



Utah State Board of Education
Internal Audit Department

2018 Year-End Financial Close Audit

19-01

July 01, 2019

Chair Mark Huntsman
Utah State Board of Education
250 East 500 South
Salt Lake City, UT 84111

Dear Chair Huntsman,

On January 3, 2018, 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 the 2018 year-end financial close of the Utah State Board of Education (USBE) and the Utah Schools for the Deaf and the Blind (USDB). Audits are performed as resources are available. As directed by the Board, the purpose of the audit is to review the operational effectiveness of the year-end close process, including compliance with applicable regulations. The audit was not intended to be redundant to other reviews and audits currently conducted by other regulatory and oversight bodies (i.e., the Office of the State Auditor's Single Audit or the Department of Administrative Services Division of Finance's Post Audits). IA obtained relevant documentation from staff of the USBE and the USDB, as well as the Utah Division of Finance, and performed the following procedures:

1. Gained an understanding, through research and inquiry, of applicable state code, administrative code, and policy
2. Reviewed and analyzed internal control environments
3. Analyzed State Fiscal Year 2018 (SFY18) Journal Voucher Year-End data
4. Analyzed SFY18 closeout processes

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.

By its nature, this report focuses on exceptions, weaknesses, and non-compliance. This focus should not be understood to mean the audited entities do not demonstrate various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by staff of the USBE and the USDB during the audit. Responses to the audit are included as Appendix A.

This report is intended for the information and use of the USBE and the USDB. If you have any questions, please contact me at (801) 538-7639.

Sincerely,

A handwritten signature in cursive script that reads "Deborah Davis".

Deborah Davis, CPA
Internal Audit Director, Utah State Board of Education

cc: Members of the Utah State Board of Education
Sydnee Dickson, State Superintendent of Public Instruction, Utah State Board of Education
Scott Jones, Deputy Superintendent of Operations, Utah State Board of Education
Joel Coleman, Superintendent, Utah Schools for the Deaf and the Blind

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I. Background, Scope, and Objective

At the close of the state fiscal year, the Utah State Board of Education (USBE) and the Utah Schools for the Deaf and the Blind (USDB) are required to work with the Utah Department of Administrative Services' Division of Finance (State Finance) to finalize and submit year-end financial statements and other year-end documents in preparation for the state's Comprehensive Annual Financial Report (CAFR). This process typically begins in late spring and continues throughout the summer. Every year in the spring, State Finance conducts year-end close-out meetings to provide training on the financial reporting requirements, discuss any changes from the previous year, and inform agencies (i.e., the USBE) and component units (i.e., the USDB) of cut-off and due dates to ensure the CAFR is completed on time.

In the January 3, 2018, Utah State Board of Education (Board) meeting, the Board approved an audit of the year-end financial close-out process of the USBE and the USDB. The audit was performed as resources were available. The audit objective was to review and analyze the internal controls of the year-end process to ensure compliance and efficiency and effectiveness. To achieve this objective, Internal Audit reviewed the year-end process for State Fiscal Year 2018 (SFY18). The review was restricted to work done within the final period (Period 13) of the financial reporting process and did not include a review of the previous twelve financial reporting periods.

For more information regarding compliance during the first twelve financial reporting periods, please reference the quarterly State Finance Post Audits, which are available upon request.

II. Findings

Identified findings were placed in two categories: 1) USBE and 2) USDB. Within each category, information is prioritized by findings followed by performance notes. Findings are presented using five elements, which include:

1. **Criteria:** What should happen (e.g., code, statute, best practices)?
2. **Condition:** What is happening?
3. **Cause:** Why did the Condition happen?
4. **Effect:** What is the impact? Why should you care?
5. **Recommendation:** What action could be considered to resolve the Cause?

USBE

a. Internal Control, USBE

Criteria: USBE Internal Policies 01-01 General Accounting Policy and Procedures states:

The USBE follows the Utah Division of Finance Accounting Policies and Procedures [FIACCT].

FIACCT 20-00.00 Internal Control Program

Responsibilities of State Agency Management states:

Management of each state agency is responsible for establishing, monitoring, and maintaining internal control. The effectiveness of internal control depends on how well the five components of internal control, discussed below, are implemented at each agency...

Components of Internal Control states:

Internal control consists of five interrelated components derived from the way management runs operations, and are integrated with the management process. The components represent what is needed to achieve the objectives listed above. When looking at any one category - the effectiveness and efficiency of operations, for instance - all five components must be present and functioning effectively to conclude that internal control over operations is effective.

