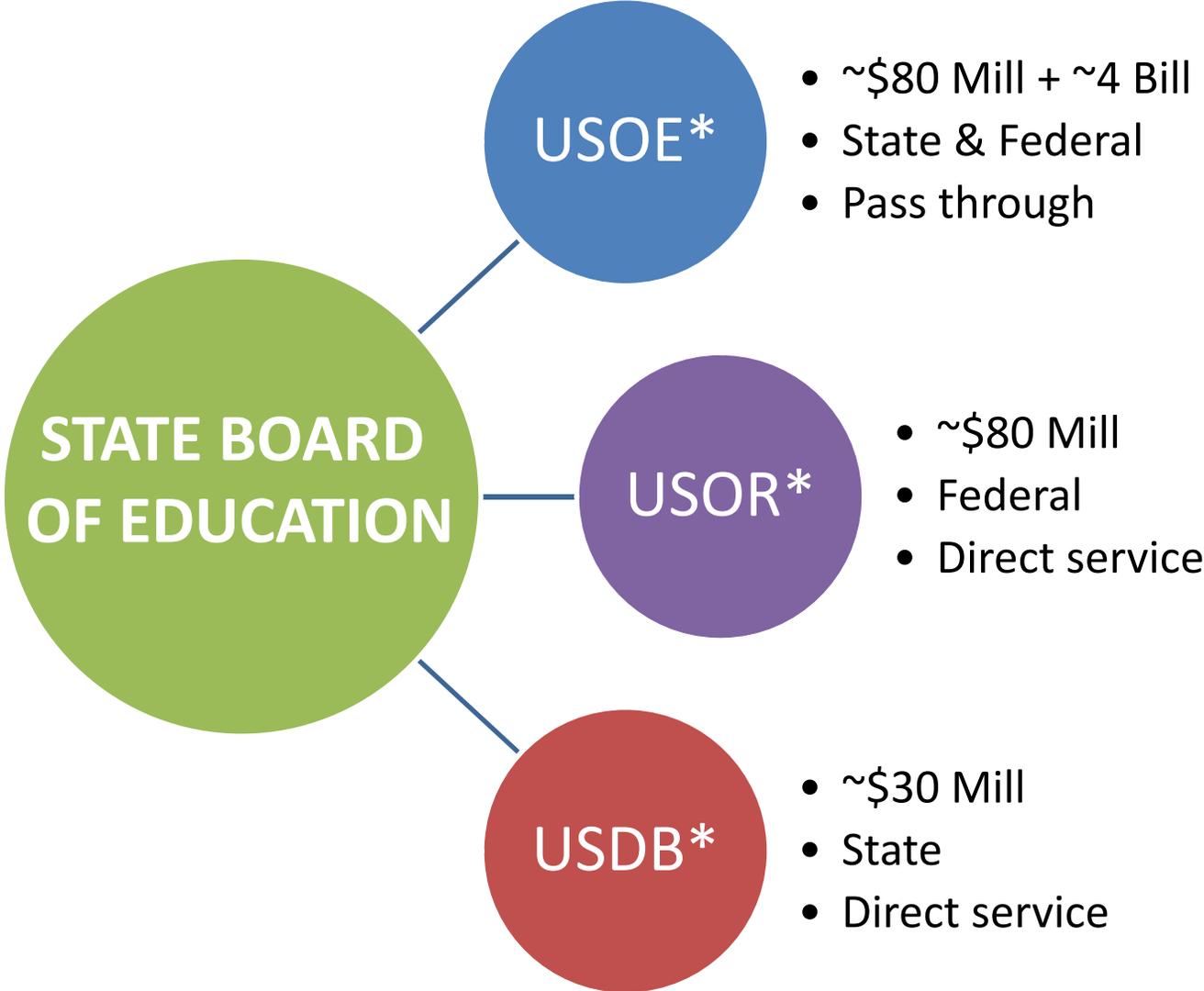


# STATE BOARD OF EDUCATION:

1. Duties
2. USOE Implications of USOR Audit
3. Financial Problems and Needs

February 1, 2016

# WHAT DOES THE STATE BOARD DO?



\*State funding almost entirely funded from Education Fund

# WHAT DOES THE STATE BOARD DO? (USOE)

1. Appoint and direct the **State Superintendent**
  - Calculate, transfer and monitor billions of dollars of **Minimum School Program**
  - Execute **federal programs** (ESSA Title Programs, IDEA, Child Nutrition, CTE, ...)
  - Execute **state education programs** (Assessment, USDB, Youth-in-Care/Custody, NESS, transportation, dual-language, school land trust, Special Ed, SEOP, ...)
  - Provide **training** and **technical assistance**
  - Provide **technology platforms** for public education
2. Create annual **budgeting** and **new funding** requests
3. Set **state standards** (HS graduation requirements; subject-specific grade level standards for math, science, arts, etc.)
4. Write **administrative rules** (140+)
5. Oversee educator **licenses** (teachers, administrators, etc.)
6. Conduct **compliance** reviews and **audits**

