

Performance Audit of USBE Direct and Indirect Costs for Federal Compliance with Applicable Laws, Orders, and Regulations



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Julian Metcalf

GPP Analytics Inc.

Audit Team



Julian Metcalf, MPA, CIA, CFE
Project Manager (CEO/CAE)



Eric Spivak, MPA, CIA, CGAP, CRMA
Senior Manager



Ofu Nfonsam, CPA
Senior Manager

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Why This Audit Matters

Utah receives hundreds of millions of dollars each year in federal K–12 education funds. These resources come with conditions of aid, compliance requirements, and reporting expectations that extend beyond simple financial accounting.

USBE bears state-level costs to administer, oversee, monitor, and report on these federal programs. While some of those costs are reimbursed through federal grants and indirect cost recovery mechanisms, a share continues to be paid directly by the state.

This audit provides transparency into the full cost structure and identifies opportunities for improved cost recovery and informed policy decisions.

Key Finding

\$8M - \$12M

Annual State Cost Not Recovered

Unrecovered ancillary support costs funded by state appropriations each year

2%

State Costs Out of Total Federal Sources

State cost not recovered as a percentage of appropriated FY 2024-25 federal sources

17

Cost Categories

Distinct ancillary support functions identified and estimated in the analysis

Audit Objectives

Objective 1: Federal Funds Determination

Determine federal funds received by USBE (as State Educational Agency, excluding LEA pass-throughs and Utah Schools for the Deaf and Blind) for three consecutive fiscal years:

- FY 2022–23
- FY 2023–24
- FY 2024–25

Objective 2: Cost Evaluation

Evaluate USBE's direct and indirect costs as an agency by itemizing the total USBE compliance costs associated with each federal law, order, and regulation, using data for FY 2022-23 and FY 2023-24 and in so far as practical, FY 2024-25, and how they are associated with management and control of federal funds and compliance with the laws, orders, and/or regulations of those federal programs. The scope stated that it did not seek an opinion as to whether USBE is compliant with federal programs and mandates.



Important Scope Note: This analysis focuses exclusively on SEA-level costs at USBE. This is not a full examination of LEA-level administrative or compliance costs.

What is a Performance Audit

Audit Type

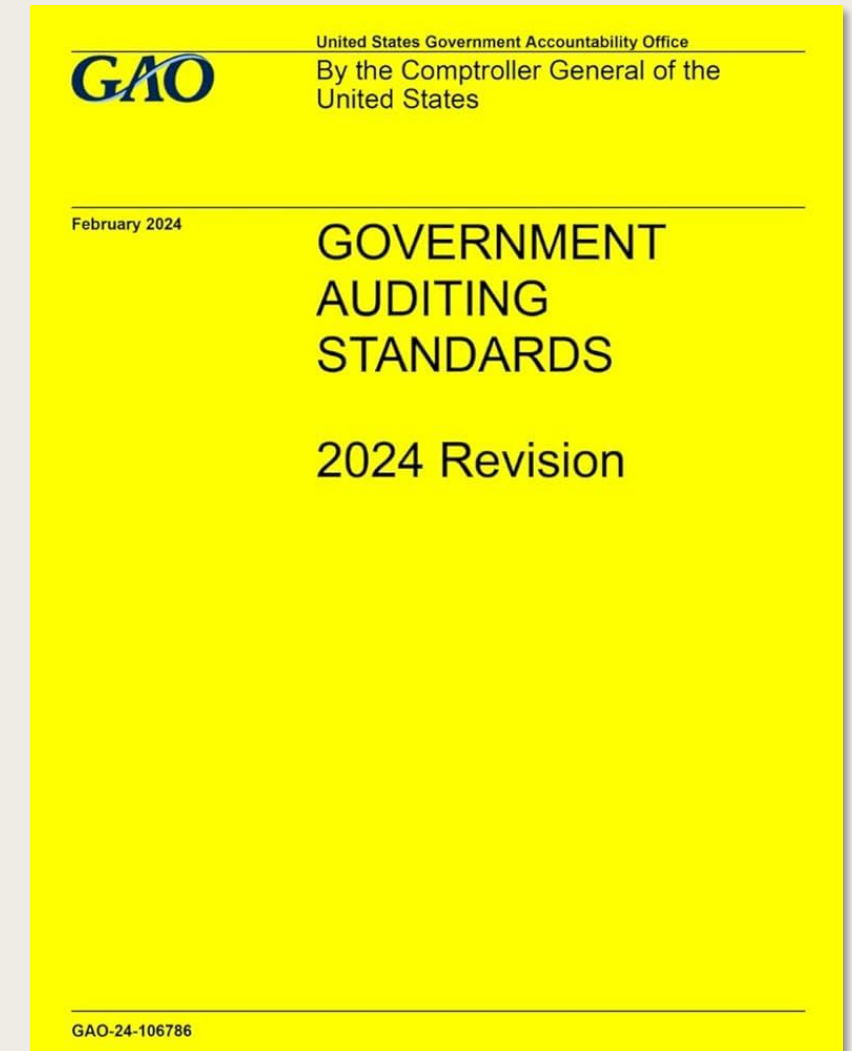
- Independent, evidence-based review of how well an agency uses its resources to achieve intended results.

