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## MEMORANDUM

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

**FROM:** Natalie Grange CPA, CFE   
Internal Auditor

**DATE:** April 5, 2013

**SUBJECT:** Report on the Review of Carson Smith Scholarship Monitoring Process at the Utah State Office of Education – School Years 2012 and 2013 (Report #2012-09B)

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Attached is the report on the **Review of Carson Smith Scholarship Monitoring Process at the Utah State Office of Education – School Years 2012 and 2013 (Report #2012-09B)**. The objectives of this monitoring review are explained on page one of this report.

Copies of this report will be released to the State Special Education Director, the Utah State Board of Education, and the Utah State Auditor's Office.

**REPORT TO THE  
UTAH STATE BOARD OF EDUCATION**

**Report No. 2012-09B**

**REVIEW OF CARSON SMITH SCHOLARSHIP MONITORING PROCESS AT  
THE UTAH STATE OFFICE OF EDUCATION  
School Years 2011-2012 and 2012-2013**

**April 5, 2013**

**1896**

**Audit performed by:**

**Utah State Board of Education Internal Auditors**

**Natalie Grange CPA, CFE**

**Jaime Barrett MAcc**

## Table of Contents

	Page
Report .....	1
Findings and Recommendations.....	3
1. Insufficient Monitoring of Carson Smith Scholarship Enrollment, Attendance, and Eligibility Requirements.....	3
2. Lack of Guidance in State Statute and Board Rules .....	5

## Report 2012-09B

The Utah State Board of Education (the Board) *Administrative Rule R277-116-4(E)* authorizes the Utah State Office of Education's (USOE) Internal Audit (IA) department to perform audits recommended by the Audit Committee of the Board. Internal Audit was instructed to perform a review of the SEPS Learning Center (SEPS) pursuant to multiple complaints received by IA. Internal Audit and the State Director of Special Education visited SEPS on November 26, 2012 and IA visited again on January 16 and February 21, 2013. This review focused on attendance and accounting practice at SEPS. See Audit Report 2012-09A. As part of this review, the audit team also conducted an evaluation of monitoring procedures, policies and procedures, and general compliance matters at the USOE governing the Carson Smith Scholarship program.

The Carson Smith Scholarship program was created by the Utah State Legislature for students with disabilities to attend a private school which may better fit their specific needs. *Utah Code 53A-1a-701* through section 710 and Board *Administrative Rule R277-602* establish various requirements for private schools, parents of the scholarship students, and the USOE in administering the Carson Smith Scholarship program.

The purpose of this limited review is to assess the monitoring and supervision provided by the USOE over private schools receiving Carson Smith Scholarship funds, particularly SEPS. We will determine and review compliance with various areas set forth in statute and Board rule. Internal Audit performed the following procedures at the USOE:

1. We reviewed applicable statutes and Board rules regarding the requirements of the Carson Smith Scholarship program. Please see findings 1 and 2.
2. We reviewed monitoring and compliance processes and procedures of USOE staff and monitoring documents relating to SEPS. Please see findings 1 and 2.
3. We reviewed documentation available on the Carson Smith Special Needs Scholarship page of USOE's website.

These procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of USOE's internal controls, monitoring and compliance of the Carson Smith Scholarship program, or any part thereof. Furthermore, these procedures were more limited than would be necessary to provide absolute assurance that no errors or misappropriations occurred. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of the USOE's internal controls, other matters might have come to our attention that would have been reported.

The findings resulting from the above procedures are included in the attached findings and recommendations section of this report. Responses provided by the Special Education department of the USOE are included in this section. We have not audited the responses.

This report is intended solely for the information and use of the Utah State Board of Education, the State Special Education Director, and is not intended to be and should not be used by anyone other than these specified parties.

If you have any questions, please contact me at (801) 538-7813.

Sincerely,

A handwritten signature in cursive script that reads "Natalie Grange".