# WHAT DOES THE STATE BOARD DO? (USOR)

1. Appointment **approval** of Executive Director of USOR & division directors
2. Write **administrative rules** (3)
3. Set **policy**
4. Appoint advisory committee members for many councils/committees
5. Annual **budgeting** and **new funding** requests
6. Conduct **audits** and **compliance** reviews

# WHAT DOES THE STATE BOARD DO? (USDB)

1. **Appoint** and direct the **USDB Superintendent**
  - Administers statewide school sites
  - Provide contract services with districts and charter schools
  - Provide transportation to school sites
  - Provide in home evaluations and services
  - Extended core standards
2. Set **policy**
3. Annual **budgeting** and **new funding** requests
4. Conduct **audits** and **compliance** reviews

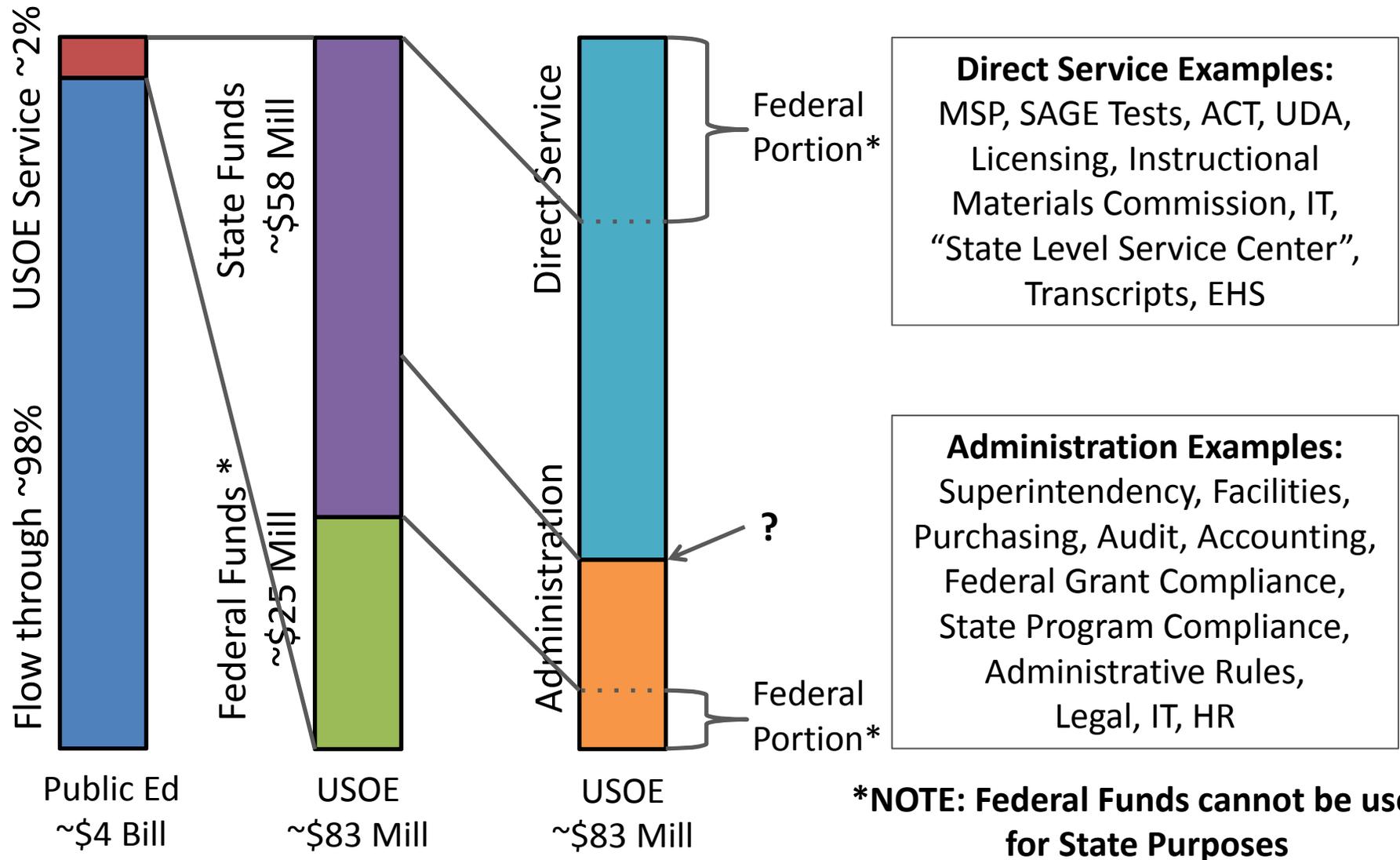
# WHAT DOES THE STATE BOARD NOT DO?

