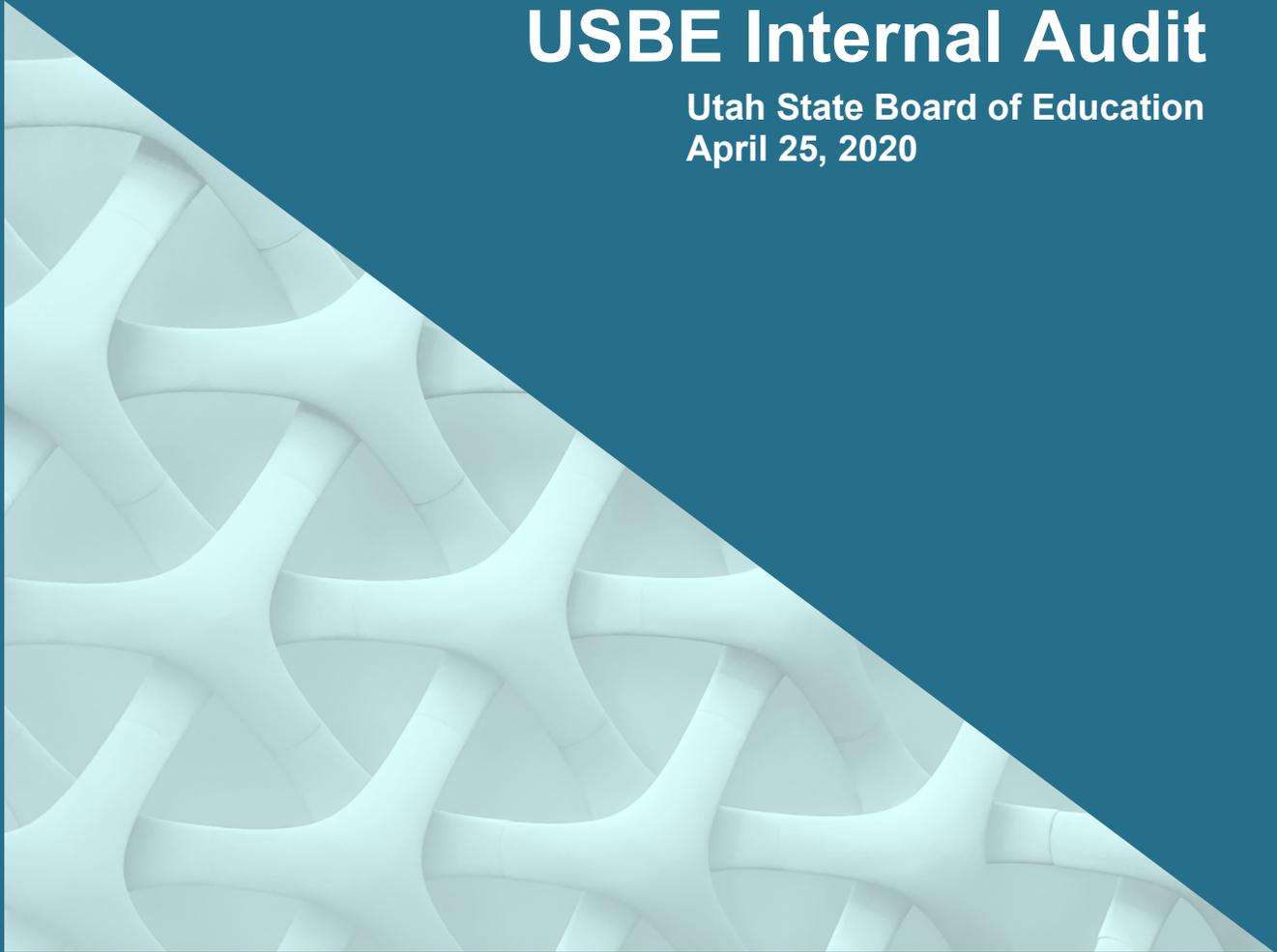


USBE Internal Audit

Utah State Board of Education
April 25, 2020



Assurance Services

INFO DOC

ADA Compliant 5/7/2020

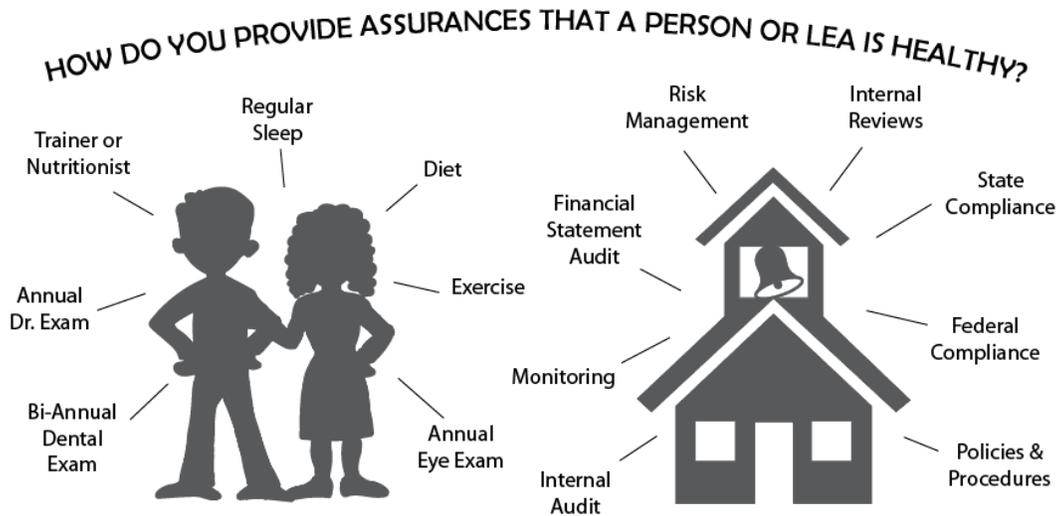
Why does Assurance matter?

ACHIEVING THE OBJECTIVES OF PUBLIC EDUCATION

The objectives of the state public education system are found both in Utah Code (53E-2-301) and in the Strategic Plan of the Utah State Board of Education found at:

<https://schools.utah.gov/board/utah/strategicplan>.

A requirement of good governance is accountability to stakeholders for achievement of objectives. Assurance Services provide reasonable assurance that objectives will be achieved by evaluating risk management, internal control systems, and performance. Assurance services aren't limited to organizations; individuals seek assurances regarding achievement of their objectives as well. The figure below provides a visual of the various assurance services an individual and an entity may utilize.



Assurance Services also help ensure barriers (i.e., risks) to achievement of objectives are mitigated. One risk that is becoming more prevalent, even in education, is fraud.