How it differs from a financial statement audit

- Financial audits focus on whether financial statements are fairly presented.
- Performance audits focus on how programs are managed and what they cost, and whether processes are working as intended.

Standards used (GAGAS / “Yellow Book”)

- Conducted under U.S. Government Accountability Office’s Generally Accepted Government Auditing Standards (GAGAS).
- Requires sufficient, appropriate evidence; documented planning and supervision; independence and quality control; and clear, balanced reporting of findings and limitations.



What USBE Does Well

Positive Engagement with the Audit

Staff were cooperative, candid, and treated the audit as an opportunity for self-improvement rather than defensive compliance. Multiple departments participated in lengthy interviews and shared detailed process information without hesitation. Leadership remained engaged and responsive throughout the entire audit period.

Overall impression: USBE demonstrates a commitment to cost-consciousness and maintains a culture of continuous improvement.

Indirect Cost Rate Within Sector Norms

FY 2023–24 restricted indirect rate: 10.5% (calculated on salaries plus fringe benefits)

Comparable State Educational Agency restricted rates typically fall in the low teens, with considerable variation above and below that range depending on state size and infrastructure. By contrast, other sectors such as research universities or state research grant programs commonly negotiate substantially higher indirect or Facilities & Administrative (F&A) rates, sometimes near 50%.

This positioning suggests USBE's administrative overhead is broadly consistent with or lower than many peer state education agencies.

Reimbursement Model Supports Strong Controls

USBE employs a reimbursement-based model to distribute both federal and state funds to Local Educational Agencies (LEAs). While this approach can create temporary cash-flow challenges for districts, it provides the state a critical opportunity to review expenditures before releasing funds.

When paired with clear eligibility criteria and systematic monitoring protocols, this model establishes a solid foundation for internal control over grant spending and helps prevent improper payments.

How We Conducted the Audit

This performance audit was conducted in full conformance with Generally Accepted Government Auditing Standards (GAGAS), commonly known as the Yellow Book, as issued by the U.S. Government Accountability Office.



Phase I – Planning & Risk Assessment

Entrance conference held July 16, 2025. Conducted comprehensive interviews with program staff and division leaders across USBE. Reviewed policies, desk manuals, the Indirect Cost Plan, internal reports, and existing cost documentation.



Phase II – Testing & Analysis

Analyzed direct charges to federal awards across multiple grant programs. Reviewed the Indirect Cost Plan methodology and allocation procedures. Identified and estimated ancillary support costs through detailed interviews, activity logs, system metrics, and financial data analysis.



Phase III – Reporting

Draft report delivered to management October 21, 2025. Received management feedback and additional clarifying information through November 7, 2025. Final report issued November 26, 2025, incorporating management feedback and technical corrections.

Big-Picture Funding Context

		Federal Only		All Sources (Federal, State, Local, and Other)	
Fiscal year	Federal K-12 funds (TOTAL Statewide)	Provided to LEAs (subrecipients)	USBE/SEA-retained <i>Excludes LEA Pass-Through and Disbursements and USDB</i>	USBE Only <i>Excludes LEA Pass-Thrus and Disbursements and USDB</i>	Total Statewide (LEA and USBE)
FY 2022-23	\$838,341,435 ⁴	\$800,899,755 ⁴	\$37,441,680 ⁵	\$154,607,900 ⁶	\$7,210,050,700 ⁶
FY 2023-24	\$810,040,628 ⁷	\$759,466,147 ⁷	\$50,574,481 ⁸	\$144,183,756 ⁹	\$7,877,130,600 ⁹
FY 2024-25	\$598,357,200 ¹⁰ (Revised Appropriation)	\$552,334,273 ¹¹ (Estimated from Unaudited Actuals)	\$46,022,927 ¹¹ (Unaudited Actuals)	\$175,680,700 ¹⁰ (Revised Appropriation)	\$8,439,709,500 ¹⁰

See notes for footnotes

Direct, Indirect, and Ancillary: Working Definitions

Direct Costs Recovered

Costs that are specifically identifiable with a particular federal award or cost objective. These costs can be traced to a single program without ambiguity.