- Doesn't run schools (exceptions: USDB & EHS)
- Doesn't tax
- Doesn't appropriate
- Doesn't bond
- Doesn't charge tuition

***Therefore, USOE operational costs come exclusively from legislative appropriations***

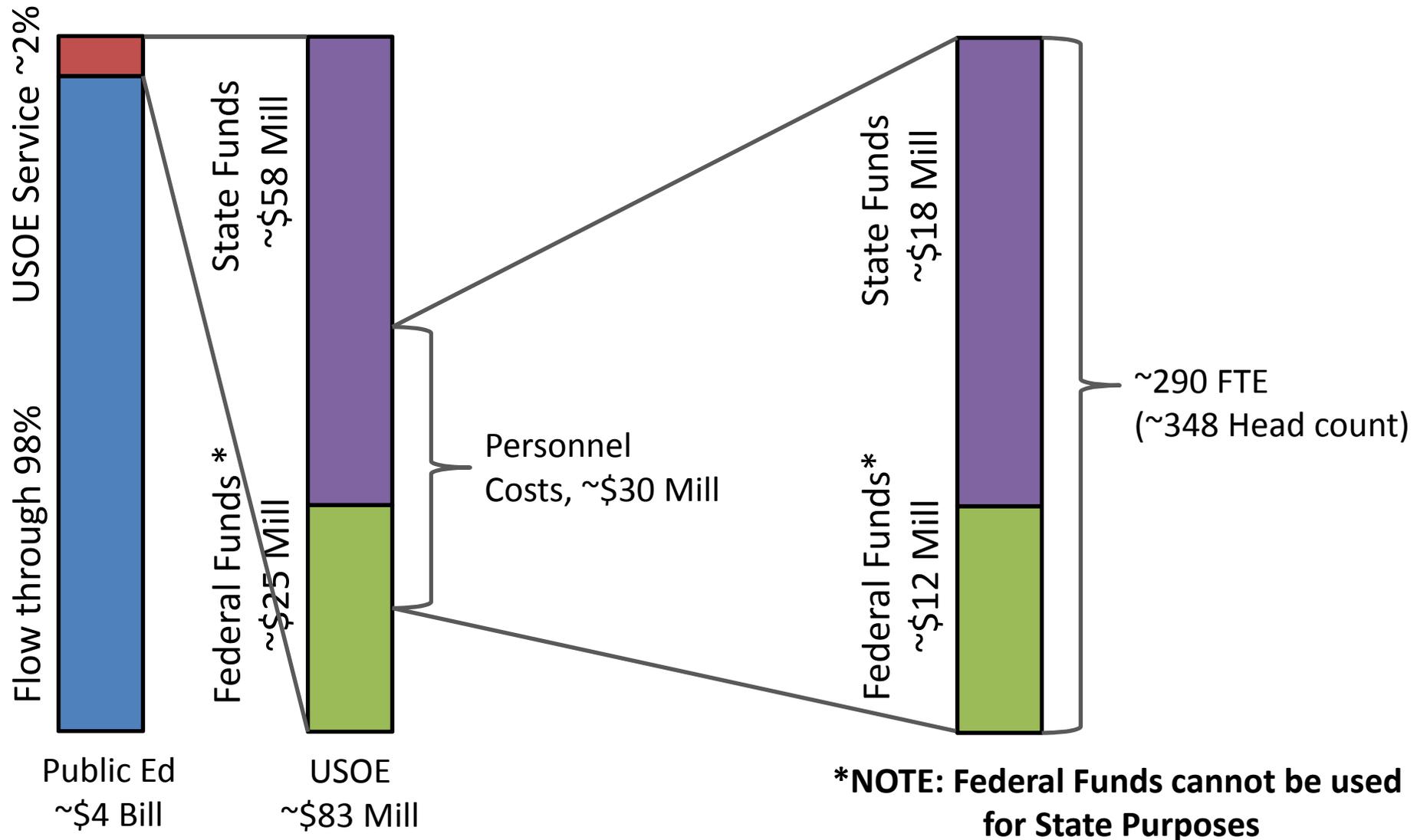
# HOW MUCH IS PUB ED “OVERHEAD”?

(Approximate figures)



# EXAMPLE: USOE PERSONNEL COSTS

(Approximate figures)



# **PUB ED IMPLICATIONS OF USOR AUDIT (Quoting Chapter 3)**

*“Weak Oversight and Communication Prolonged and Worsened Financial Problems”*

1. “USOR and USOE Internal Accounting Lacked Adequate Budget Processes and Controls.”
2. “USOR and USOE Internal Accounting Budget Mismanagement Impacted USOR’s Federal Funds Authorizations.”
3. “Nonfunctioning Oversight and Poor Communication Aggravated Financial Problems.”
4. “USBE Failed to Provide an Appropriate Level of Governance of USOR.”