The following is a brief overview of the five internal control components...

1. Control Environment

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. It includes factors such as the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by management.

2. Risk Assessment

Every entity faces a variety of risks from external and internal sources that must be assessed. Risk assessment is the identification and analysis of relevant risks to achievement of management objectives, forming a basis for determining how the risks should be managed. Examples of these risks include new employees, new information systems and technology, and new organization structures.

3. Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out, helping to ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities include procedures such as approvals, verifications, reconciliations, security of assets, and segregation of duties...

4. Information and Communication
Pertinent information must be identified, captured in information and accounting systems, and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also must occur in a broader sense, flowing down, across, and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously.
5. Monitoring
Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time – and is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two.

Condition: The USBE has adopted State Finance's accounting policies and procedures; however, the USBE does not have formally written, agency-specific control activities (i.e., policies and procedures) to address items such as position responsibilities for state requirements, approvals, process flows, required forms, documentation standards, deadlines, etc., to ensure compliance with the adopted State policies. Examples of missing policies and procedures related to year-end closing could include:

- a. Preparation of the Closing Package
- b. Identification, Documentation, and Monitoring of Lapsing and Non-lapsing Funds
- c. Communication of Cut-off and Closing Package Dates
- d. Journal Voucher Year-End (JVYE) Identification, Documentation, and Submission

Cause: Contributing factors may include a lack of administrative oversight, limited time and resources resulting in the prioritization of other time sensitive tasks and responsibilities, and a lack of training. Additionally, confusion related to complying with adopted State Finance policies and procedures which are not specific to the USBE may be a factor.

Effect: Inconsistent implementation and enforcement of applicable regulations (e.g., FIACCT 02-03, Division of Finance Fiscal Year 2018 Detailed Closing Instructions and Examples), resulting in the following issues:

1. Process flow gaps and missing controls
2. Inconsistent communication and documentation of cut-off and closing dates
3. Subordinates reviewing supervisor's work
4. Potentially incomplete JVYE populations resulting in inaccurate state and federal accruals
5. Lack of documentation
 - a. Four out of 39 (10%) JVYE entries did not use the State Finance form.
 - b. One out of 39 (3%) JVYE entries did not have a hard copy.
6. Inaccurate coding

- a. Of the 38 JVYE entries with available documentation to review in the state's financial database (FINET), one (3%) entry had funding codes in FINET that did not match the supporting documentation.
7. Missed deadlines
- a. Twenty of the 39 (51%) JVYE entries were not submitted to State Finance by the SFY18 August 3 deadline. At the request of the USBE, State Finance provided a two-week extension (i.e., SFY 18 August 17) during which the USBE completed an additional six JVYEs. Therefore, 14 of the 39 (36%) JVYE entries were not completed by the extended due date.
 - b. The Closing Package was finalized 38 days after the SFY18 August 3 deadline and 24 days after the agreed upon Closing Package extended due date.

Recommendation: The USBE should consider prioritizing the design of agency-specific year-end close-out control activities, including but not limited to the policies listed within the Condition. Furthermore, given that supporting documentation is now housed within FINET; the USBE may wish to request State Finance revisit the policy to maintain hardcopy documentation or the use of the JVYE form, which may be perceived as redundant or unnecessary. Finally, designed policies and procedures should be accessible, properly implemented through training, and monitored for compliance.

