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 BOARD OF EDUCATION

USOE* • ~$80 Mill + ~4 Bill
• State & Federal
• Pass through

USOR* • ~$80 Mill
• Federal
• Direct service

USDB* • ~$30 Mill
• State
• Direct service

*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)

Flow through ~98%

Public Ed
~$4 Bill

USOE Service ~$83 Mill

Federal Funds ~$25 Mill

State Funds ~$58 Mill

Direct Service

Federal Portion*

Administration

Federal Portion*

Examples:
MSP, SAGE Tests, ACT, UDA, Licensing, Instructional Materials Commission, IT, “State Level Service Center”, Transcripts, EHS

Examples:
Superintendency, Facilities, Purchasing, Audit, Accounting, Federal Grant Compliance, State Program Compliance, Administrative Rules, Legal, IT, HR

*NOTE: Federal Funds cannot be used for State Purposes
EXAMPLE: USOE PERSONNEL COSTS
(Approximate figures)

Flow through 98%

USOE Service ~2%

USOE ~$83 Mill

Federal Funds * ~$25 Mill

State Funds ~$58 Mill

Public Ed ~$4 Bill

Personnel Costs, ~$30 Mill

Federal Funds* ~$12 Mill

State Funds ~$18 Mill

~290 FTE (~348 Head count)

*NOTE: Federal Funds cannot be used for State Purposes
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**
- Governing Board
- Executive Officer
- Staff

**Old USBE Governance**
- Governing Officer
- Advisory Board
- Staff
Personnel changes since January 2013

Significant # of USOE directors have changed including Director of Internal Accounting
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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance (BB)</td>
<td>???</td>
</tr>
<tr>
<td>All Funding Sources</td>
<td>$ 10</td>
</tr>
<tr>
<td>All Direct Expenses</td>
<td>$ 8</td>
</tr>
<tr>
<td>Indirect Expenses</td>
<td>$ 0.5?</td>
</tr>
<tr>
<td>Remaining Funds</td>
<td>$ 1.5 +/- BB</td>
</tr>
</tbody>
</table>

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

IMMEDIATE CRITICAL NEEDS

NCES REQUIRES ALREADY

*NCES WILL REQUIRE SOON

More, expert personnel

USOE-only accounting system

System-wide accounting system
(cost center=each LEA)

System-wide accounting system
(cost center=each school)

System-wide accounting system
(cost center=each course)

*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 ~September 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

Federal Grant A, Year 1 = 2010
- Proportional match grant (Simultaneous spend of federal and state money)
Federal Grant A, Year 1 = 2011
- Proportional match grant (Simultaneous spend of federal and state money)
Federal Grant A, Year 1 = 2012
- Proportional match grant (Simultaneous spend of federal and state money)

Federal Grant B, Year 1 = 2010
- Earmarked spending tracked per grant
Federal Grant B, Year 1 = 2011
- Earmarked spending tracked per grant
Federal Grant B, Year 1 = 2012
- Earmarked spending tracked per grant

Also
Federal Grant C,
Federal Grant D,
Etc....
# STATE AGENCIES FEDERAL GRANT EXPENDITURES

(Showing > $100 mill expenditures)

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

From data taken from the State of Utah Single Audit Report for the year ended June 30, 2014
<table>
<thead>
<tr>
<th></th>
<th>Flow through</th>
<th>Subrecipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Education</td>
<td>~94%</td>
<td>100+</td>
</tr>
<tr>
<td>Rest of the State Recipients</td>
<td>~16%</td>
<td>Mostly few or none</td>
</tr>
</tbody>
</table>
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 accounting (updated systems & chart of accounts)

Student performance data

Cost-benefit data for everyone

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