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## MEMORANDUM

**TO:** Members, Utah State Board of Education

**FROM:** Brad C. Smith  
Chief Executive Officer

**DATE:** March 6, 2015

**INFORMATION/ACTION:** Risk Mitigation Plan Update

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### **Background:**

In its October 2014 meeting, the Board received the USOE Risk Mitigation Plan prepared in response to a draft risk assessment by the Board internal auditors. In a subsequent meeting, the Board reviewed the USOR Risk Mitigation Plan. Embedded in the plans are timelines for implementation and outlines of resources needed for full implementation.

### **Key Points:**

It has been requested that the Board receive an update on the Risk Mitigation Plan.

### **Anticipated Action:**

The Board may consider action that might be needed to provide the necessary resources for implementation of the plan.

**Contact:** Brad Smith, State Superintendent, 801-538-7510

# DRAFT USOE Risk Mitigation Plan

October 10, 2014

As a result of the Internal Audit Section of USOE performing their annual risk assessment of the Utah State Office of Education, the Superintendent of Public Instruction was assigned by the Board to draft a Risk Mitigation Plan. This plan outlines specific actions that will be undertaken by USOE at the direction of the Superintendency to mitigate potential risks associated with the State Office of Education not being able to fulfill its mission.

Plan components include a description of the current status of each area of risk, short-term risk mitigation efforts, and a long-term plan for dealing with the identified risks. The areas of risk addressed in this document are based on the items identified by Internal Audit in the Summary Risk Assessment document distributed to the Board in draft form during the September 2014 meeting of the Board.

## Executive Summary

In the Draft Summary Risk Assessment of USOE, four major areas of potential risk were identified. These include:

- Unclear Assignment of Responsibilities, Decision Making and Reporting
- Additional Resources Necessary to Manage Federal and State Programs
- Lack of Formal Comprehensive Policies and Procedures for all Offices Governed by the Board
- Improved Data Systems and Financial Structure

In identifying these risks, there was no assumption or statement that fraud, waste or abuse was identified or occurring within the agency, but only that these areas should be reviewed by the State Board of Education and Superintendent to ensure that proper controls and policies were in place.

Major recommendations from the Superintendency/management to the State Board of Education in this Risk Mitigation Plan include the following:

- An organizational structure analysis to be performed by an outside entity (WestEd has offered this service *pro gratis*, GOMB has also offered services)
- Implementation of an automated system to track state and federal grant monitoring and compliance
- Hiring a Utah Consolidated Application (UCA) specialist to assist USOE sections and LEAs with use of the system
- Two additional staff members at USOE for each ten additional charter schools added to the Public Education System
- Establishment of a Compliance Office at USOE to ensure consistent compliance and monitoring efforts for State and Federal grants and programs
- Establish a Policy Director position at USOE to provide a central repository of State Board Rule, Board Policy, Board Bylaws, USOE Policies, USOE practices and business rules.
- An IT audit will be performed by the internal audit section of the USOE together with outside technical consultants concerning the security policies and internal controls over data security
- Move all functions that can be performed in FINET from BASE to FINET and rewrite the portions of BASE which are required by USOE but will never be part of FINET.

- Complete the MSP automation system to provide cost estimates and allocation of funding for MSP programs.

Costs associated with the above noted recommendations amount to approximately \$1,359,000. Of this amount, it is anticipated that \$660,000 can be funded internally through use of carry-over discretionary funds or through reallocation of existing budgets and \$699,000 would require additional resources to be appropriated to the State Board of Education by the Legislature.

## Areas of Risk and Plan Components

### 1) Unclear Assignment of Responsibilities, Decision Making and Reporting

#### Current Status and Determination of Risk

During the past year it has become apparent that there are areas of responsibility, decision making and reporting that are unclear to the Superintendency and USOE concerning expectations by the Board. Many of these issues have been addressed in the past by practice with no documented decision by the Board as to what issues are reserved to the Board to make decisions and those which have been delegated to the Superintendent of Public Instruction and his staff at USOE.

Additionally, there is some confusion among board members and staff concerning how they should interact and lines of communication are unclear between board members and USOE staff. During the August meeting of the Board initial discussion was held concerning interactions of individual board members with USOE staff. Concern was expressed by board members about how they should communicate requests for information with USOE staff members. They shared that they were unsure as to whether communication should always take place through the Superintendent's office or whether they were able to contact USOE staff directly.

Currently by practice, many policies which affect USOE/USOR operations are documented and approved by the Superintendent. There is no written policy statement by the Board concerning what items should be approved by the Board and policy items that can be approved by the Superintendent.