Examples include:

- Program staff salaries dedicated to a single grant
- Grant-specific travel and training
- Evaluation contracts for one program
- Supplies purchased for an award

Direct costs must be allowable under federal cost principles, reasonable in amount, and supported by accurate time and activity records that document the connection to the specific award.

Indirect Costs Recovered

Joint or common costs that benefit multiple programs simultaneously and cannot be readily assigned to a single award without disproportionate effort.

Examples include:

- Accounting and financial management services
- Human resources and payroll operations
- General information technology support
- Facility costs and utilities
- Central administrative services

These costs are recovered through a federally negotiated restricted indirect cost rate applied as a percentage of a defined direct cost base (typically salaries and wages plus fringe benefits).

Ancillary Support Costs Not Recovered

Cross-functional activities that support federal programs and compliance obligations but are not charged as direct costs and are not included in the Indirect Cost Plan for recovery.

Characteristics:

- Difficult to separate federal vs. state effort precisely
- Not currently included in indirect cost proposals
- Result in recurring state-funded support for federal requirements

These costs are real, necessary for federal compliance, and currently borne entirely by state appropriations—representing a subsidy to federal program administration.

Summary of USBE Administrative Costs

	FY 2022-23	FY 2023-24	FY 2024-25
Direct Costs Recovered ³	\$35,881,203	\$48,921,255	\$43,992,405
Indirect Costs Recovered	\$1,560,477	\$1,653,226	\$2,030,522
Ancillary Costs Not Recovered	\$8,062,029	\$10,406,336	\$12,147,267

*The State of Utah received \$8.11 million in FY2022-23, and \$6.6 million FY 2023-24 Emergency Assistance to Non-Public Schools (EANS) II. These were direct purchases made by USBE on behalf of private schools in the state. Since they do not represent true administrative costs of USBE and are similar in function to passthrough payments to LEAs, we have excluded them from this direct calculation. The same exclusion is applied to Figure 1.2.

Detailed Federal Funding Program Costs

ALN Assistance Listing Number	Federal Program	FY 2022-23					FY 2023-24				
		Federal K- 12 funds TOTAL Statewide	Provided to LEAs Subrecipients	USBE Direct Costs Recovered	USBE Indirect Costs Recovered	Ancillary Costs <u>Not</u> Recovered ⁴⁴	Federal K- 12 funds TOTAL Statewide	Provided to LEAs Subrecipients	USBE Direct Costs Recovered	USBE Indirect Costs Recovered	Ancillary Costs <u>Not</u> Recovered ⁴⁴
10.185	Local Food for Schools	-	-	-	-		940,890	940,890	-	-	
10.187	TEFAP – CCC Eligible Recipient Funds	-	-	-	-		195,859	195,859	-	-	
10.541	CN Technology Innovation / Summer EBT	240,887	-	240,887	-		729,767	-	729,767	-	
10.553	School Breakfast Program	21,609,169	21,609,169	-	-		22,600,785	22,600,785	-	-	
10.555	National School Lunch Program	184,913,243	184,380,126	456,810	76,307		176,947,102	176,426,704	444,944	75,454	
10.556	Special Milk Program for Children	37,089	37,089	-	-		30,798	30,798	-	-	
10.558	Child & Adult Care Food Program	2,511,089	2,511,089	-	-		2,376,481	2,376,481	-	-	
10.559	Summer Food Service Program for Children	883,881	844,394	39,487	-		1,321,957	1,079,217	242,740	-	
10.56	State Administrative Expenses	2,443,347	-	2,228,379	214,968		4,652,476	-	4,373,556	278,920	
10.568	TEFAP – Admin Costs	1,594,151	1,594,151	-	-		2,279,508	2,279,508	-	-	
10.569	TEFAP – Food Commodities	7,292,241	7,292,241	-	-		13,870,878	13,870,878	-	-	
10.579	Child Nutrition – Equipment Grants	96,278	96,278	-	-		331,650	331,650	-	-	
10.582	Fresh Fruit & Vegetable Program	3,333,025	3,327,159	5,228	638		3,515,852	3,460,981	53,055	1,816	
10.645	COVID-19 Farm to School State Formula Grant	834	-	834	-		109,787	350	109,437	-	
10.649	Pandemic EBT Administrative Costs	179,661	179,661	-	-		186,673	186,020	653	-	
17.285	Registered Apprenticeship	-	-	-	-		-	-	-	-	
21.019	Coronavirus Relief Fund	(891,691)	(891,691)	-	-		-	-	-	-	
47.076	Education & Human Resources (NSF)	105,149	86,852	18,297	-		-	-	-	-	