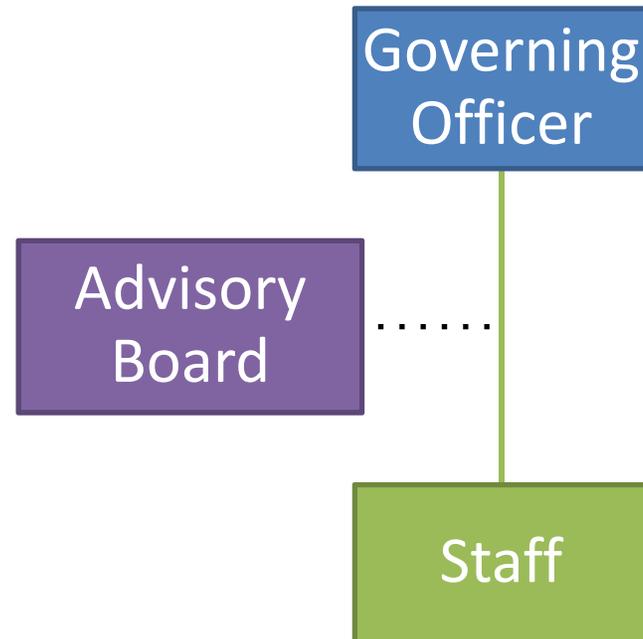
***EACH OF THESE HAS BEEN TRUE  
FOR OVERSIGHT AND COMMUNICATIONS AT USOE***

# IMPROVED GOVERNANCE: Board Sets Policy (not staff)

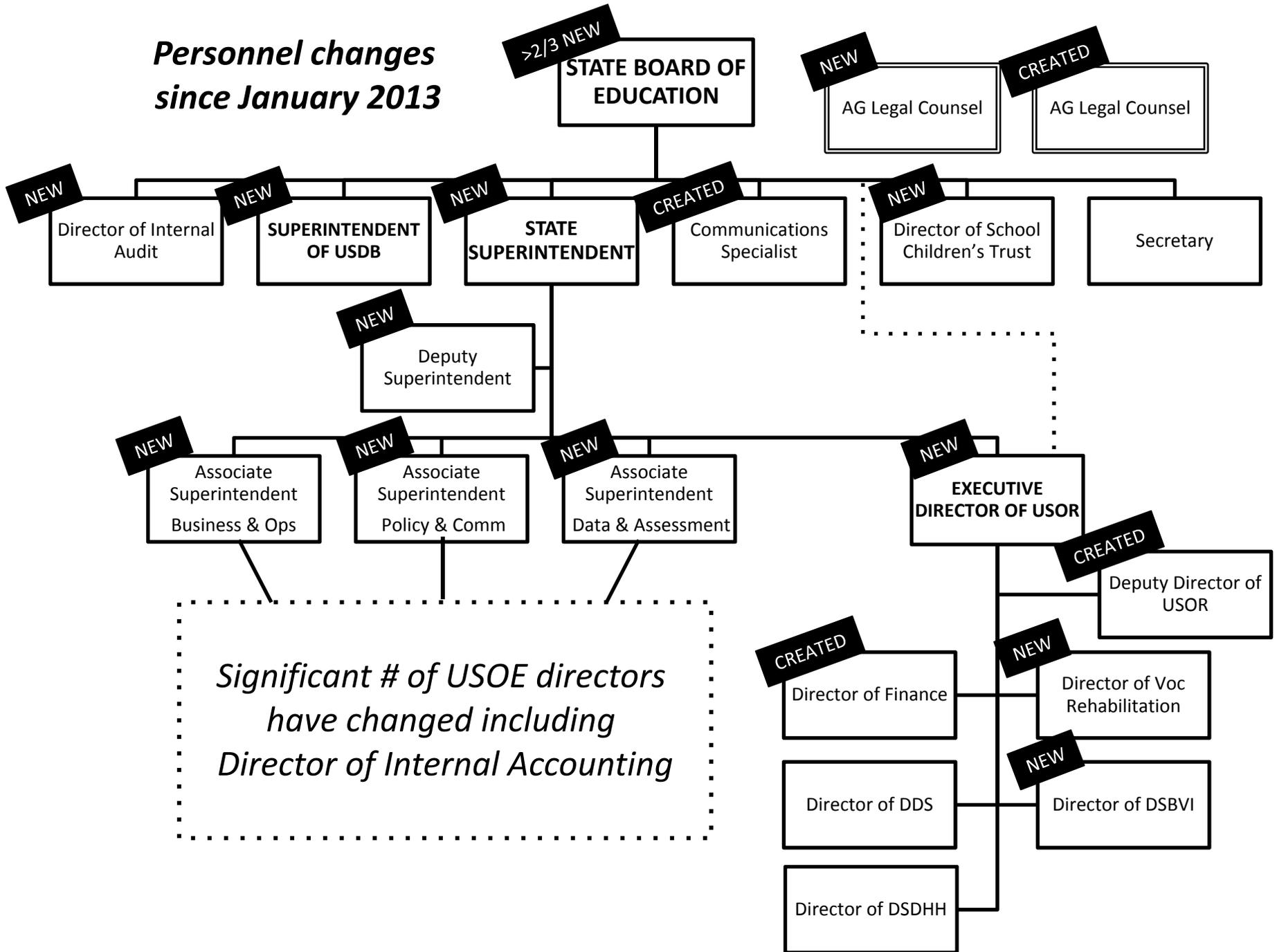
## New USBE Governance



## Old USBE Governance



**Personnel changes  
since January 2013**



# HISTORIC USOE ACCOUNTING PROBLEMS

- No double-entry accounting system
- Inadequate internal controls
- Frequent management override of existing controls
- Questionable indirect cost calculation
- History of wrong year-end close-out
- Charging administrative fees to the MSP
- Minimal federal fund accounting
- Incorrect & incomplete budget reports to the board
- Matching principle not followed
- Using one-time monies for on-going costs
- Inadequate personnel and competencies
- Significant key-personnel risk
- Heavy reliance on manual, time-intensive processes

# WHAT WE HAVE FOUND

## (with calendar year discovered)

- ~\$1.5 mill of incorrect year-end closings (2015, 2016)
- ~\$3.7 mill CNP receivable starting in 2008 was almost non-collectable (2013)
- \$6.7 mill structural imbalance for USOR (2015)
- State funding for the regional service centers replaced with Federal Mineral Lease money (2016)
- Budgets presented to the State Board were significantly incorrect (2013, 2014, 2015, 2016)
- Contracts presented to the State Board were not legally reviewed and sometimes hadn't even been drafted yet (2016)
- Millions of federal grants accidentally double booked (2016)
- Inconsistent matching of appropriations and uses of funds (2015, 2016)

***All of these has been or is being corrected,  
but we may discover more.***

# NEEDED ACCOUNTING IMPROVEMENTS

1. Improve state public education accounting
  - Perform year-end close properly
  - Implement and monitor critical accounting controls
  - Move USOE to double-entry accounting system
  - Resolve chart of accounts issues
2. Improve federal grants management
3. Correct indirect costs, especially between USOE & USOR
4. Stop funding ongoing costs with one-time funds

# EXAMPLE OF YEAR-END CLOSE PROBLEMS

Beginning Balance (BB)	????????
All Funding Sources	\$ 10
All Direct Expenses	\$ 8
<u>Indirect Expenses</u>	<u>\$ 0.5?</u>
Remaining Funds	\$ 1.5 +/- BB

*Appears that we have \$1.5 in money for something else, but...*

*...we don't know the "Beginning Balance" (BB) and we are still working on the real indirect expense.*