In some cases, it appears that there is a need for additional coordination within the sections of USOE concerning roles and responsibility. Risks associated with this issue include:

- Lack of ability to make management decisions based on lack of role clarity
- Inability to hold Sections within USOE accountable for responsibilities and decision making
- Difficulty in making senior level hiring decisions by the Board

#### Short-term Risk Mitigation Process

In the short-term, all communication between the Board and USOE staff will be directed through the Superintendent, the Deputy Superintendent or an Associate Superintendent. The Superintendent will have the responsibility to request information concerning roles and decision making authority as items which need additional clarity arise.

#### Long-term Risk Mitigation Plan

##### Description of Risk Mitigation Efforts

Clarification of Board and Management Roles. During the next few months, the Superintendent of Public Instruction will work with his staff to identify and document areas of ambiguity concerning

responsibilities, decision making and lines of communication between the Board and USOE staff. Discussion will be held with the Superintendent's Leadership Council consisting of all of the Section Directors at USOE to assist in identifying items requiring further clarity by the Board. These items will be brought to Board Leadership by the Superintendent for clarification. As decisions are made by the Board in clarifying the role of the Board and USOE leadership, it is suggested that these issues will be documented in Board Bylaws or policies. In this way, current and future members of the Board of Education and USOE leadership will have a written document to inform them as to expectations for the role of the Board and the role of management.

A recommendation will be made to the Board by the Superintendent concerning lines of communication and authority between Board members and USOE staff. Taking this recommendation into account, it is suggested that the Board document in their bylaws how communication and information requests between Board Members and USOE staff will be accomplished.

Once clarity is obtained concerning the role of the Board and Superintendent, then it will be the responsibility of the Superintendent and staff to prepare formal governing documents assigning responsibility, decision making authority and reporting to the various sections at USOE. A review of the current organizational structure will be undertaken by the Superintendency to ensure that responsibilities are aligned with the mission of the organization. An outside evaluation of the organization will be obtained by an organization such as WestEd to provide direction as to appropriate organizational structure changes.

#### Project Timeline

Recommendations for clarification by the Board will be brought to Board leadership by the Superintendent no later than December of 2014. It is recommended that the Board put the issues on a Board meeting agenda and make decisions for inclusion in Board bylaws by June of 2015. The evaluation of USOE organizational structure should be complete by October 2016.

#### Needed Resources

This mitigation effort can be accomplished within current staff resources. It is anticipated that using an organization such as WestEd to perform the evaluation of the organizational structure would be at no cost. The Governor's Office of Management and Budget (GOMB) has also offered resources to help USOE benefit from the state agency SUCCESS efficiencies initiative. No additional resources will be required for this project.

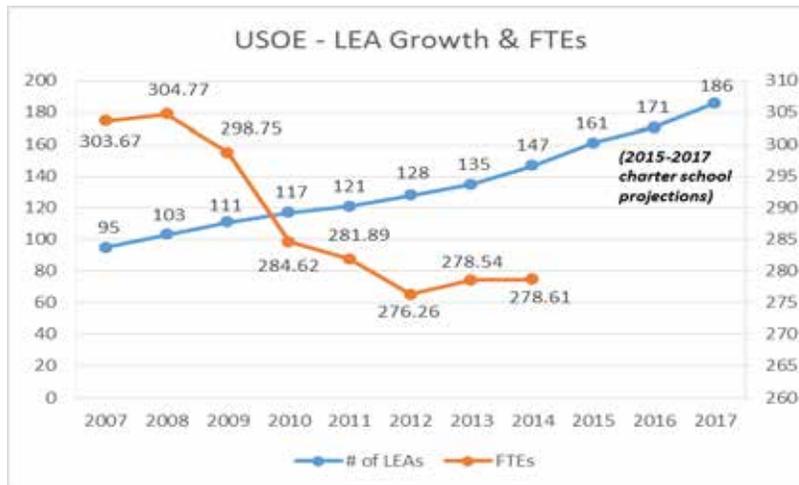
## **2) Additional Resources Necessary to Manage Federal and State Programs**

### **Current Status and Determination of Risk**

Due to increased requirements placed on USOE as a result of growth in the number of LEAs and students within the public education system without additional staff resources, it is becoming increasingly difficult to manage and monitor State and Federal programs.

Since 2007, the number of LEAs in the State has increased from 95 to 147 and is projected to grow to 186 total LEAs in 2017. During this same time period, the number of public school students has increased from 526,087 in 2007 to over 600,000 in 2014. The growth in the number of LEAs is the result

of additional charter schools being approved by the State Board of Education. Even though a charter school's student population is small in comparison to most school districts, the process to allocate funding, receive and review reporting and monitor activities in a charter school is similar to that of a school district. Additionally, new charters generally have less experienced personnel and as a result require more effort by staff at USOE than an established district or charter.