FRAUD IN EDUCATION

ACFE's Report to the Nations on Occupational Fraud and Abuse

In 2018:

- Median fraud loss in Education - \$68,000
- Number of reported cases – 97
- Most common schemes in education - corruption (38%), followed by billing, noncash, cash on hand, cash larceny (all are 19%).

Primary weaknesses that contribute to occupational fraud:

- Lack of internal controls (30%)
- Override of existing controls (19%)
- Lack of management review (18%)
- Poor tone at the top (10%)
- Lack of competent personnel in oversight roles (8%)

Skimming is more common in education than any other industry (25% of all skimming cases reported).

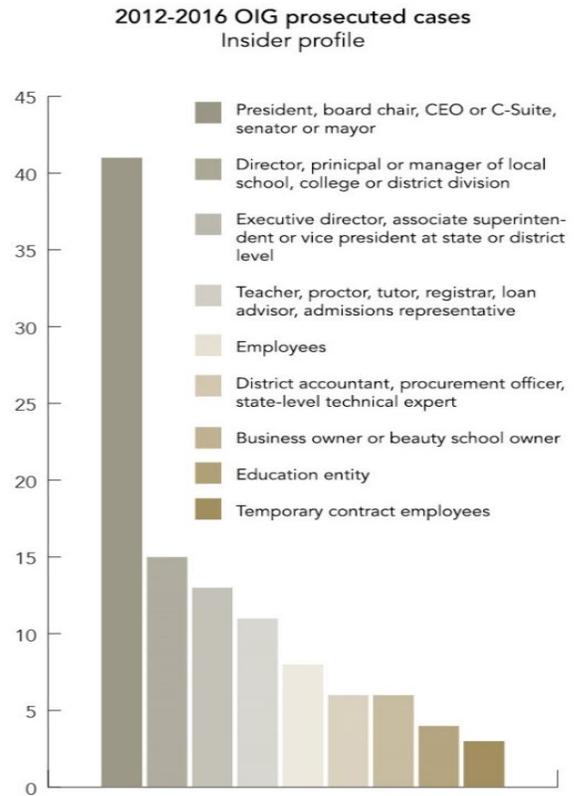
Disclaimer by the ACFE: *"Readers should note that this data likely represents the industries that most often employ CFEs, rather than the industries that are most susceptible to fraud. However, information about occupational fraud in various industries can be useful for benchmarking purposes."*

US Department of Education, Office of Inspector General

From 2012 to 2016 the estimated total loss during this period by insider fraud was \$330,582,986 - an average of over \$82 million per year.