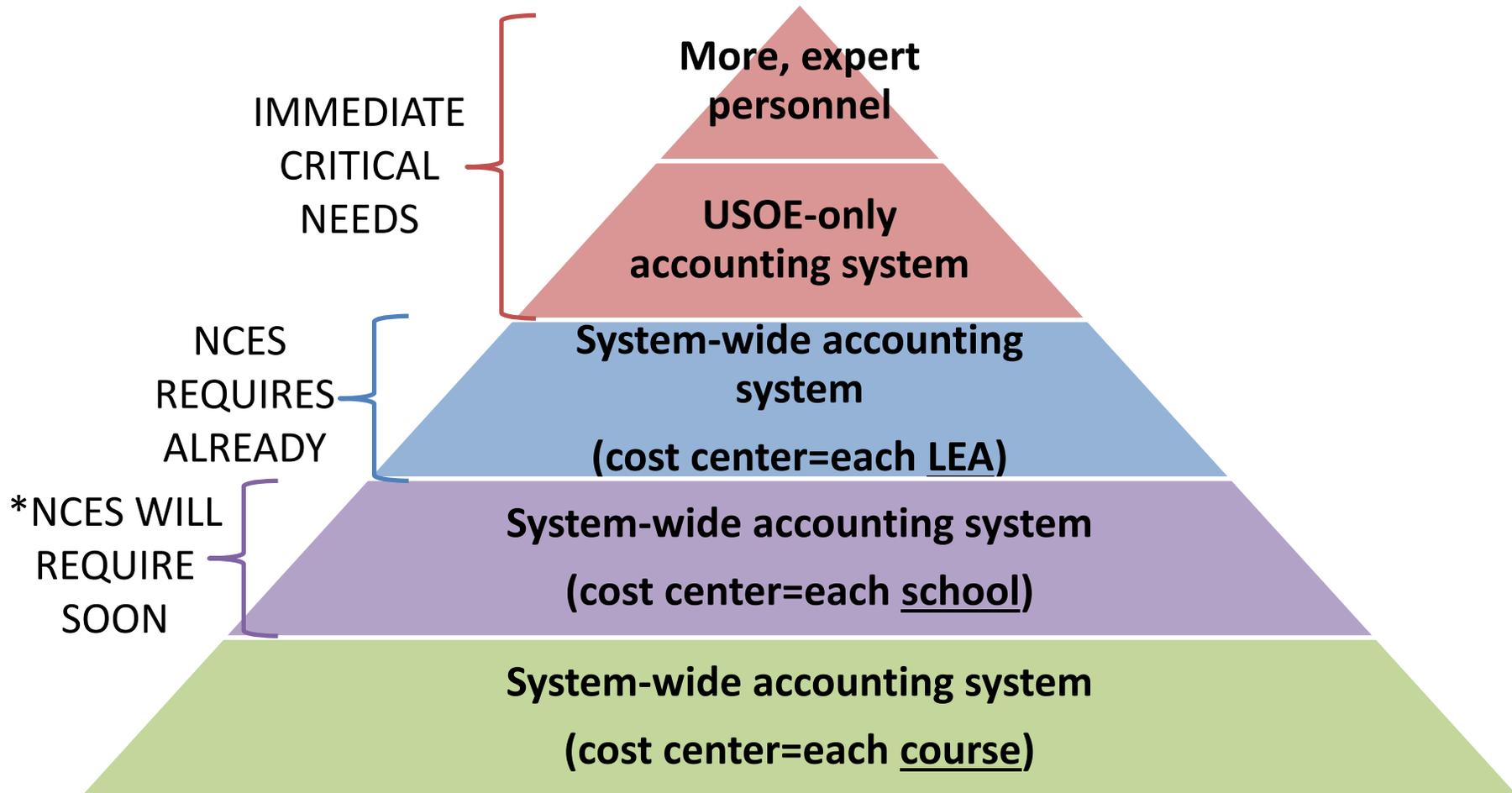
# BEGINNING BALANCES UNKNOWN

- Our internal auditors found very serious problems with year end closeout. (see <http://schoolboard.utah.gov/wp-content/uploads/Report201506.pdf>)
- For last year's close we already used >\$1 mill to clean up errors that have been identified so far.
- We don't know what else we will find when the managerial accountants do their work.

# INDIRECT COSTS UNKNOWN

- Our internal auditors found significant problems with the indirect cost calculation, especially in terms of fairness between USOE and USOR (<http://schoolboard.utah.gov/wp-content/uploads/Report201405.pdf>).
- We have been awaiting review by outside managerial accountants (now happening).
- We need the Feds to approve our indirect cost plan – currently provisionally approved.

# NEED IMPROVED ACCOUNTING



***\*NOTE: Utah is not prepared to provide state-wide school-level accounting***

# GOING FORWARD

- Managerial accountants must verify past years
- Must fix current accounting practices
- Must close out year properly (we only just started closing out monthly in Nov 2015)
- Must get indirect costs correct
- Need Federal Grants Compliance Officer
- Need significantly better systems
- Need to clean up chart of accounts