During the same time period in which we have experienced significant growth in the number of LEAs, the nation was in an economic downturn and the number of FTE staff declined from 304 in 2007 to 279 in 2014. Although continuing to provide services and program management activities to more LEAs with less staff shows the ability of USOE staff to be more efficient, we are at a point where without additional staff and system resources we will be unable to adequately perform the functions required by State law and Federal Regulation. The risk associated with this continued growth in LEAs without additional resources is that USOE will not be able to properly monitor State and Federal Programs resulting in potential misuse of appropriations and the possibility of having to pay back federal funds.

Over the last few months, we have experienced turnover in the Directors in three major Sections in USOE. As a result of that turnover, a significant loss of institutional knowledge in managing and monitoring state and federal programs was lost. We have also experienced turnover in other key staff assignments at USOE. It has been difficult to recruit qualified individuals into many of these key positions at the current pay levels. In the past, individuals who had significant experience could retire and then come to work at USOE and continue to draw retirement benefits. As a result, they were willing to accept positions at USOE at pay rates that were under market rates. With recent changes in the state retirement regulations, we are no longer able to recruit retirees at sub market pay rates. The risk associated with this issue is that we will not be able to fill open positions and have to hire staff who are not qualified or have a significant learning curve. This increases the potential for improper monitoring of State and Federal programs.

An organizational structure study has not been done at USOE in the recent past to determine how best to organize the agency to manage the growth in public education. During 2012, adjustments were made in the organizational structure when an Associate Superintendent position was eliminated and responsibility for the sections previously overseen by the additional Associate Superintendent were absorbed by the remaining Deputy and two Associate Superintendents.

Additionally, recent changes in the processes by which state educational agencies, such as USOE, are required to monitor sub-recipients (Grant allocations to LEAs) under various federal grants have undergone significant change. Recently federal regulations known as the Omni Circular were released containing risk assessment and monitoring activities which were not previously required.

Currently, the Internal Audit Section at USOE has been providing monthly classes concerning the Omni Circular to train the individuals in the various sections at USOE who have responsibility for sub-recipient monitoring of Federal Grants. The Sections at USOE involved in Federal Monitoring include the following:

- Federal Programs – ESEA
- Teaching and Learning – ESEA
- Special Education – IDEA
- CTAE – Perkins Grant
- Child Nutrition Programs – National School Lunch Program

The new federal regulations in the Omni Circular apply to all federal grants and require consistency across federal programs. We have identified that because various Sections have the responsibility for managing and monitoring compliance for federal programs that there is inconsistency in many of the requirements communicated to LEAs. These inconsistencies include such things as grant reimbursement requirements, reporting requirements, etc. This inconsistency results in confusion by the LEAs who interact with each of the Sections charged with managing federal grants. The risk associated with this issue is that the confusion may result in incorrect or noncompliance with federal regulations at both the LEA and State level and could result in underutilized federal funds or questioned costs which would need to be repaid to the Federal government from State funds.

### **Short-term Risk Mitigation Process**

Monthly Training Program. In July of 2014, the Internal Audit Staff began a monthly training program with reference to the Omni-circular. This training began with basic accounting training and will include training on financial monitoring requirements for all federal grants. This training is held each month directly following Leadership Council meeting and Section Directors and their staff involved in federal program management are invited. It is expected that this training will continue for an indefinite period of time to ensure that staff are properly trained.

Computer Based Compliance Reporting. We are currently investigating implementation of a computer based system to track compliance reporting and to ensure that all staff members who are providing federal program monitoring activities have consistent information and copies of the federal regulations regardless of the federal program. This pilot would include one USOE section who has the responsibility for managing and monitoring a federal program. It is our intent to go through the procurement process and pilot a system within the next four months.

Compensation Plan Update. A compensation plan for retention and recruitment of key positions at USOE has recently been completed by the Superintendent. This plan will be presented to the Board of Education during the October 2014 meeting of the Board. Although not meeting the full need to look at retention and recruitment of all positions at USOE, if approved it will make a significant difference in these issues for key positions such as Section Directors, Coordinators, Specialists, IT Analysts and Support Staff.

## **Long-term Risk Mitigation Plan**

### Description of Risk Mitigation Efforts

Consultant Services for Strategic Planning. It is the intent of the Superintendent that USOE identify a qualified outside consultant to perform a Strategic Planning and Organizational Structure Study of the agency. This would ensure that the organizational structure at USOE is aligned with the mission of the agency. Additionally, the study should evaluate the need of additional resources needed as a result of increased LEAs and at what point additional staff should be added to the agency as additional LEAs are added to the system. Until this study can be completed, we estimate that two additional staff members should be added to the agency for each additional ten charter schools which open in a fiscal year.