Per the article *Fraud in education, part 2* by Tonya J. Mead, CFE, PI, 61% of fraud was perpetrated by insiders (e.g., employees). The breakdown of “insiders” was provided as shown in the Figure to the right (source: OIG, US Dept of Education, 2012-2016).

See <https://www2.ed.gov/about/offices/list/oig/newsroom.html> for recently released audit reports and press releases regarding OIG investigations (Subject = K-12)





External Audits

FINANCIAL STATEMENTS

Requirements

51-2a-201 Accounting Reports Required

The governing board of an entity whose revenues or expenditures of all funds is \$1,000,000 or more shall cause an audit to be made of its accounts by a competent certified public accountant.

The governing board of an entity whose revenues or expenditures of all funds is less than \$1,000,000 or more shall cause a financial report to be made in the manner prescribed by the state auditor.

51-2a-202 Report Requirements

The governing board of each entity required to have an audit, review, compilation, or fiscal report shall ensure that the audit, review, compilation, or fiscal report is: (a) made at least annually; and (b) filed with the state auditor within six months of the close of the fiscal year of the entity.

53G-4-404 Annual Financial report – Audit Report

The annual financial report of each school district, containing items required by law or by the state board and attested to by independent auditors, shall be prepared as required by Section 51a-2a-201.

53G-5-404 Requirements for Charter Schools

(4)(a) A charter school shall: (i) make the same annual reports required of other public schools under this public education code, including an annual financial audit report.

2 CFR 200.510 Financial Statements

Financial statements. The auditee must prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited. The financial statements must be for the same organizational unit and fiscal year that is chosen to meet the requirements of this part.

Standards Followed

- Generally Accepted Auditing Standards (GAAS)
- Generally Accepted Government Accounting Standards (GAGAS/GAS or Yellowbook)

Assurance Provided

Independent Auditor’s Report – Financial Statement (emphasis added)

In our opinion, the basic financial statements referred to above *present fairly, in all material respects, the respective financial position* of the [entity, activities, funds] as of June 30, 20xx, and the changes



in its net assets and its cash flows for the year then ended *in accordance with accounting principles generally accepted in the United States of America*.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance... (emphasis added)

In planning and performing our audit of the [consolidated financial statements], we *considered the School's internal control over financial reporting* to determine the audit procedures that are appropriate in the circumstances *for the purpose of expressing our opinion on the [consolidated financial statements], but not for the purpose of expressing an opinion on the effectiveness of the School's internal control*. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

Our consideration of internal control *was for the limited purpose* described in the first paragraph of this section and *was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies*. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. *However, material weaknesses may exist that have not been identified*.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's consolidated financial statements are free of material misstatement, *we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of [consolidated financial statement] amounts*. However, *providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion*. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

AICPA Do I Want or Need a Financial Statement Audit? (excerpt)

The auditor's report is not a "clean bill of health." Although an unmodified (or clean) opinion from the auditor states that the financial statements – including the entity's assets, liabilities, net assets, revenues, expenses, cash flows, and note disclosures, – are fairly presented, it is not an opinion about the entity's policy decisions, effective use of assets, or programmatic outcomes and outputs.

<https://www.aicpa.org/InterestAreas/NotForProfit/Resources/GovernanceManagement/DownloadableDocuments/not-for-profit-do-i-need-an-audit.pdf>



SINGLE AUDIT (FEDERAL COMPLIANCE)

Requirements

2 CFR 200.501 Audit Requirements

Audit required. A non-Federal entity [USBE/LEA] that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.

Standards Followed

- Generally Accepted Government Accounting Standards (GAGAS/GAS or Yellowbook)

Assurance Provided

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with Uniform Guidance (emphasis added)

In our opinion, the School *complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs* for the year ended June 30, 20xx.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, *material weaknesses may exist that have not been identified.*

Single Audit Quality

Semiannual Report to Congress, No. 78 October 1, 2018 – March 30, 2019

US Department of Education Office of the Inspector General (emphasis added)

During this reporting period, we completed 24 quality control reviews of [federal compliance audits or agreed-upon procedures] engagements conducted by 19 *independent public accountants*. We concluded that 6 (25 percent) were Pass, 3 (12.5 percent) were *Pass with Deficiencies*, and 15 (62.5 percent) were *Fail*.