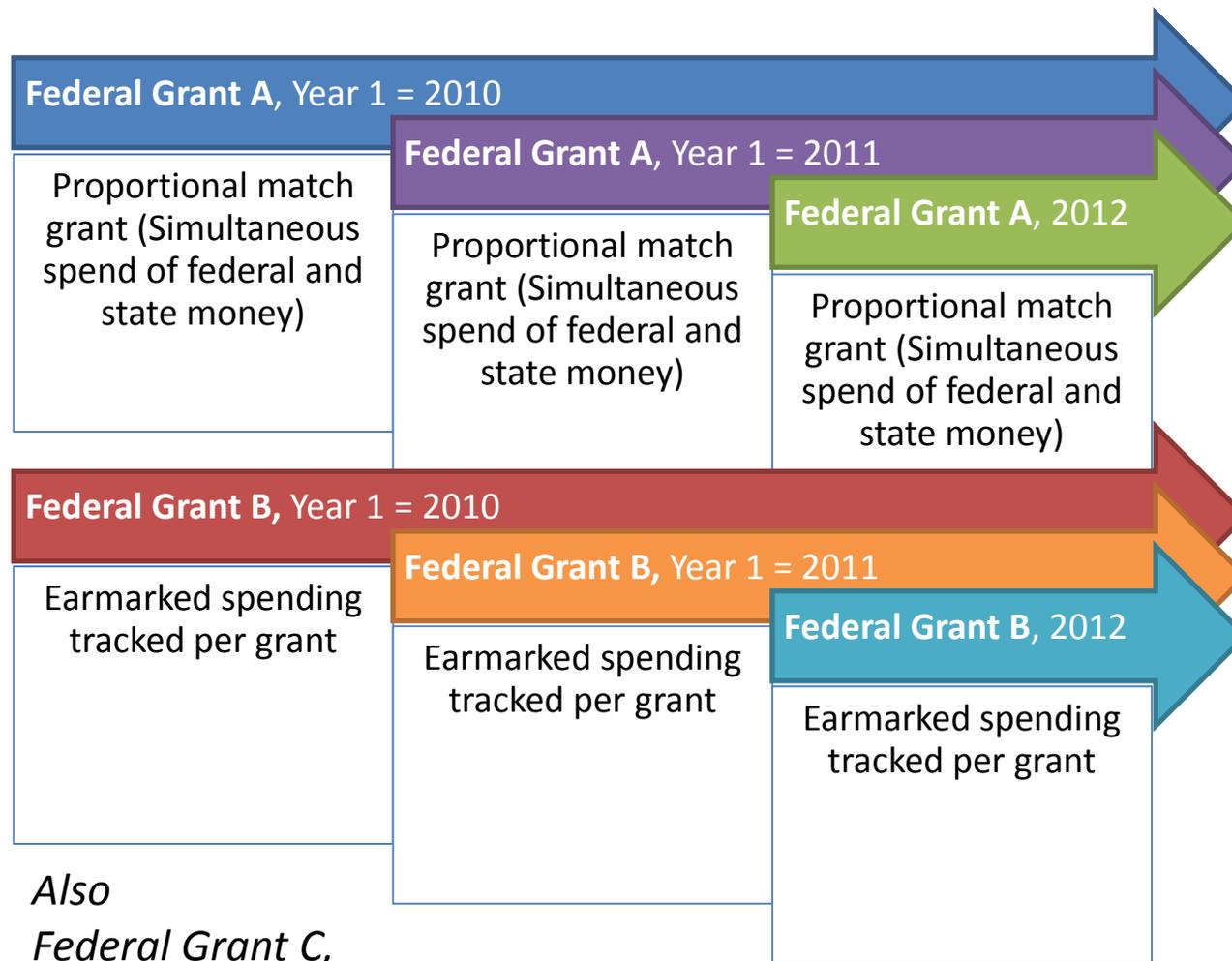
*ALL of these things are only starting to happen.  
This means we won't know our financial position with  
confidence until ~ Sept 2017.*

# FEDERAL GRANT ACCOUNTING IS COMPLEX

Federal grant accounting must track:

- Multiple grant years
- Required state match per year
- Actual state match per year
- MOE (maintenance of effort)
- Allowable costs and activities
- Direct versus indirect costs
- Appropriate cash management

# FEDERAL GRANT ACCOUNTING: MULTIPLE GRANTS, REQUIREMENTS, & YEARS



*Also  
Federal Grant C,  
Federal Grant D,  
Etc....*

# STATE AGENCIES FEDERAL GRANT EXPENDITURES

## (Showing > \$100 mill expenditures)

June 30, 2014 Utah Audited Expenditures of Federal Awards By State Agency			
	<u>Expenditures</u>	<u>Subrecipients</u>	<u>% Flowthrough</u>
DOH	\$1,761,144,082	\$91,529,966	5.2%
DWS	\$783,015,036	\$41,298,441	5.3%
State Board of Education	\$479,271,347	\$397,520,544	82.9%
<i>Public Education</i>	<i>\$421,091,090</i>	<i>\$396,973,724</i>	<i>94.3%</i>
USOR	\$58,180,257	\$546,820	0.9%
UDOT	\$345,349,516	\$11,362,575	3.3%
DHS	\$117,217,410	\$30,434,702	26.0%
...	...	...	...
<b>TOTAL</b>	<b>\$4,125,039,233</b>	<b>\$1,001,781,934</b>	<b>24.3%</b>

From data taken from the State of Utah Single Audit Report for the year ended June 30, 2014  
<http://financialreports.utah.gov/saoreports/2014/2014SingleAuditStateofUtah.pdf>

# PUB ED UNIQUE FED FUNDS MANAGEMENT

	<b>Flow through</b>	<b>Subrecipients</b>
Public Education	~94%	100+
Rest of the State Recipients	~16%	Mostly few or none