USOE Compliance Officer. To deal with the inconsistency of managing and monitoring state and federal programs by the various sections within USOE, we recommend implementation of a State and Federal Program Compliance Office. The director of this section would have the responsibility to work across all sections to ensure that the requirements of the new Omni Circular are consistently applied and that state statutory mandates and State Board rules are also correctly and consistently applied in program monitoring efforts. This office would become a central point of contact for LEAs as they have compliance questions concerning federal grants and state programs.

If the pilot of the automated system to track compliance reporting is successful, it would be the intent of the Superintendent to expand the use of the system to all sections of USOE with federal compliance responsibilities.

Compliance Specialist and UCA Update. Currently, reimbursement requests for payments to LEAs under federal grants and some state programs are accomplished through an automated system called the Utah Consolidated Application (UCA). This system also houses plans and grant applications for all federal programs. Concerns have been voiced by LEAs that reimbursement guidelines are not consistent between grants and that is confusing that not all programs are included in the system. It is our recommendation that all federal and state programs that require reimbursement of funds after an LEA makes appropriate expenditures be included under the system. It is also important that all programs follow the same consistent procedures concerning how an LEA sets up their budget in UCA and requests reimbursement of funds. To facilitate this effort, it is recommended that we hire a UCA specialist who would have the responsibility to work with the sections using the system to provide consistency in how the system is used.

### Project Timeline

Establishment of a Program Compliance Office at USOE and hiring of the Director could be complete by September of 2015.

The evaluation of USOE organizational structure should be complete by December of 2016.

Implementation of a pilot technology based compliance system is estimated to be complete by July of 2015.

Inclusion of additional State programs managed by USOE and hiring a UCA specialist position is estimated for completion by September of 2015.

### Needed Resources

Establishment of a Compliance Office at USOE including a Compliance Director and clerical staff. The cost associated with establishing this new section is estimated at \$200,000. Staff cost for the director and clerical staff would be approximately \$185,000 and needed furniture and equipment would cost about \$15,000. It is anticipated that the costs of establishing this new section could be accomplished through reallocation of current USOE financial resources.

Two additional staff members at USOE for each 10 additional LEAs projected to open in any given fiscal year. For fiscal year 2015-16 it is estimated that 9 additional charter schools will open. This would result in an additional 1.8 FTE appropriation or \$180,000.

The cost of implementing a pilot of a program compliance software program would be approximately \$50,000 for one year. This amount could be funded through carry-over discretionary funds.

The cost associated with hiring a UCA specialist would be approximately \$60,000 and could be funded through reallocation of existing budgets.

It is anticipated that using an organization such as WestEd to perform the evaluation of the organizational structure would be at no cost.

## **3) Lack of Formal Comprehensive Policies and Procedures for all Offices Governed by the Board**

### **Current Status and Determination of Risk**

At present, there are various rules, policies, practices and business rules utilized by staff at USOE to make decisions concerning internal operations and management of the programs that are the responsibility of the Board of Education. The Board of Education has the responsibility to pass rules concerning issues for which they have statutory responsibility based on bills passed by the Legislature. The Board also has bylaws and policies which govern how the Board operates and the interaction of the Superintendent and staff with the Board.

USOE has policies which are approved by the Superintendent which direct the operations of USOE and USOR. These policies are available to employees of USOE through the intranet. Additionally, various practices and business rules have been developed by sections within USOE for internal and LEA expectations. These practices and rules are sometimes inconsistent between the various sections which causes misunderstanding and concern by the LEAs. Additionally, many times these practices and business rules are not documented and unavailable to those needing the information which can result in confusion and diminished trust in USOE staff.

There are manuals which have been prepared by such sections as Internal Accounting to assist with assuring the proper input of financial transactions. These manuals and information are in written form such as a desk reference manual which have not been provided to all appropriate staff.

Currently, there is no central repository of Board and USOE rules, policies, procedures and business practices where someone who needs direction can go to obtain the needed information. It may be that a staff member or LEA official may not know that a policy exists or have access to a needed document. Risks associated with this issue include the possibility of incorrect or inconsistent application of policy.

## **Short-term Risk Mitigation Process**

Identification and Central Repository of Policies. In the short-term, it is important to identify and assemble all of the policies, practices and business rules that have been documented by the various sections at USOE. This effort could be initiated through the Section Directors at the monthly Leadership Council meeting. A central repository should be established for these materials. The items within the repository could then be organized and put on a searchable website that is available to all users of the information.