		FY 2022-23					FY 2023-24				
ALN Assistance Listing Number	Federal Program	Federal K- 12 funds TOTAL Statewide	Provided to LEAs Subrecipients	USBE Direct Costs Recovered	USBE Indirect Costs Recovered	Ancillary Costs <u>Not</u> Recovered ⁴⁴	Federal K- 12 funds TOTAL Statewide	Provided to LEAs Subrecipients	USBE Direct Costs Recovered	USBE Indirect Costs Recovered	Ancillary Costs <u>Not</u> Recovered ⁴⁴
84.000	Department of Education	181,941	-	163,190	18,751		218,925	-	200,095	18,830	
84.002	Adult Education – Basic Grants to States	4,357,933	3,554,784	759,879	43,270		5,142,210	4,411,058	689,101	42,051	
84.01	Title I Grants to Local Educational Agencies	74,268,919	73,147,642	1,055,687	65,590		93,730,001	92,556,712	1,108,947	64,342	
84.011	Migrant Education – State Grant Program	863,493	73,770	777,952	11,771		561,811	446,694	107,214	7,903	
84.013	Title I State Agency Program – Neglected & Delinquent	411,308	221,507	184,117	5,684		868,949	714,845	147,597	6,507	
84.027	Special Education – Grants to States (IDEA-B)	135,729,943	125,645,122	9,425,341	659,480		150,810,757	136,389,136	13,691,332	730,289	
84.048	Career & Technical Education – Basic Grants to States	15,977,597	14,538,155	1,318,940	120,502		17,221,258	15,607,600	1,493,375	120,283	
84.173	Special Education – Preschool Grants	3,494,617	3,494,617	-	-		5,108,944	5,108,944	-	-	
84.196	Education for Homeless Children & Youth	516,732	406,869	98,462	11,401		534,393	403,861	119,080	11,452	
84.323	State Personnel Development (SPDG)	566,564	257,743	289,882	18,939		-	-	-	-	
84.326	Special Education – TA & Dissemination	108,039	-	108,039	-		90,277	-	90,277	-	
84.365	English Language Acquisition State Grants	4,813,584	4,634,886	159,723	18,975		5,501,423	5,279,834	201,297	20,292	
84.367	Supporting Effective Instruction (Title II-A)	14,809,109	14,085,502	707,255	16,352		15,918,825	14,998,606	899,564	20,655	
84.369	Grants for State Assessments & Related Activities	5,909,887	-	5,734,995	174,892		5,860,543	-	5,690,041	170,502	
84.424	Student Support and Academic Enrichment Program	21,158		12,372	8,786				(5,779)	5,779	
84.027X	COVID-19 Special Education_Grants to States	13,902,845	13,902,845	-	-		6,777,441	6,777,441	-	-	
84.144F	Migrant Education – Coordination Program	127,911	-	127,911	-		112,554	-	112,554	-	
84.173X	COVID-19 Special Education_Preschool Grants	620,385	620,385	-	-		890,311	890,311	-	-	
84.287/84.287D	Twenty-First Century Community Learning Centers	7,035,231	5,814,386	1,209,805	11,040		7,086,738	6,533,774	542,977	9,987	
84.358B	Rural Education	64,901	64,901	-	-		137,015	137,015	-	-	
84.372A	Statewide Longitudinal Data Systems	124,304	-	124,304	-		59,190	-	59,190	-	
84.424A	Student Support & Academic Enrichment	6,866,517	6,693,202	173,315	-		6,676,496	6,422,531	253,965	-	

ALN Assistance Listing Number	Federal Program
84.424F	Stronger Connections
84.425C	Education Stabilization Fund – ESSER I / GEER I
84.425D	Education Stabilization Fund – ESSER II
84.425R	Education Stabilization Fund – GEER II
84.425U	Education Stabilization Fund – ARP
84.425V	Education Stabilization Fund – EANS II ⁴⁵
84.425W	ARP – Homeless Children & Youth
93.243	Project AWARE
GRAND TOTAL	

FY 2022-23				
Federal K- 12 funds TOTAL Statewide	Provided to LEAs Subrecipients	USBE Direct Costs Recovered	USBE Indirect Costs Recovered	Ancillary Costs <u>Not</u> Recovered ⁴⁴
-		-	-	
11,469,869	11,469,869	-	-	
94,349,507	87,711,582	6,584,994	52,931	
2,682,541	1,819,546	862,995	-	
203,839,615	201,074,118	2,746,769	18,728	
8,114,907	8,114,907	-	-	
931,334	931,334	-	-	
1,832,391	1,555,565	265,353	11,473	
838,341,435	800,899,755	35,881,203	1,560,477	8,062,029