The classification of quality control review results is:

- Pass—audit documentation contains no quality deficiencies or only minor quality deficiencies that do not require corrective action for the audit under review or future audits.
- Pass with Deficiencies—audit documentation contains quality deficiencies that should be brought to the attention of the auditor (and auditee, as appropriate) for correction in future audits.
- Fail—audit documentation contains quality deficiencies that affect the reliability of the audit results or audit documentation does not support the opinions contained in the audit report and require correction for the audit under review.

(Source: <https://www2.ed.gov/about/offices/list/oig/semiann/sar78.pdf>)

STATE COMPLIANCE AUDIT

Requirements

51-2a-301 State Auditor Responsibilities

(6)(b) The state auditor shall: (i) develop criteria under which a higher level of accounting report may be required; and (ii) provide copies of those criteria to entities required to analyze and report under Section 51-2a-201.

State Compliance Audit

IN ADDITION, these entities are required to have a state compliance audit which should be 1) performed in accordance with Government Auditing Standards as well as with the State Compliance Audit Guide (Guide), developed by the Office of the State Auditor (OSA) as directed by UCA 51-2a-301, and 2) completed using the guidance in the AICPA's Clarified Statements on Auditing Standards, AU-C section 935, Compliance Audits.

State Compliance Guide: <https://auditor.utah.gov/wp-content/uploads/sites/6/2019/05/2019-State-Compliance-Audit-Guide-revised-5-1-2019.pdf>

Standards Followed

- Generally Accepted Government Accounting Standards (GAGAS/GAS or Yellowbook)



Assurance Provided

Independent Auditor's Report on Compliance and Report on Internal Control over Compliance Required by the State Compliance Audit Guide (emphasis added)

Opinion on Each State Compliance Requirement Tested

In our opinion, [the LEA/School] *complied, in all material respects, with the state compliance requirements* referred to above for the year ended June 30, 20xx.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

State Compliance Guide Note:

This Guide is not intended to identify compliance requirements that could be direct and material to the financial statements. A State Compliance Audit performed in accordance with this Guide does not replace testing of compliance in a financial statement audit. Financial statement compliance requirements not in this Guide may include, but not be limited to, compliance with the Utah Money Management Act, compliance with debt or bond requirements, or debt limitations.

SUMMARY OF REPORTING REQUIREMENTS

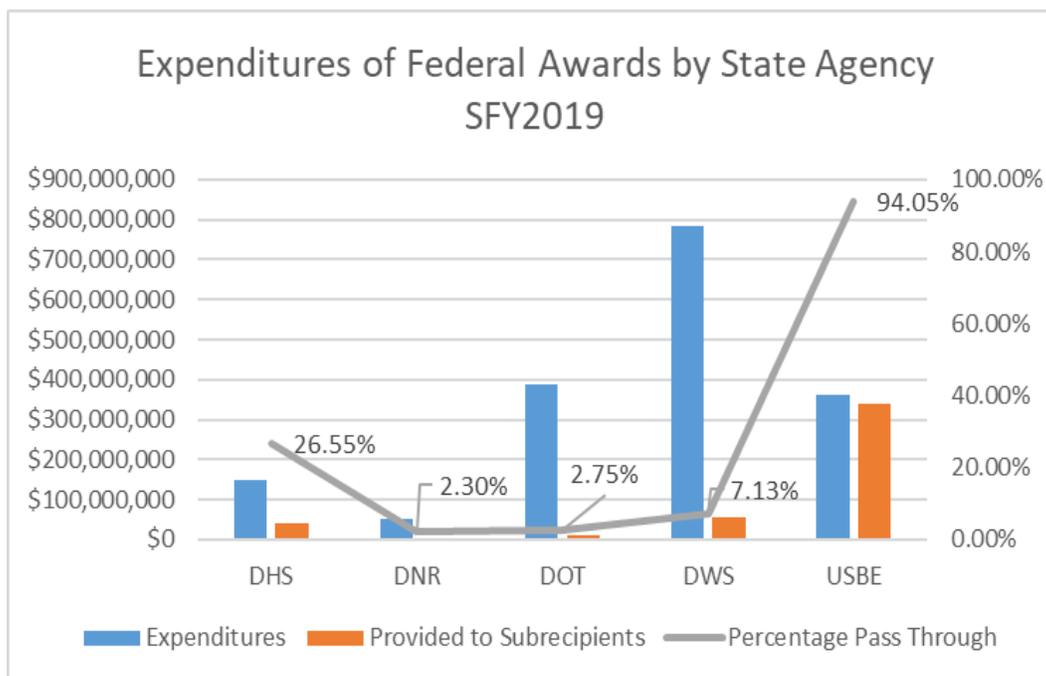
School District and Charter School Reporting –