## **Long-term Risk Mitigation Plan**

### Description of Risk Mitigation Efforts

USOE Policy Director. On a permanent basis, it is essential to the organization that one central repository be established and maintained to contain the policies, practices and business rules for the organization. In order to facilitate this effort, it is recommended that a new section be established at USOE which would include a Policy Director. This new section would have the responsibility to work with all of the operating sections at USOE to identify current written policies and procedures and to compile them into a repository which makes the information available to anyone needing the information within or outside of the organization. The policy director would also have the responsibility to work with the Sections at USOE to ensure that all policies for State and Federal programs are consistent between sections and that unwritten policies and procedures are properly documented.

This office would work with the Associate Superintendent for Business and Operations, Internal Accounting, Internal Audit and School Finance to ensure that all financial and budgetary practices are properly documented and available to all sections within USOE and to LEAs.

Additionally, Board rules and policies would be included in the repository and the Policy Director would have the responsibility to work with the Board in writing Board rules, Board policy and bylaws. This office would have the responsibility to ensure that there is consistency between Board Rule, USOE Policy and written Section practices.

### Project Timeline

It is anticipated that if approved by the Board of Education that the new Policy Section be established within USOE in January of 2015. During January, the Policy Director would be hired and clerical staff assigned. We estimate that pulling together existing documentation, organizing the information into a central repository and identifying and documenting additional policy and practice issues could be completed by July of 2017.

### Needed Resources

It is recommended that USOE hire a Policy Director and establish a new section within USOE including clerical staff and required equipment and supplies. The cost associated with establishing this new section is estimated at \$200,000. Staff cost for the director and clerical staff would be approximately \$185,000 and needed furniture and equipment would cost about \$15,000. It is anticipated that the costs of establishing this new section could be accomplished through reallocation of current USOE financial resources.

## **4) Data Systems and Financial Structure**

## Data Systems

### Current Status and Determination of Risk

#### Short-term Risk Mitigation Process

The IT Section of USOE currently has various data security measures in place. To date, we are unaware of any major security breaches of data stored at USOE. No outside evaluation or audit has been performed to assess the vulnerability of security policies or internal controls over data security.

#### Long-term Risk Mitigation Plan

##### Description of Risk Mitigation Efforts

At the request of the IT Section of USOE, individuals from UEN performed an IT security audit at the USOE building. The Audit Committee of the State Board of Education will review the results of this audit. A decision was made by the Audit Committee not to disclose data and system security measures employed by USOE or any potential security weaknesses identified by the audit. This decision was made to avoid providing to those desiring to break into the data systems at USOE information which might allow them to hack our systems. As a result of the UEN Audit, management has been working with the Division of Facilities and Construction Management to implement changes to the security system for the USOE building.

*USOE Data Security Officer.* One of the major recommendations of the UEN audit suggested that a USOE Data Security Officer and staff be hired. This new USOE Section would be independent of the IT Section and would have the responsibility to constantly monitor the security of data stored at USOE and systems developed by the IT Section and make recommendations concerning internal controls and security policies.

*IT Audit of Internal Systems and Data Security.* The Audit Committee has requested that the USOE Internal Audit Director coordinate an IT systems audit. This audit would look at internal systems and data security at USOE. It is anticipated that much of the audit can be completed by USOE Internal Audit staff, but that additional outside technical expertise would be needed to fully investigate the potential risks. The Board would need to hire an outside firm or individual to assist with this effort.

##### Project Timeline

The Internal Audit Director at USOE has identified this IT system audit as one of the high priority audits that will be performed during the 2014-15 fiscal year. In January of 2015, procurement of the services of an outside technical consultant will begin. It is anticipated that during the period of March through June of 2015 the audit will be conducted with a report back to the Board Audit Committee in the July Audit Committee meeting.

Based on funds being appropriated by the Legislature to allow for the hiring of a Data Security Officer and staff, this new USOE section would be established by September of 2015.

##### Needed Resources

To provide for the outside technical services required to assist the USOE Internal Audit Section in completing the IT security audit, it is estimated that approximately \$150,000 would be needed to retain an outside consultant. The Board of Education has currently allocated \$200,000 of carry-over discretionary funding to pay the costs of the audit and begin risk mitigation efforts required as a result

of the UEN and IT security audits. The cost of the outside consultant would be taken from this funding source.

After completion of the IT systems audit by Internal Accounting and the external consultant, USOE management and the Board of Education will identify required additional resources which will need to be allocated to ensure the security of data and adequately maintaining the systems developed by USOE.

Implementing a Data Security Office and associated staff would initially cost approximately \$216,000 plus an additional \$15,000 for equipment, supplies and furniture. The \$15,000 could be covered internally through carry-over discretionary funds.