FY 2023-24				
Federal K- 12 funds TOTAL Statewide	Provided to LEAs Subrecipients	USBE Direct Costs Recovered	USBE Indirect Costs Recovered	Ancillary Costs <u>Not</u> Recovered ⁴⁴
1,549,898	644,354	902,755	2,789	
2,244,205	2,244,205	-	-	
31,625,876	30,257,816	1,357,124	10,936	
9,422,774	1,144,902	8,277,872	-	
202,577,578	195,596,148	6,929,433	51,997	
6,610,544	6,610,544	-	-	
1,948,519	1,948,519	-	-	
662,710	561,176	99,092	2,442	
810,040,628	759,466,147	48,921,255	1,653,226	10,406,336

Maintenance of Effort (MOE) and Matching – What We Did Not Include

Not Part of Our Cost Estimate

We did not include maintenance of effort (MOE) or matching fund requirements in our administrative cost estimates.

Supplement Not Supplant

The intent of many of the federal funding sources is to supplement and not supplant state and local spending. Therefore, we presume any MOE and matching funds spent by the State in the spirit of these federal laws would have occurred regardless of the supplementary federal funds.

Examples in Practice

Title I: Must maintain state/local spending on public education at least 90% of the prior year.

IDEA: The State and each LEA must not reduce their own special education support below prior-year levels.

- ❏ **Why Excluding MOE Matters:** Including MOE would mix statewide service delivery levels with USBE's internal cost of administration, creating double-counting risks. Even in a future LEA-level analyses, MOE and match may be inappropriate to count as "administrative" because these funds are intended to supplement, not supplant, state and local programmatic spending.

Why Ancillary Costs Are Not Recovered

Joint State and Federal Mandates

Many activities are simultaneously driven by overlapping state and federal requirements. For example, Utah's student assessment and accountability reporting systems serve both federal Every Student Succeeds Act (ESSA) requirements and Utah statutory mandates for state-level testing and transparency.

Disentangling which portion of the cost is "purely federal" versus "purely state" is could sometimes be impractical and would require additional administrative work to track.

Restricted Rate Exclusions

Federal restricted indirect cost rate rules for education grants exclude certain cost categories from the allowable indirect pool. During negotiations, federal officials have requested that USBE remove specific functions, such as public relations, from its Indirect Cost Plan.

Even when these functions clearly support federal program compliance and stakeholder engagement, they cannot be recovered through the indirect rate mechanism, leaving them state-funded by default.

Cross-Cutting Functions

Some functions are inherently cross-cutting across programs, funding sources, and legal authorities.

These activities are difficult to attribute to specific federal awards and inefficient to reclassify without creating significant tracking overhead that could itself become a cost burden.

Result: A recurring set of federal-related support costs that are real, operationally necessary for compliance, and currently funded entirely by state appropriations, representing a structural subsidy to federal program administration.

Summary of Ancillary Support Costs

Ancillary costs represent state-funded support functions that enable federal program compliance but are not directly recovered from federal sources. These costs ranged from \$8.1M to \$12.1M across the fiscal years 2022-23 to 2024-25.

Assessments and Data Infrastructure

Includes critical operations for student assessment, statewide data systems, reporting infrastructure, and implementing student data privacy measures.

Legal, Policy, and Oversight

Covers essential legal counsel, policy development, compliance oversight, internal audits, and professional practices standards for educators.

Licensing, Engagement, Communications

Encompasses educator licensing, stakeholder and family engagement initiatives, public relations efforts, and video production for mandatory training and board governance.

How We Estimated Ancillary Shares

Data Sources and Allocation Methodologies

Our estimation approach varied by functional area, using the most specific and defensible data available for each category of ancillary support costs:

Activity-Based Analysis

Used counts and detailed categorizations of required reports (Data & Statistics section), with staff-informed weighting for complexity and time requirements. Reviewed administrative rules, press releases, and educator discipline cases, categorizing each as state-driven, federally driven, or serving both mandates.

System Metrics

Analyzed transaction volumes and payment processing data in enterprise systems such as Utah Grants, using the proportion of federal versus state transactions as a reasonable proxy for system support effort.

Proportional Allocation

Where detailed time or activity data were limited or where functions serve overlapping mandates, we used federal-to-state funding proportions as a reasonable allocation basis: FY 2022–23 (25.6% federal), FY 2023–24 (35.1% federal), FY 2024–25 (26.2% federal).