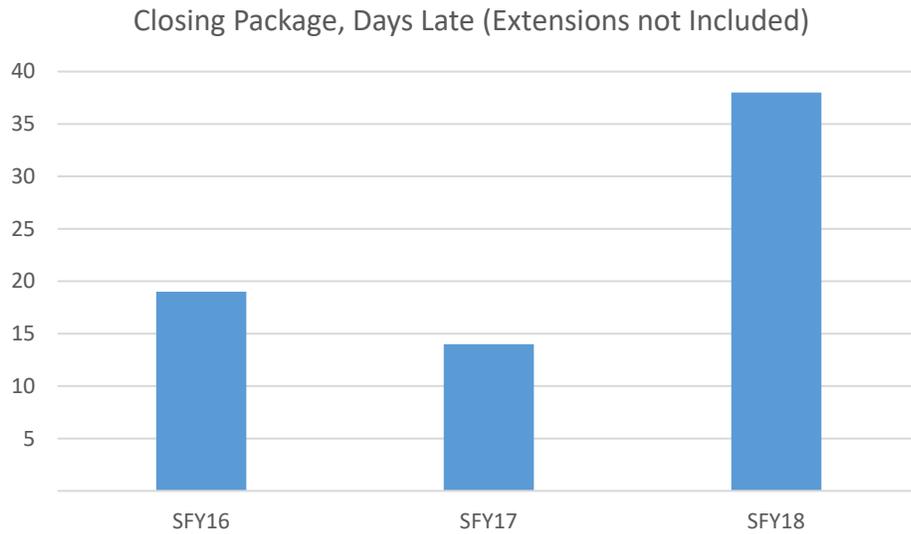
USBE Performance Notes

The purpose of this section is to report on the performance of the USBE's year-end closing process. Several observations were noted related to the performance of the Internal Accounting Section, which may or may not have resulted in the above finding. The analysis herein is based upon data provided by the USBE and State Finance.

1. Closing Package

As illustrated in Chart A below, the USBE closing package has been submitted late for the last three years. In SFY18, State Finance provided a two-week extension; however, even with the extension, the USBE finalized the closing package 24 days late. Historically, State Finance has been accommodating and has recognized the significant shift in accounting systems and processes at the USBE; however, they indicated they believe the USBE should be able to meet the required deadlines.

Chart A



2. JVYEs

As shown in Table A, in SFY17 the USBE identified and submitted 13 JVYEs. In SFY18 the USBE identified and submitted 39, a 200% increase. Even though the USBE experienced a 200% increase in the number of JVYEs, the USBE decreased the percentage of JVYEs that were not submitted by the original due date by approximately 11%. Although a smaller percentage of submissions were late (i.e., missed the original due date), the average number of days late increased from 15 to 24 days.

Table A

USBE JVYEs					
SFY	Total #	# of Late	% of Late	AVG Days Late	Latest
2017	13	8	62%	15	19 Days
2018	39	20	51%	24	35 Days

One of the factors that may have affected the submission time of JVYEs could include the amount of time required to review and correct initial discrepancies. Based on a review of 39 JVYEs, five (13%) required changes. Four of the five (80%) entries which required changes were identified and the necessary changes made by USBE Internal Accounting staff, requiring additional time and effort.

USDB

a. Internal Control, USDB

Criteria: USBE Internal Policies 01-01 General Accounting Policy and Procedures states:

The USBE follows the Utah Division of Finance Accounting Policies and Procedures [FIACCT].

FIACCT 20-00.00 Internal Control Program

Responsibilities of State Agency Management states:

Management of each state agency is responsible for establishing, monitoring, and maintaining internal control. The effectiveness of internal control depends on how well the five components of internal control, discussed below, are implemented at each agency...

FIACCT 20-00.00 Components of Internal Control states:

Internal control consists of five interrelated components derived from the way management runs operations, and are integrated with the management process. The components represent what is needed to achieve the objectives listed above. When looking at any one category the effectiveness and efficiency of operations, for instance all five components must be present and functioning effectively to conclude that internal control over operations is effective.

The following is a brief overview of the five internal control components...

1. Control Environment

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. It includes factors such as the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by management.

2. Risk Assessment

Every entity faces a variety of risks from external and internal sources that must be assessed. Risk assessment is the identification and analysis of relevant risks to achievement of management objectives, forming a basis for determining how the risks should be managed. Examples of these risks include new employees, new information systems and technology, and new organization structures.

3. Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out, helping to ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities include procedures such as approvals, verifications, reconciliations, security of assets, and segregation of duties...

4. Information and Communication

Pertinent information must be identified, captured in information and accounting systems and communicated in a form and timeframe that enable people to carry out

their responsibilities. Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously.

5. Monitoring

Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time – and is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two.

Condition: The USDB does not have formal written agency-specific control activities (i.e., policies and procedures) to address items such as position responsibilities for state requirements, approvals, process flows, required forms, documentation standards, deadlines, etc., to ensure compliance with State Finance policies. Example of missing policies could include:

- a. Preparation of the Closing Package, Including Collaboration with the USBE
- b. Communication of Cutoff and Closing Package dates
- c. Journal Voucher Year-End (JVYE) Identification, Documentation, and Submission

Additionally, there is limited evidence (e.g., documentation, signature) of the internal control review completed by the Financial Director on the Closing Package; therefore, we cannot verify that a review was completed.