Natalie Grange CPA, CFE  
Internal Auditor, Utah State Office of Education

## FINDINGS AND RECOMMENDATIONS

### 1. INSUFFICIENT MONITORING OF CARSON SMITH SCHOLARSHIP ENROLLMENT, ATTENDANCE, AND ELIGIBILITY REQUIREMENTS

Monitoring of the Carson Smith Scholarship program does not include financial monitoring elements as required by R277-114-3(C) and is not sufficient to ensure that scholarship payments are not erroneously made. *Utah Code* 53A-1a-706(5)(a) indicates that the Board shall make Carson Smith Scholarship payments in quarterly disbursements after review and receipt of documentation that verifies a student's admission or continuing enrollment and attendance at a private school. Section 706(7) and Board *Administrative Rule* R277-602-5(H) require that the Board "...cross-check enrollment lists or scholarship students, school districts, and youth in custody to ensure that scholarship payments are not erroneously made."

At the beginning of each school year, letters are sent from the USOE to the parents of eligible Carson Smith students. This letter requires the parents to verify the eligible school and enrollment of their student for the upcoming scholarship year. The USOE indicates to parents that if the letter is not returned that the student will be considered withdrawn from the program, and scholarship funds will cease. The receipt of these letters would be an appropriate internal control to determine the continued enrollment status of students if, a reconciliation occurred to ensure that a letter was returned for each student prior to the issuance of checks. However, we determined that not all letters are returned, and there is no process to withdraw students if this verification is not returned to the USOE by the deadline.

Board *Administrative Rule* R277-602-3(G) indicates that parents will cooperate and respond within 10 days to an enrollment or cross-checking request from the Board. The yearly parent verification letter does not ask parents to affirm that their student is not dual enrolled at another private school or another public school and the USOE has no other process to cross check enrollment, as required by the rule.

Board *Administrative Rule* R277-602-3(F) and 602-6(F)2 requires parents and the eligible school to notify the Board within five days if a student does not continue enrollment in an eligible private school, or if the student misses more than 10 consecutive days of school. Presently, someone from the eligible school must log into the USOE system quarterly and affirmatively verify attendance and continuing enrollment for all Carson Smith students prior to checks being issued. We reviewed the USOE monitoring criteria and noted that there is no element of the current monitoring process that reviews student attendance records to ensure that the verifications provided by schools are accurate. There is also no element of monitoring to ensure that attendance is tracked or to determine that the Board is receiving notification when students stop attending the eligible school for more than 10 consecutive days, as required by the rule.

The lack of an adequate monitoring process in the Carson Smith Scholarship program allowed the following to go unresolved and in some cases undetected at SEPS in school years 2011-2012 and 2012-2013 (see detail in report 2012-09A):

- 1) Scholarship payments in the amount of \$17,600 were paid to SEPS in school year 2011-2012 for four students who were not attending the school, or who were participating in a home school type program, which is not allowable for the Carson Smith Scholarship program. A review of attendance records and the schools compliance with the "10 day" rule would have detected these payments.
- 2) Checks were issued for the first and second quarters of school year 2012-2013 that were not endorsed by parents and not deposited by the school within the 15 days established in the statute. Quarter one checks were issued on August 28, 2012 and quarter two checks were issued on November 6, 2012. When we visited the school on November 26, 2012, 16 checks totaling \$28,420 for the first quarter and 10 checks totaling \$21,315 for the second quarter were returned to the USOE for students no longer attending SEPS. A review of undeposited checks and deposit verification forms that were not returned to the USOE would have indicated that verifications made by SEPS did not appear to be accurate. Quarter two and three checks were issued for many of the students who did not endorse their checks or return verification forms in the prior quarters. Thus, scholarship payments continued to be issued to students who were no longer at the school.
- 3) During the current school year 2012-2013, scholarship payments were made for quarters one-three for 12 students, totaling \$33,038.25, who never attended the school, or who ceased to attend during the year and notifications were not made to the USOE. A review of verification forms that were not returned or an attendance check may have detected these payments.