# RECENT FEDERAL GRANT COMPLIANCE CHANGES

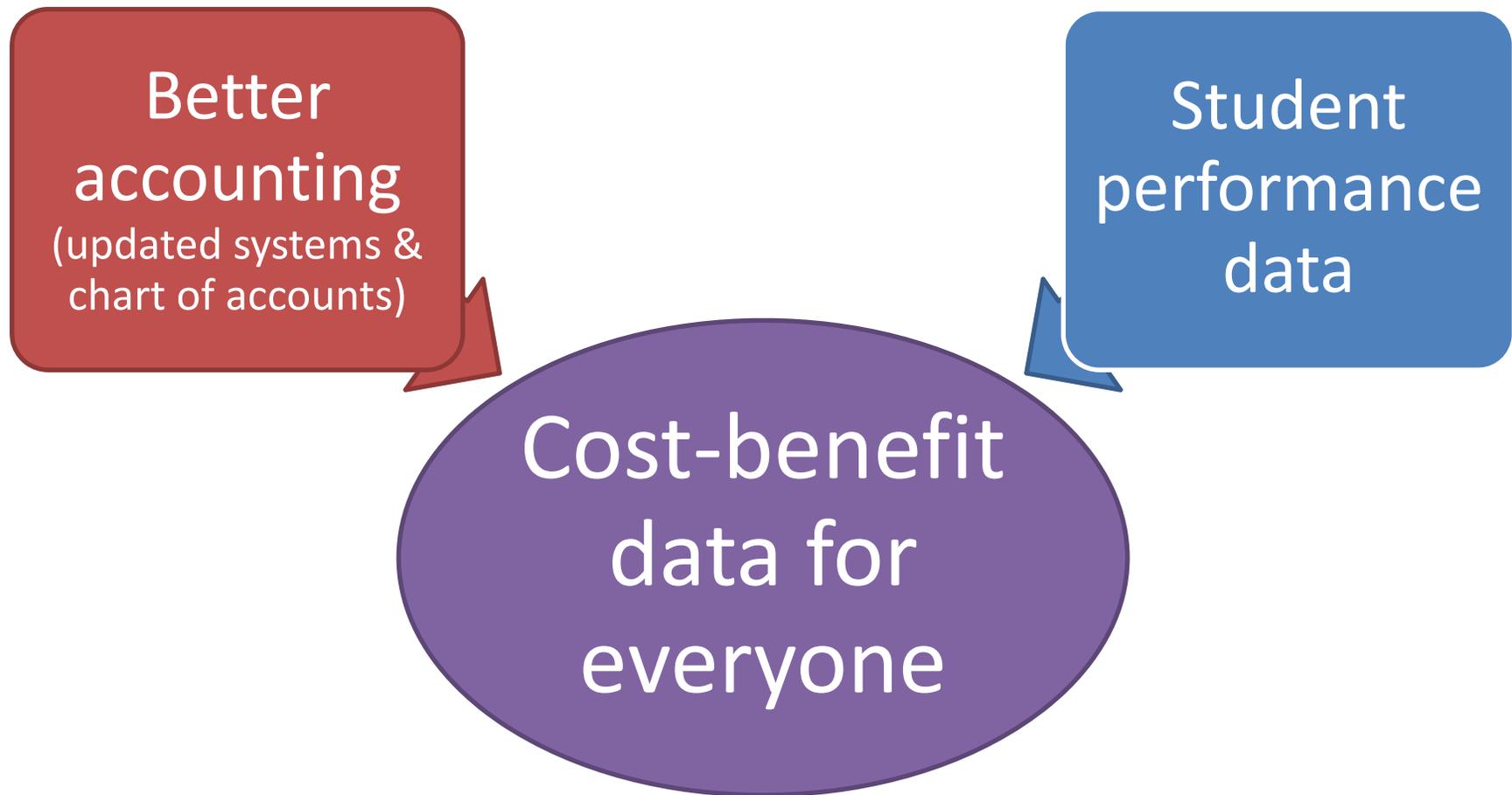
- Emphasis on performance and results
- More risk-based analysis for grant awards
  - Financial stability
  - History of performance
  - Applicants ability to implement effective systems
- Audit section, Subpart F applies in SFY 2016
  - More responsibility to states for subrecipient monitoring

# CHANGES MEAN INCREASED RISKS FOR FEDERAL FUNDS

- Recipients must have federally compliant
  1. financial management system
  2. internal controls
- Inadequate subrecipient (LEAs) monitoring or reporting may result in less federal funding
  - Need timely progress reports
  - Need effective management systems & personnel
  - Need effective internal controls
- Need to manage for success – not just minimum compliance

***We cannot assure compliance currently***

# PAYOFF: BETTER FUTURE DECISIONS



***Better decisions with less risk = more effective \$\$ to the classroom***