## **BASE (Budgeting and Accounting System for Education)**

### **Current Status and Determination of Risk**

Approximately 20 years ago, because the financial system used by State Finance did not provide various functions required by USOE and USOR, a decision was made and approved by State Finance to allow IT Staff at USOE to develop a financial system to meet the needs of the agency. This system known as BASE accounts for the various financial functions and transactions and then transmits data to FINET for inclusion in the State System. This system was developed using Power Builder and is now becoming obsolete. As a result, discussion has been ongoing concerning the need to rewrite all or parts of the BASE system.

Risks associated with the BASE system include the fact that it is written in an older computer language and as a result the system is becoming more difficult to maintain. Additionally, the system is currently being maintained by one main IT Analyst who has made management aware of her intent to retire within approximately two years.

BASE transactions are recorded in the system database and changes and transactions are transmitted daily to FINET. Any transactions recorded in FINET are downloaded into BASE so that theoretically the two systems have identical data. Annually, the State Auditor provides an audit of all financial transactions completed by USOE and USOR and there have not been any significant issues determined by their audits. Other than these audits, limited reconciliation of the information contained in the two systems is performed. As a result, using two systems provides the possibility of the systems not being in sync with each other.

### **Short-term Risk Mitigation Process**

The current system is functional and supported by IT staff. An additional IT Analyst has been assigned to cross train on the system to ensure that continued support could be provided for BASE in the event of retirement or termination by the primary support analyst. Currently, the Internal Accounting Section of USOE performs a monthly FINET-BASE reconciliation. Reconciliation efforts will be expanded by Internal Accounting staff to ensure that the data in BASE is consistent with FINET.

*Transition of Accounting Functions from BASE to FINET.* Discussions have been held between Management (Superintendency, Internal Accounting, IT Section) concerning the future of BASE. A decision has been reached that only those functions contained within BASE that are not currently or expected to be available in FINET within the next two years will be reprogrammed. All other financial

functions will be transitioned to FINET such that transactions will be recorded directly in FINET. In this way, we will not have two fully redundant systems. Functions that will be transitioned to FINET include:

- Budgeting
- Accounts Payable
- Accounts Receivable
- Purchase Orders
- Cash Receipts
- Employee Travel Reimbursements (Transitioned to Employee Self Service)

Reprogramming Financial Functions not contained in FINET. Functions that will be included in the new system which are unique to USOE

- MSP Allotment Memos – Card 4 Transactions
- Carson Smith Scholarship Allocations
- FFATA
- Federal Grant Awards
- UCA Interface
- C-12 Employment Changes
- P-2 Position Authorization
- CNP Web Interface
- Disability Determination Services

#### Project Timeline

Beginning with the FY 16 fiscal year, USOE and USOR will begin transitioning financial functions from BASE to FINET. The FY 16 budget will be set up in FINET and by January 1, 2016 all functions that are planned to transition to FINET will be complete. This will allow for an orderly transition and provide time to train staff in the FINET system and obtain from State Finance access to the system for USOE/USOR staff. It is estimated that if resources are provided to reprogram the system that by July of 2017 all functions which need to be included in the new system will be functional.

#### Needed Resources

To complete the rewrite of the required functions in BASE it is estimated that two additional IT Analysts will need to be assigned to the project. The cost of this additional staff is \$202,000.

### **Minimum School Program**

#### **Current Status and Determination of Risk**

The Finance Section at USOE is responsible to annually distribute approximately \$3.3 billion of Minimum School Program (MSP) funding to Local Education Agencies (LEA). The MSP consists of 46 programs, the largest of which is the K-12 Program at \$1.7 billion and the smallest is the Title I Schools in Improvement – Para-educators Program at \$300,000.

For at least the last 20 years, Minimum School Program funding has been estimated and allocated to LEAs based on series of spreadsheets which calculate the value of each program for individual Districts and Charter Schools. These spreadsheets are used to provide an estimate of the cost of funding MSP programs for use by Governor and Legislature in creating budgets for the upcoming fiscal year. After

funds are appropriated by the Legislature, the spreadsheets are used to allocate the appropriated funds to LEAs.

Risks associated with the current process include the possibility of human error when changes are made to the spreadsheet. A broken cell reference in a spreadsheet can result in a large error in an MSP program. An example of this risk was experienced several years ago when as a result of a broken cell reference, the K-12 Program cost was underestimated by approximately \$25 million. During the same year, because of problems with the input data, the Professional Staff Cost Program was understated by approximately \$4.6 million. As a result of these issues, the Legislature was required to provide a supplemental appropriation during a Special Session.