Cause: Contributing factors may include a lack of USDB administrative oversight and priority to develop and implement formal, comprehensive accounting policies and procedures, including a process to ensure that all applicable and relevant JVYEs are entered into FINET. Additionally, turnover in accounting positions resulting in new personnel with potentially insufficient training may also be a factor.

Effect: Inconsistent implementation and enforcement of applicable regulations (e.g., FIACCT 02-05, FIACCT 02-03, GASB Codification 1300.102, Division of Finance Fiscal Year 2018 Detailed Closing Instructions and Examples), resulting in the following issues:

1. Process flow gaps and missing controls
2. Incomplete JVYE populations resulting in inaccurate state and federal accruals
 - a. State Finance directed the USDB to enter a JVYE Accrued Expenditure in SFY18 for a \$275,498 known liability. While the USDB intended to make the change, the entry was never recorded in the FINET system.
3. Inaccurate coding
 - a. While reviewing JVYEs, IA identified one transaction in SFY19 that was assigned the wrong code in FINET.
4. Missed deadlines

Recommendation: The USDB should consider prioritizing the design of agency-specific year-end closeout policies and procedures, including but not limited to the policies listed within the Condition. Designed policies and procedures should be accessible, properly implemented

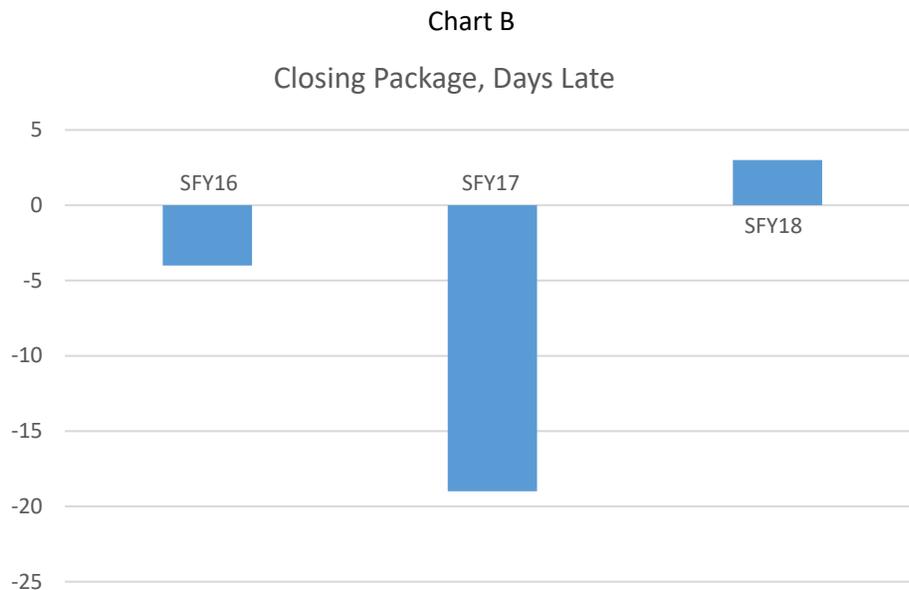
through training, and monitored for compliance. Finally, the USDB should correct the coding error for SFY19 in the FINET system.

USDB Performance Notes

The purpose of this section is to report on the performance of the USDB’s year-end closing process. Several observations were noted related to the performance of the Finance Section, which may or may not have resulted in the finding above. The analysis herein is based upon data provided by the USDB and State Finance.

1. Deadline of Financial Statement

As illustrated in Chart B below, the USDB’s financial statements have been submitted on time in two of the last three years. Component units’ (i.e., the USDB) financial statements have a different due date because Other Post-Employment Benefits (OPEB) and pensions post in late September, therefore the USDB isn’t required to submit its final financial statements until October 1 of every year. In SFY16 and SFY17, the USDB exceeded expectations and submitted their financial statements before the due date. However, in SFY18 the USDB submitted their financial statements three days late. The late submission may in part be due to delays working with State Finance to obtain necessary documents to complete their submission on time.



2. USBE and USDB Year-End Agreement

Several items were identified that suggest a formal written agreement between the USDB and the USBE would be advantageous to ensure year-end expectations are met efficiently and effectively. In one instance, the USDB staff contacted the USBE staff for help in completing a JVYE (see a. Internal Control, USDB); however, the JVYE was not completed. Finally, at year-end, the USDB completes their financial statements and submits them to State Finance. The statements are also sent to the USBE for an additional review, but there

may be a lack of clarity regarding the purpose of submitting the statements to the USBE. A formal written agreement would provide clarity in purpose and value added in processes and controls.