📌 **Emphasis on Conservative Estimates:** Throughout the analysis, we emphasized conservative, well-documented estimates suitable for decision-making and policy discussions. These estimates are intended for reasonableness and transparency, not as assertions of federal allowability or requests for reimbursement without further negotiation.

Ancillary Cost Summary

	FY 2022-23		FY 2023-24		FY 2024-25	
	<i>Full Cost</i>	<i>Attributed to Federal</i>	<i>Full Cost</i>	<i>Attributed to Federal</i>	<i>Full Cost</i>	<i>Attributed to Federal</i>
Assessment Section ¹⁶	\$18,636,512	\$3,735,796	\$21,404,223	\$5,147,341	\$25,183,570	\$5,853,756
Assistant Attorney General	\$480,852	\$122,900	\$618,621	\$216,990	\$629,499	164,929
Data and Statistics Section	\$3,165,779	\$2,320,516	\$2,808,244	\$2,198,855	\$2,741,210	\$2,201,192
Internal Audit Section	\$1,273,915	\$696,289	\$1,419,915	\$1,031,977	\$1,465,506	\$381,032
Licensing Section	\$2,360,301	331,218	\$2,942,082	\$369,178	\$2,919,068	\$764,796
Other Financial Operations	n/a	\$176,224	n/a	\$265,698	n/a	\$211,000
Other Program Reimbursement Approvers	n/a	\$154,419	n/a	\$301,964	n/a	\$112,014.07
Parent and Family Engagement ¹⁷	0	0	\$82,367	\$28,891	\$64,433	\$16,881
Policy, Law, and Professional Practice Section	\$1,150,568	\$110,455	\$1,214,569	\$116,599	\$1,158,994	\$111,263
Public Relations Section	\$401,830	\$76,209	\$430,019	\$125,859	\$486,909	\$114,119
Student Data Privacy Team	\$601,702	\$153,787	\$926,644	\$325,033	\$1,194,937	\$313,073
Travel Team	\$28,393	\$7,257	\$41,441	\$46,851	\$28,681	\$29,102
Utah Public Education Financial System (UPEFS)	\$340,947	\$87,142	\$401,443	\$140,812	\$415,495	\$108,860
Utah Grants						
Utah Professional Practices Advisory Commission (UPPAC)	\$567,150	\$14,179	\$668,907	\$16,723	\$864,185	\$21,605
Utah Schools Information Management System (USIMS) ¹⁸	n/a	0	n/a	0	\$6,355,626	\$1,665,174
Video Production	\$189,333	\$48,391	\$210,468	\$73,825	\$259,554	\$68,003
TOTAL	\$30,965,500	\$8,062,029	\$35,326,692	\$10,406,336	\$45,561,382	\$12,147,267

Ancillary Cost Categories: Assessments and Data Infrastructure

1

Assessment Section

Operates Utah's comprehensive student assessment system including RISE (state standards-based assessments), Utah Aspire Plus (college readiness), ACT administration, and accountability processes for school performance ratings.

This work simultaneously satisfies Utah statute and federal ESSA assessment and annual reporting requirements. The federal share was estimated by examining overlapping requirements and identifying cross-subsidies between state and federal mandates where Utah's state-funded assessment infrastructure enables federal compliance.

2

Data & Statistics Section

Manages the statewide Data Gateway portal, public-facing accountability dashboards, and an extensive inventory of required state and federal reports submitted to the U.S. Department of Education and other federal agencies.

A detailed inventory of required reports revealed a substantial share tied directly to federal requirements. After weighting reports for relative complexity (state reports generally require longer preparation time), an estimated **73–80% of required-report workload** is driven by federal data requests and compliance obligations.

3

Student Data Privacy Team

Implements Utah's comprehensive student data privacy laws (Utah Code Title 53E and Administrative Rule R277-487) and fulfills overlapping federal obligations under the Family Educational Rights and Privacy Act (FERPA), IDEA confidentiality provisions, and Protection of Pupil Rights Amendment (PPRA).

Given the intertwined nature of state and federal privacy mandates, costs were allocated proportionally using the federal-to-state funding ratio in overall USBE operations as a reasonable proxy for effort distribution.

Ancillary Cost Categories: Legal, Policy, and Oversight

4

Assistant Attorneys General

Provide specialized legal counsel on administrative rules, contracts, litigation, civil rights compliance, and interpretation of federal guidance including Dear Colleague letters from the U.S. Department of Education.

Some work is clearly attributable to federal statutes and regulations; costs allocated using the relative proportion of federal revenues in USBE's overall budget as a reasonable proxy for effort.