Additionally, having to cut and paste input data into the spreadsheets introduces risk in ensuring that the proper input data is transferred into the spreadsheets and that the most current version of the data is used by each program relying on the same data.

In 2012, a review of the method by which the School Finance Section allocates money to Charter Schools under the K-12 program was determined to have been implemented without statutory authority. Funding for Charter Schools was allocated using October 1 headcount rather than Average Daily Membership plus growth as included in statute. Two audits by the State Auditor's office in 2012 and 2013 concurred with USOE's determination and stated that between \$3 and \$5 million of funding each year was allocated to Charter Schools above the amount authorized by statute. A bill was passed by the 2013 Legislature allowing Charter Schools to continue to be funded under the K-12 Program at the higher of ADM plus growth or October 1 headcount through the 2014-15 fiscal year. Without action by the Legislature, if USOE continues the practice of funding Charter Schools based on the current method, we are at risk of being found out of compliance with State Law.

### **Short-term Risk Mitigation Process**

In an effort to mitigate the above noted risks we have implemented temporary measures to assist in estimating and allocating funds under the MSP. These short-term mitigation efforts include the following:

- Multiple calculations of estimates for next year MSP budgets. In November of each year, the Common Data Committee made up of representatives from USOE, GOMB, the LFA's office and the Tax Commission meet to provide estimates of tax valuations, public school student enrollment and the cost of the MSP program. The School Finance Section and Internal Audit at USOE each provide a separate estimate for the succeeding year MSP costs. Additionally, the LFA provides an independent estimate of the MSP Program. These three estimates are compared for accuracy by the Common Data Committee and one final estimate is provided to the Governor's office and Legislature. Through having multiple independent estimates, the risk of a spreadsheet error causing underestimation of MSP program costs is minimized and multiple levels of reviews introduce another level of internal control and review of this complex process.
- Multiple reviews are undertaken by School Finance staff of MSP estimations and allocations. Two school finance professionals have been assigned to be the primary and secondary reviewers of the output from the MSP program spreadsheets. The primary staff member assigned to the program is responsible for initial input and calculation. Spreadsheet output including all

calculations are reviewed and signed off by the secondary staff member prior to funds being distributed.

- MSP program estimates are distributed to LEA business officials prior to being submitted to the Governor's office to allow them to review the output and point out anomalies and potential errors.

## **Long-term Risk Mitigation Plan**

### Description of Risk Mitigation Efforts

*MSP Funding Task Force.* A task force of representatives of the various educational entities has been commissioned by the State Board of Education to look into various solutions to the issue of Charter Schools being funded on October 1 headcount rather than prior year ADM plus growth and other issues related to Board rule R277-419. This group has been meeting weekly since July and is expected to make recommendations to the State Board of Education in the November meeting of the Board. These recommendations, if accepted by the Board would then be forwarded to the Legislature for inclusion in a bill during the 2015 Legislative Session.

*MSP Automation Project.* Currently, the IT staff at USOE is in progress of developing a system to automate MSP estimation and allocation. This system would replace the current spreadsheets and eliminate the majority of the risks noted above. Program estimates for the legislative process, allocations to LEAs, sending electronic transfers to the State Treasurer for monthly payments to LEAs, reports to be used by USOE and the LEAs would all be included in the automated system.

The plan for the system includes underlying source data (Fall Enrollment, ADM, Teacher Data, etc.) being pulled directly from UTREx, the data warehouse, or Cactus into a repository or database for the calculation of all MSP programs. By implementing this step, the possibility of copying inconsistent or outdated data into a spreadsheet is eliminated.

Automation of computations will also minimize the possibility of human error within the spreadsheets such as a broken cell reference. All computations and steps in the process of determining allocations for each MSP program will be documented. Logs will be maintained within the database of any changes to the program for audit purposes.

During the 2013 Legislative Session, the USOE School Finance Section was appropriated \$150,000 per year to automate several finance systems. After completion of the Utah Public Education Finance System (UPEFS), the IT Analysts associated with this funding were transferred to the MSP Automation Project. During the CDC process for the 2015 Legislative Session, in addition to estimates from the spreadsheets, an estimate for the K-12 Program will be calculated by the automated MSP System.

### Project Timeline

Because of the magnitude of the dollars being allocated under the MSP programs, it is important that this project be completed in a timely manner. As mentioned above, the system will be providing an estimate of the K-12 program for the CDC in November of 2014. This should be expanded to all MSP programs by fall of 2015. It is estimated that by June of 2016 that allocations to LEAs will be made through the automated system. By April of 2017, all reporting functions and needed adjustments to the program should be complete and the automated MSP program will be fully functional.