III. Appendix A - Management Responses



UTAH STATE BOARD OF EDUCATION

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Janet A. Cannon Jennifer Graviet Scott B. Neilson
Lisa Cummins Linda B. Hansen Shawn E. Newell
Cindy Davis

Sydnee Dickson, State Superintendent of Public Instruction
Lorraine Austin, Secretary to the Board

June 27, 2019

Ms. Debbie Davis
Internal Audit Director
Utah State Board of Education
250 East 500 South
PO Box 144200
Salt Lake City, Utah 84111

Dear Ms. Davis:

The Utah State Board of Education staff concurs with the 2018 Year-End Financial Close Audit 19-01. We appreciate the recognition of your auditors that year-end close activities, procedures, and/or processes have significantly improved since the last audit was conducted on USBE Year-End Financial Close requirements. We also agree that there is room for improvement.

We concur that written policies and procedures along with details on the procedural aspects are necessary for an effective year end close. The USBE approved the establishment of \$100,000 to hire outside assistance with this requirement and that is our corrective action going forward into the next fiscal year. The vendor will provide the additional capacity to us in order to expand and improve in the written policies and procedures aspect of year end close activities.

We also agree that we need to improve on the submission rate of our closing package to State Finance. We anticipate meeting the required due date for FY2019 close out. As you and our board members are aware, we have transitioned into a new system with State Finance (FINET) over the last two years resulting in some of the delays. Staff are also committed to the transition into a highly functional grants management system. As of the date of this response, we are at the highest levels of our positions filled compared to previous years making the corrective action and solution viable for meeting the submission deadline of our closing package.

Thank you again for your leadership, your staff, and their work in supporting the USBE's climate of effective controls and stewardship of public money. We will continue to move together in the best interest of public education and the individual student.

A handwritten signature in black ink, appearing to read "Scott Jones".

Scott Jones
Deputy Superintendent of Operations



UTAH

SCHOOLS FOR THE DEAF AND THE BLIND

June 11, 2019

Ms. Deborah Davis, CPA
Internal Audit Director, Utah State Board of Education
250 E 500 S
Salt Lake City, UT 84111

RE: UTAH SCHOOLS FOR THE DEAF AND THE BLIND (USDB) MANAGEMENT RESPONSE TO THE 2018
YEAR-END FINANCIAL CLOSE AUDIT REPORT No. 19-01

Dear Ms. Davis,

We are in receipt of your letter for the 2018 Year-End Financial Close Audit Report No. 19-01 and we provide our management response herein. We appreciate the professionalism of your audit team while conducting the audit and your recommendations on how USDB can improve our financial fiscal year-end close out.

Finding One (Condition): The USDB does not have formal written agency-specific control activities (i.e., policies and procedures) to address items such as position responsibilities for state requirements, approvals, process flows, required forms, documentation standards, deadlines, etc. to ensure compliance with State Finance policies.

USDB Response: We are in agreement with your audit finding that USDB does not have a written policy and procedure for our annual financial close-out. We are in the process of develop and implement formal, comprehensive accounting policy and procedures that will include the preparation of the closing package (including collaboration with USBE financial staff) communication of cutoff dates and closing package dates and for the creation of journal voucher year-end entries in FINET. The policy and procedures will be written and put in place in advance of the close-out for the fiscal year ending June 30, 2019.

USDB will also include in the policy and procedures a process to document the internal control review that is completed by the finance director so auditors can verify that a review was completed before final year-end financial statements are submitted to the State Division of Finance and the State Office of Education.

USDB will correct the coding error for SFY19 in the FINET system.

USDB financial staff will meet with USBE financial staff to discuss and develop a formal written agreement between USDB and USBE that would be advantageous to ensure year-end expectations are efficiently and effectively met.

Again, thank you and your audit team for your hard work and recommendations on how USDB can improve the fiscal year-end close out process.

Sincerely,

A handwritten signature in black ink, appearing to read "Carl Empey". The signature is written in a cursive, slightly slanted style.

Carl Empey
Finance Director
Utah Schools for the Deaf and the Blind

Cc: Members of the Utah State Board of Education
Sydnee Dixon, State Superintendent of Public Instruction, Utah State Board of Education
Scott Jones, Deputy Superintendent of Operations, Utah State Board of Education
Joel Coleman, Superintendent, Utah Schools for the Deaf and the Blind
Carolyn Lasater, Associate Superintendent, Utah Schools for the Deaf the Blind