5

Internal Audit Section

Conducts performance audits, financial audits, compliance reviews, investigations, and manages the confidential hotline for reporting concerns across all USBE programs and LEA operations.

Most audits and investigations blend state and federal criteria. This was estimated at 50% of hours related to audits. Additional hours were estimated based on hotline activity that was logged.

6

Policy, Law, and Professional Practices Section

Drafts Board policies and administrative rules; coordinates legislative relations; manages the educator discipline process; and provides policy guidance on state and federal requirements.

A comprehensive review of 198 administrative rules indicated a relatively modest fraction driven primarily by federal mandates alone. Many rules serve dual purposes or are state-driven, reflecting Utah's policy of meeting or exceeding federal standards.

7

Utah Professional Practices Advisory Commission (UPPAC)

Advises the State Board on educator discipline cases and professional standards for licensed educators, ensuring public confidence in the teaching profession.

While most cases involve state licensure standards, a small share of disciplinary matters relate to specific federal law violations (e.g., civil rights violations, federal student privacy breaches). That proportional share of UPPAC costs is treated as ancillary federal support.

Ancillary Cost Categories: Licensing, Engagement, Communications

8

Educator Licensing Section

Issues and manages all educator licenses statewide, ensuring teachers and administrators meet qualification standards. Licensing status underpins LEA staffing compliance and federal reporting on appropriately assigned educators under ESSA's "highly qualified" successor provisions.

After excluding U-RAPT apprenticeship costs that are directly federally funded, remaining state-funded licensing operations costs were allocated using federal-to-state appropriation proportions.

9

Parent and Family Engagement

State-funded position created in 2023 to support family engagement initiatives statewide. Activities align with and help LEAs meet federal parent and family engagement requirements embedded in multiple federal programs including Title I and IDEA.

Costs apportioned using source-of-appropriation ratios to reflect mixed state and federal benefit.

10

Public Relations Section

Manages press releases, public notices, media inquiries, and stakeholder communications for State Board meetings and agency initiatives. Ensures transparency and public awareness of both state and federal education programs.

A content analysis of press releases indicated a meaningful share directly related to federal grants, federal program announcements, or mixed state/federal mandates. That proportion is treated as ancillary federal support.

11

Video Production

Produces livestreams of State Board meetings, training videos for LEA staff, and required federal deliverables for compliance and technical assistance. Funded with Federal Mineral Lease revenues, state funds that could otherwise support other state priorities, representing an opportunity cost.

Ancillary Cost Categories: Finance, Grants, Travel, and Enterprise Systems

12

Other Financial Operations

Financial managers and analysts in state-funded positions who review both state and federal LEA reimbursement requests, ensuring accuracy and compliance with allowability standards before payments are processed.

Costs allocated using federal versus state appropriation proportions across USBE's budget.

13

Other Program Reimbursement Approvers

State-funded program staff who regularly approve or review federal reimbursements in the Utah Grants system as part of their quality control responsibilities.

Only staff with material volume of federal approval activity were included in the federal allocation calculation, ensuring proportionality.

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Travel Team

Assists USBE staff and State Board members with travel requests, pre-approvals, expense reconciliations, and compliance with state travel policies.

A portion of staff travel supports federal grants, conferences, and technical assistance. The unrecovered state-funded support portion was allocated based on the federal versus state funding mix in USBE operations.

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Utah Public Education Financial System (UPEFS)

Statewide financial accounting and reporting system used for both state and federal reporting, preparation of indirect cost rate proposals, and consolidated financial statements. State-funded system support and maintenance costs allocated proportionally to federal funding sources.

Ancillary Cost Categories: Finance, Grants, Travel, and Enterprise Systems

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Utah Schools Information Management System (USIMS)

Major modernization effort to integrate student data, financial data, and educator licensure information in a unified platform, replacing legacy systems. FY 2024–25 state-funded implementation and support costs attributed proportionally to federal activity and reporting requirements.

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Utah Grants

Enterprise grants management system used for federal and state grant applications, awards, reimbursement processing, and monitoring. During the audit period, approximately 6–7% of payments processed were federal funds. That proportional share is used to estimate the federal portion of state-funded system support and operational costs.

Addendum A: Tracking Ancillary Time – What Federal Cost Principles Allow

Allowability & allocability: Costs must be necessary, reasonable, and allocable to the federal award. Allocability includes costs incurred specifically for an award, costs that benefit an award and other work (and can be distributed on reasonable bases), or costs necessary to overall operations and assignable in part.

