



STATE OF UTAH

Office of the Legislative Auditor General

315 HOUSE BUILDING • PO BOX 145315 • SALT LAKE CITY, UT 84114-5315
(801) 538-1033 • FAX (801) 538-1063

Audit Subcommittee of the Legislative Management Committee
President Wayne L. Niederhauser, Co-Chair • Speaker Greg Hughes, Co-Chair
Senator Ralph Okerlund • Representative James A. Dunnigan
Senator Gene Davis • Representative Brian S. King

JOHN M. SCHAFF, CIA
AUDITOR GENERAL

November 15, 2016

President Wayne Niederhauser
Speaker Greg Hughes
Members of the Legislative Audit Subcommittee

SUBJECT: Direction needed whether to proceed with public education audit requests

Dear Audit Subcommittee Members,

Our office was asked to do two performance audits in public education and an in-depth budget review of the Utah State Board of Education (USBE). After our initial meetings with USBE staff, we learned that due to its fiscal and governance problems, USBE is currently undergoing substantial reorganization. We recommend putting the in-depth budget review of public education on hold until a later date because the agency is making significant changes to a poor accounting system resulting in many of their accounting codes being changed. Any audit work currently conducted would require a significant effort to link the necessary financial data. However, if the subcommittee wants we can complete the two performance audit requests, the Education Initiative programs and the Federal Funds and Mandates audits.

Recent Audits Revealed Fiscal and Governance Problems at USBE. Two recent audits of the Utah State Office of Rehabilitation (USOR) have revealed internal accounting failures, lack of adequate budget processes and controls, budget and accounting mismanagement, deficient USBE oversight of its office administration, poor administrative oversight of USOR, and a weak internal control environment at USBE. Internal audits at USBE also bring to light a lack of policies and procedures, a decentralized staff that operates in silos within USBE's respective sections, and a heavy reliance on outdated accounting and budgeting systems that do not provide reliable data to the state's FINET system.

USBE Organizational Changes Are in Process. In response to the two USOR audits, USBE is in the process of organizational changes. Two significant changes include (1) organizational and budget restructuring, and (2) changing internal accounting procedures.

First, USBE has instructed the superintendent to replace the Office of Education line item with two separate line items: programs and services, and operations. For example, Special Education, Child Nutrition, and Student Achievement and other related sections are being placed under the Programs and Services line item. School Finance, Internal Accounting, and Information Technology and other related sections are being placed under the Operations line item. This budget restructuring corresponds with organizational changes USBE is in process of making. For example, multiple functions that formerly have been staffed in individual sections of USBE are being centralized and co-located into one section. Some of these functions include event planning, travel, and accounting.

Second, changes to accounting procedures include: (1) utilizing FINET for their double-entry accounting system, (2) creating a new chart of accounts, so funding can be traced consistently year-to-year, and (3) reclassifying appropriations to match revenues with expenses. These changes will provide better financial communication between USBE and the state and provide more internal controls for financial data.

In-depth Budget Review Would Require Excessive Time to Complete. USBE welcomes the in-depth budget review and is willing to cooperate if moving forward with it is the will of the subcommittee. However, we believe that the transition that USBE is undertaking would significantly slow the audit process. First, poor accounting practices (described earlier in the letter), and the many accounting code changes would require an inordinate amount of time to collect three to five years of budget data. USBE is organizing the financial data for the current fiscal year and has gone back and aligned some appropriations for 2016 and 2015; however, much more work is needed to link appropriations and expenses from previous years.

Second, USBE has experienced high turn-over in the accounting department the last two years. Key staff are heavily involved in USBE's transition, as well as managing its day-to-day activities. These few key staff do not currently have the time to assist us in gathering necessary financial data for the in-depth budget review. Given these concerns, we recommend that the Audit Subcommittee consider postponing the in-depth budget review of USBE.

The Education Initiative Programs and Federal Funds and Mandates Audit Requests Can Be Completed. The USBE's Initiative Programs line item does not have the same problems as the Office of Education line item, its funds are trackable, and we could complete this audit request. We have been told by USBE staff its federal funding data is also reliable. We could also complete this audit request and review the federal funding and mandates currently imposed by the federal government. Both of these audits would include a budgetary component reviewing initiatives appropriations and expenses and federal grant funding and uses. However, in the past we have traditionally tied the performance audit to the in-depth budget review.

Recommendations to the Audit Subcommittee. (1) We recommend that the subcommittee consider postponing the in-depth budget review of USBE for at least one year. (2) We recommend that the subcommittee reconsider whether it still desires assigning our office to begin the Education Initiative Programs and Federal Funds and Mandates audit requests, in light of recommendation no. one.

Sincerely,

A handwritten signature in black ink that reads "John M. Schaff". The signature is stylized and includes a large flourish at the end.

John M. Schaff, CIA
Auditor General