### Needed Resources

In addition to the \$150,000 appropriated by the Legislature for this project, USOE has allocated additional IT staff such that currently there are three staff members assigned to the project. In order to complete the project within the above noted timeline, it is estimated that one additional programmer will need to be hired. Estimated Cost - \$75,000 per year plus benefits for a total cost of \$101,000.

DRAFT

# **USOR Addendum to the USOE Draft Mitigation Plan**

The Internal Audit Section also performed a risk assessment of the Utah State Office of Rehabilitation (USOR) and the Annual Risk Assessment Summary document prepared by the Internal Audit Section also included USOR in the four overall areas of risk identified. Because all the entities governed by the Board of Education are impacted by the four overall areas of risk, elements of the USOE Draft Mitigation Plan also apply to USOR. However, USOR has included additional preliminary risk mitigation strategies along with requests for action by the Board and the Office of the Superintendent to help with their risk mitigation strategies for each overall area.

## **Additional USOR Risk Mitigation Efforts and Requests:**

### **1) Unclear Assignment of Responsibilities, Decision Making and Reporting**

A documented governance structure would help ensure adequate communication and fulfillment of responsibilities by the Board and USOR; therefore, USOR requests that the Board determine and approve an appropriate governance structure to provide oversight for USOR. At the June 2014 Audit Committee Meeting, USOR presented four governance options and the USOR recommended option; however, since then, no further action has been taken by the Board. The memo from June is attached.

Consistent with the USOE plan, USOR requests that the Board Bylaws include clarification of the reporting structure and communication lines USOR management with USOE management and the Board. USOR feels the Executive Director should attend the Audit Committee meeting each month similar to USOE management to help facilitate the communication process on fiscal and programmatic matters.

To help mitigate risks associated with fiscal challenges and responsibilities, USOR hired an internal auditor in January 2014 and just recently hired a compliance and budget officer. However, because USOE Internal Accounting performs the fiscal functions for USOR and the responsibility for decision-making related to fiscal and grant items has been unclear, USOR requests that the evaluation of the organizational structure, noted in the USOE plan, include consideration of the appropriate structure for and critical functions and approvals to be performed by Internal Accounting and USOR.

### **2) Additional Resources Necessary to Manage Federal and State Programs**

USOR is also subject to the new Omni-Circular regulations, which requires additional monitoring of subrecipients. USOR is attending the monthly training program noted in the USOE Plan and looks forward to participating in the development of grant monitoring tools with USOE.

Additionally, USOR is in process of gaining an understanding of and implementing new procedures related to the passage of the Workforce Investment Opportunity Act, which reauthorized and updated the rehabilitation regulations. To mitigate the risks associated with new regulations, USOR is

participating in webinars and other trainings as well as looking to realign staff as necessary to ensure appropriate implementation of and compliance with the new WIOA regulations.

As mentioned above, USOR recently hired a compliance and budget officer to help monitor and track grant compliance. Further, also as mentioned above, a formal governance structure by the Board, with additional clarification in the Board Bylaws of communication lines and a reporting structure, will also help mitigate risk and ensure appropriate oversight of management of federal and state resources.

At this time USOR is not requesting any additional resources regarding the management of state and federal funds.

### **3) Lack of Formal Comprehensive Policies and Procedures for all Offices Governed by the Board**

USOR welcomes the opportunity to work with USOE in identifying current policies and procedures and developing a consistent, comprehensive, formal body of policies and procedures for all entities governed by the Board. USOR is anticipating that the Policy Director position would fall in the indirect cost pool as the position would benefit multiple sections/divisions. As USOR contributes significantly to cover the costs of the indirect cost pool USOR should also derive benefit from the Policy Director position to ensure the USOR indirect cost contribution is an allowable cost to their grants.

USOR currently does not have access to the USOE Intranet, which makes it difficult to access policies and procedures that are applicable to all entities governed by the Board; therefore, USOR requests that as part of the policy effort, policies be made accessible to employees of all entities governed by the Board.

### **4) Data Systems and Financial Structure**

USOR has separate IT staff who are aware of security concerns and who work with USOE IT to ensure the security of data.

A new client services management system is currently being customized and is slated to begin full use in July of 2015. The new system, AWARE, will not interface with BASE, but will directly interface with FINET, which will help mitigate risks associated with using multiple systems. Internal Audit is aware of the new system and the system will be included in the IT audit that the Internal Audit Section will perform.

USOR is looking forward to the transition from BASE to FINET. As USOR has multiple divisions and district offices; therefore, the transition will require training across the state, which will require additional time and potentially travel. There may be additional challenges as rehabilitation staff will be trained on the new client services system at the same time; therefore, USOR would appreciate being involved in discussions regarding the transition timeline to ensure adequate resources are available for an efficient transition.