Direct, indirect & “minor items”: Allows direct charging of costs if services are integral to the award, the individuals are specifically identified, and the costs are not also recovered as indirect. Administrative and clerical salaries are normally indirect. In instances they are direct charged, they must meet the criteria above. Also, direct costs of minor amount may be treated as indirect for practicality if applied consistently.

Documentation of personnel expenses: Charges to awards must be based on records that accurately reflect the work performed. In addition, this section of federal code explicitly allows substitute systems (e.g., random moment sampling, rolling time studies) approved by the cognizant agency, meaning individual daily timesheets are not the only option.

Education-specific “restricted rate” rules (supplement-not-supplant context): Requires a restricted indirect cost rate for many State Education Agency (SEA) and Local Education Agency (LEA) programs; the formula limits what “general management” can sit in the pool and adjusts the base. This heavily influences whether general management/support functions can be recovered and how. Official U.S. Department of Education Q&A for SEAs/LEAs: Confirms rules apply, clarifies restricted rate implications, and gives practical examples (e.g., organization-wide software support is an indirect cost).

Addendum A: Tracking Ancillary Time – Options and Tradeoffs

- **Potential Benefits:** More precise attribution of effort in functions like Utah Grants administration, specific data/reporting projects, or grant-specific video training production
- **Costs and Risks:** Additional staff time for activity coding, validation, and reconciliation; possible negative cultural impact if tracking feels like surveillance; risk of federal disagreement
- **Pragmatic Approach:** Pilot in targeted areas with clear, recurring federal award linkages; set materiality thresholds; maintain proportional methods where complexity remains high

Enhanced time tracking can provide stronger documentation to support indirect cost rate negotiations and inform policy discussions with federal partners, but implementation requires careful cost-benefit analysis and change management to succeed.

Addendum B: Overlap of State and Federal Laws

Utah's statutes and USBE rules generally align with or exceed federal standards in:

- Civil rights: Title VI, Title IX, ADA, Section 504.
- Student data privacy: FERPA vs. Utah Code Title 53E and R277-487.
- Assessment and accountability: ESSA testing and reporting vs. Utah's broader assessment system.

This alignment:

- Helps mitigate non-compliance risk, but does not remove federally driven work.

USBE must still:

- Respond to federal guidance and Dear Colleague letters.
- Maintain systems and processes that satisfy both state and federal requirements.
- Update policies, training, and practices as laws and interpretations evolve.

Result: Compliance costs from overlapping mandates remain intertwined, and many are embedded throughout the ancillary support categories identified in this audit.

Recommendations for the Board

The Utah State Board of Education should:

1. Explore opportunities to advocate for the inclusion of certain state-funded compliance costs such as those tied to fiscal monitoring and administrative oversight in the Indirect Cost Pool (ICP). This will help ensure that federally mandated responsibilities, which currently rely on state resources, are more accurately reflected and potentially reimbursed through federal funding mechanisms.
2. Consider implementing improved activity tracking mechanisms for ancillary costs as appropriate. Doing so would enhance visibility into how state resources are used to support federally mandated programs and provide valuable insights for more informed budget planning and policy decisions.

Additional Observation: Reimbursement Review Process

Current model in Utah Grants

Four-step review of LEA reimbursements: two program reviewers and two finance reviewers. Roles of the first and second reviewer in each pair are not always clearly differentiated.



Control environment considerations

Some controls may already be automated (e.g., budget limits), but staff understanding and reliance on those controls vary.

Uniform Guidance requires:

- Risk-based monitoring of subrecipients,
- But does not prescribe a specific pre-payment review structure.

Options, depending on risk tolerance

1. Clarify responsibilities and written review criteria for each reviewer role.
2. Ensure automated controls in Utah Grants are effective and understood.
3. Consider whether any duplicative review steps can be streamlined while maintaining an acceptable level of risk management.

Key Takeaways, Closing, and Questions

\$8M - \$12M

Annual State Cost Not Recovered

Unrecovered ancillary support costs funded by state appropriations each year

2%

State Costs Out of Total Federal Sources

State cost not recovered as a percentage of appropriated FY 2024-25 federal sources

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Cost Categories

Distinct ancillary support functions identified and estimated in the analysis

These estimates provide the State Board and policymakers with a clearer, more comprehensive view of the cost of administering federal education programs at the SEA level and the extent to which state resources subsidize federal program compliance and infrastructure. This transparency creates opportunities for more informed budget decisions, strategic investments in efficiency, and productive dialogue with federal partners about appropriate cost recovery.

Thank you for your time and attention.

We welcome your questions and are prepared to provide additional detail on any aspect of the audit methodology, findings, or recommendations.