https://auditor.utah.gov/wp-content/uploads/sites/6/2019/06/School-Rptng-Req_5-1-2019_Revised-6-4-2019.pdf

USBE Section/Department Monitoring

MONITORING OF FEDERAL GRANTS AND PROGRAMS

The USBE expended funds for just under 30 federal grant programs for state fiscal year (SFY) 2019. The table below compares the percentage of federal funds passed through to subrecipients for SFY2019 by state agency. As illustrated, the USBE's percentage is significantly higher than the other state agencies shown.



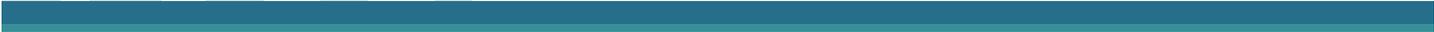
Requirements and Assurance Provided

Title 2 Code of Federal Regulations, Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

§200.331 Requirements for pass-through entities. (emphasis added)

All pass-through entities [USBE] *must*:

(d) Monitor the activities of the subrecipient [i.e., LEAs] as necessary to ensure that the *subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved*. Pass-through entity monitoring of the subrecipient must include:

- 
- 
- (1) Reviewing financial and performance reports required by the pass-through entity.
 - (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.
 - (3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by §200.521 Management decision.

(e) *Depending upon the pass-through entity's [USBE's] assessment of risk posed by the subrecipient (as described in paragraph (b) of this section), the following monitoring tools may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals:*

- (1) Providing subrecipients with training and technical assistance on program-related matters; and
- (2) Performing on-site reviews of the subrecipient's program operations;
- (3) Arranging for agreed-upon-procedures engagements as described in §200.425 Audit services.

(f) Verify that every subrecipient is audited as required...(see Section II.B above)

As part of the annual Single Audit USBE's/LEA's compliance with the above requirements is subject to audit.

Additional monitoring requirements for specific Federal programs may be outlined in the Code of Federal Regulations specific to the USDE (Title 34) and USDA (Title 7).

Standards Followed

USBE Agency and/or Section Policies and Procedures, aligned with federal regulations, as applicable and available.

Staff Performing Monitoring

USBE fiscal and/or program monitors, USBE school finance staff, USBE student data privacy staff, State Charter School Board (SCSB) staff (if applicable), and others as applicable or requested.

Specifically, the USBE school finance staff are tasked with oversight of item (f) above, to verify that every subrecipient is audited. As part of their review of the audited financial statement and single



audit, they also reconcile local education agency Annual Financial Report and Annual Program Report submissions to the financial statements. This review is not a review of program compliance with related financial implications, or a review of internal controls.

MONITORING OF STATE GRANTS AND PROGRAMS

Requirements and Assurance Provided

The 2019 Utah Public Education Summary indicated over 40 areas with funds appropriated for categorical expenditures, such as the various Special Education line items, CTE Add-on, Enhancement for At-Risk, and Youth-in-Custody. Additionally, various other programs or initiatives such as School Safety, Competency Based Education Grants, Public Education Exit Survey and the STEM Lab pilot program, were also appropriated funds.

State Monitoring requirements are outlined in general in Utah Administrative Code R277-114, which states:

R277-114-3 Program Monitoring.

- (1) For each program, the Superintendent shall design and implement a consistent monitoring plan or process that includes standards for both program outcomes and program financial compliance.
- (2) The Superintendent shall notify all recipients of the initiation of or changes any monitoring plan or process.
- (3) The Superintendent shall monitor compliance with: (a) program outcomes and requirements; (b) reporting requirements; and (c) financial requirements.
- (4) An LEA shall provide the Superintendent all requested information or documents to comply with this Section.

Additional monitoring requirements for specific programs may be outlined in Utah Code and/or Utah Administrative Code (i.e., Board Rule).