The lack of a sufficient monitoring process resulted in scholarship payments being made to SEPS that were not appropriate, and increases the likelihood that the same types of payments could be occurring at any of the other Carson Smith eligible schools.

***Recommendations:***

We recommend the Special Education department review and revise its policies and procedures and monitoring process to ensure sufficient provisions are included to effectively monitor private schools and ensure that they are complying with statute, Board rules, and best practices.

***Special Education Department Response:***

***The USOE Special Education Department agrees with this finding and will revise its monitoring process to take action upon lack of parent response to the USOE letter, incorporate cross checking of student attendance with the eligible private school and appropriate LEA, follow up on non-deposited checks prior to the issuance of additional checks, and revise the training for eligible private schools and parents. These revisions will begin immediately and be in place prior to the 2013-2014 school year.***

## **2. LACK OF GUIDANCE IN STATE STATUTE AND BOARD RULES**

In our review of State statute, Board rule, and USOE policy which govern the Carson Smith Scholarship program, we noted a lack of guidance in areas surrounding funding, retroactive scholarship payments, verification of eligible private schools, and required student records.

There do not appear to be specific policies and procedures that govern the Carson Smith program, aside from statute and Board rule. Statute and Board rule are silent on the topic of partially earned scholarship funds. Presently, there is no guidance on the determination process that should occur when an eligible scholarship student withdraws or ceases to attend partway through a school year. Board rule requires parents and the eligible school to notify the Board when Carson Smith Scholarship students withdraw, or if a student misses more than 10 consecutive days of school. Furthermore, there is no guidance as to whether partial scholarship payments can be made for partial attendance, or what level of attendance is required to earn the full value of the scholarship.

The Carson Smith statute was revised in the 2013 legislative session. Quarterly payments are still required, but the specific dates have been removed from the statute. Prior to this statutory change, we noted that the quarterly payment dates in the statute do not coincide with a school year and that in the case of SEPS, the SEPS quarter schedule did not agree with the quarters established in the statute. If partial scholarship payments are deemed allowable, an agreed upon quarter schedule should be established by the Special Education department for both verification and attendance records and the issuance of checks. This will enable the Special Education department to monitor and make determinations on partial scholarship payments.

In some cases, retroactive payments are made to eligible schools for students for more than one quarter at a time. This could be because the student was attending the school prior to applying for the Carson Smith program and receiving the scholarship award. Retroactive payments could also be allowed because the student was selected later in the year after additional scholarship funds were made available. Presently, there is no authorization for this practice in statute, Board rule, or USOE policy.

*Utah Code 53A-1a-706(5)(a)* requires the Board to review and verify a student's admission or continuing enrollment or attendance at a private school. Neither the statute, Board rule, or USOE policy provides any guidance as to what form of documentation the Board is to review and verify, nor what forms of documentation eligible schools are required to generate and retain to provide verification of attendance. Guidance should be provided to eligible schools to ensure consistency, transparency, and sufficient supporting documentation of scholarship student's admission, continuing enrollment, and attendance.

*Utah Code 53A-1a-705(1)(b)(i)* requires private schools seeking to become an eligible school to contract with an independent certified public accountant to perform either an audit or agreed upon procedures to provide assurances that the school has sufficient resources to operate during the first year of eligible status. The statute does not require any further review of the

eligible schools financial records, nor does it require a continuing audit. There are no policies or processes to evaluate the ability of the school to operate past their first year of eligibility.

***Recommendation:***

We recommend that the Special Education department review current statute and Board rule, develop operating policies, and consider making recommendations to the Board for changes to the statute and Board rule to address the issues noted and other issues identified to ensure consistent application of guidelines to the Carson Smith Scholarship program recipients and eligible schools.

***Special Education Department Response:***

***The USOE Special Education Department agrees with this finding and will review current statute, Board rule, and develop operating policies to address the issues noted and other issues identified to ensure consistent application of guidelines to the Carson Smith Scholarship program recipients and eligible schools. This review and revisions will begin immediately and be in place prior to January 1, 2014.***