Standards Followed

USBE Agency and/or Section Policies and Procedures, aligned with state regulations, as applicable and available.



Staff Performing Monitoring

USBE fiscal and/or program monitors, USBE school finance staff, USBE student data privacy staff, State Charter School Board (SCSB) staff (if applicable), and others as applicable or requested.

REIMBURSEMENT REQUEST REVIEWS

Requirements and Assurance Provided

Funding for federal programs, and potentially some state programs is distributed to local education agencies (LEAs) on a reimbursement basis (i.e., an LEA must submit a reimbursement request to receive funds).

The grants management system has some validations built in to help ensure accuracy of requests (e.g., a check to ensure a request won't exceed the budget); however, USBE program and/or fiscal monitors may also review reimbursement requests and supporting documentation. These reviews are currently done based on available resources; consider that there are approximately 160 LEA, over 30 federal programs and many other state programs, and that reimbursement requests may be submitted monthly, quarterly, or annually by each LEA for each program. Therefore, these reviews, if done, may be completed on a sample basis, may consider only financial factors (e.g., budget, allowable costs) or only compliance factors (e.g., allowable activities). Identified risks, limited staff knowledge and training, staff turnover, and other factors may also impact the level of review and/or the capacity and ability to perform reviews.

Given the above, there can be little expectation of financial, compliance, or performance assurance provided with regards to reimbursement request reviews.

Standards Followed

USBE Agency and/or Section Policies and Procedures, aligned with federal and state regulations, as applicable and available.

Staff Performing Monitoring

USBE fiscal and/or program monitors, USBE school finance staff may also provide support.



USBE Internal Audit

Requirements

63I-5-201 Internal Auditing Programs – State agencies

The State Board of Education shall establish an internal audit program that provides internal audit services for each program administered by the State Board of Education

Standards Followed

63I-5-102 Definitions

Internal audit program” means an audit function that:

Is conducted in accordance with the current: (i) International Standards for the Professional Practice of Internal Auditing; or (ii) The Government Auditing Standards, issued by the Comptroller General of the United States.

USBE Internal Audit follows the International Standards for the Professional Practice of Internal Auditing

Excerpts from the Cover Letter included with USBE Internal Audits

...in accordance with the Bylaws of the Utah State Board of Education (Board), the Board authorized the Internal Audit Department (IA) to perform an audit of [program, activity, funds, controls, systems]...the purpose of the audit is [List the purpose, objectives, scope]

IA performed the following procedures: [List of procedures performed]

We have identified the procedures performed during the audit above and the conclusions from those procedures are included in this report with suggestions for improvement.

Internal audits are conducted in accordance with the current International Standards for the Professional Practice of Internal Auditing, consistent with Utah Code Annotated and Utah Administrative Code.

A summary of the Assurance Services outlined in this document is provided in a table at the end of this document.

Assurance Services					
External Audits			Monitoring		USBE Internal Audit
Financial Statement Audit	Single Audit	State Compliance Audit	Federal	State	
Regulations					
51-2a-201 Accounting Reports Required	2 CFR 200.501 Audit Requirements	51-2a-301 State Auditor Responsibilities	2 CFR 200.331 Requirements for pass-through entities	R277-114-3 Program Monitoring	63I-5-201 Internal Auditing Programs – State agencies
51-2a-202 Report Requirements		State Compliance Audit Guide			
53G-4-404 Annual Financial report – Audit Report					
53G-5-404 Requirements for Charter Schools					
2 CFR 200.510 (Financial Statements)					
Standards					
Generally Accepted Auditing Standards (GAAS)	Government Auditing Standards (GAGAS)	Generally Accepted Auditing Standards (GAAS)	USBE Agency/Section Policies and Procedures	USBE Agency/Section Policies and Procedures	International Standards for the Professional Practice of Internal Auditing
Generally Accepted Government Auditing Standards (GAGAS)		Generally Accepted Government Auditing Standards (GAGAS)			
Assurance(s) Provided					
Financial position is presented fairly in all material respects	Complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each major federal program	Complied, in all material respects, with the state compliance requirements identified	Subaward (grant) is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved	Compliance with: (a) program outcomes, (b) reporting requirements, (c) financial compliance	Objectively evaluate the effectiveness of governance, risk management, internal controls, and the efficiency of operations. Assurances may also be specific to specific audit scope and objectives.
Limited review of internal controls over financial reporting					
Limited review of compliance with laws and regulations that could have a direct and material effect on the financial statements					