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## MEMORANDUM

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

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

**DATE:** May 2, 2013

**SUBJECT:** Report on the Audit of SEPS Learning Center Compliance with Carson Smith Scholarship Requirements – School Years 2012 and 2013 (Report #2012-09A)

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Attached is the report on the **Audit of SEPS Learning Center Compliance with Carson Smith Scholarship Requirements – School Years 2012 and 2013** (Report #2012-09A). The objectives of this monitoring review are explained on page one of this report.

Copies of this report will be released to the management of SEPS Learning Center, 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. 2012-09A**

**AUDIT OF SEPS LEARNING CENTER COMPLIANCE WITH CARSON SMITH  
SCHOLARSHIP REQUIREMENTS**

**School Years 2011-2012 and 2012-2013**

**May 2, 2013**

**Audit performed by:**

**Utah State Board of Education Internal Auditors**

**Natalie Grange CPA, CFE**

**Jaime Barrett MAcc**

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## Report 2012-09A

May 2, 2013

SEPS Learning Center  
604 Wilmington Ave.  
Salt Lake City, Utah 84016

Dr. Ava Pickering:

The Utah State Board of Education (the Board) *Administrative Rule 277-116-4(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.

The Carson Smith Scholarship was created by the Utah State Legislature for students with disabilities to attend a private school which may better fit their specific needs. Private schools must meet certain requirements set forth in *Utah Code 53A-1a-701* through section 710 and Board *Administrative Rule R277-602* to become eligible to receive Carson Smith Scholarships funds for eligible students that apply and are approved for funding.

The complaints received by USOE IA indicated that Carson Smith Scholarship funds were being received by SEPS for students who were not attending the school and that parent verification forms were not being signed by the parents prior to checks being deposited by the school. The purpose of this limited review is to assess student attendance and accounting records at SEPS and determine if there is any merit to these allegations. We will also determine and review compliance with various other areas as set forth in statute and Board rule. Internal Audit performed the following procedures at SEPS on November 26, 2012 and January 16 and February 21, 2013:

1. We obtained and reviewed attendance records for the 2011-2012 and 2012-2013 school years. Please see findings 1, 2, 3, 4, and 5.
2. We reviewed USOE accounting records for payments to SEPS and the dates checks cleared the SEPS bank account. Please see findings 1, 2, 3, and 4.
3. We reviewed all applicable statutes and Board rules regarding the requirements of the Carson Smith Scholarship program. Please see findings 1, 2, 3, and 4.

4. We assessed the internal control environment surrounding student records and the major accounting areas at the school. Please see findings 1, 2, 3, 4, and 5.
5. We reviewed the USOE's monitoring and oversight of the Carson Smith Scholarship program. The results of that review will be released as a separate report. (Please see Report 2012-09B).

Based on the results the procedures performed, we identified a lack of attendance records for the 2011-2012 school year to substantiate scholarship payments made for students, and payments made for students who were not attending the school in accordance with the guidelines for the Carson Smith Scholarship program. We questioned \$17,600 in costs associated with these issues. In the 2012-2013 school year, SEPS began keeping attendance records. These records did not substantiate scholarship payments for numerous students. We questioned \$28,420.

A determination letter regarding these questioned costs will be issued to SEPS through the USOE Special Education department.

These procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of SEPS's internal control 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 SEPS'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.

This report is intended solely for the information and use of the Utah State Board of Education, the State Special Education Director, and management of SEPS 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,



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

## FINDINGS AND RECOMMENDATIONS

### **1. LACK OF RECORDS TO SUPPORT ATTENDANCE AND CARSON SMITH SCHOLARSHIP PAYMENTS FOR 2011-2012 SCHOOL YEAR**

We selected 22 Carson Smith Scholarship students from the 2011-2012 school year and noted no documentation or attendance records to substantiate the student's attendance at the school. *Utah Code* 53A-1a-706.6 states, "A parent of a scholarship student shall notify the board if the student does not have continuing enrollment and attendance at an eligible private school." Board *Administrative Rule* R277-602-6.F further clarifies continuing enrollment and requires private schools to notify the Board within five days if the student does not continue enrollment in the school for any reason including parent choice, suspension or expulsion of a student, or if the student misses more than 10 consecutive days of school.

Prior to a scholarship check being issued, SEPS is required to affirmatively verify, through access to a USOE reporting system, that each Carson Smith student is continuing to attend in the next quarter. All 22 scholarship students were verified each quarter a check was issued.

SEPS does not have a formal or verifiable way to track attendance of students, nor to substantiate the date students leave the school. Because we are unable to verify this information, we are unable to substantiate the legitimacy of the scholarship payments for these students for the entire 2011-2012 school year. SEPS is also not able to demonstrate that they are complying with the requirement to notify the Board when students withdraw or leave the school.

Personnel at SEPS indicated that 14 of the 22 students had moved, transferred schools, or only attended the school for a short time. Four other students were not attending the school in compliance with Carson Smith Scholarship requirements (see finding 2). Payments totaling \$32,560 were received and deposited by SEPS for the 14 students that SEPS verified left the school during the 2011-2012 year. We were able to review individual student files for most of these students. All appeared to have been eligible for the scholarship program, received an Individual Education Program (IEP) assessment at some point, and attended SEPS at some point. For these reasons, we will not question the balance of the payments made to SEPS for these students.

Lack of records not only renders the school unable to verify compliance but creates an opportunity for the school to claim funds for scholarship students who they are no longer serving which could result in misappropriation of state scholarship dollars.

#### ***Recommendation:***

See USOE overall recommendation below.

## **2. SCHOLARSHIP PAYMENTS MADE FOR STUDENTS NOT ATTENDING SEPS IN 2011-2012 SCHOOL YEAR**

Four of the 22 students selected from the 2011-2012 school year were not attending SEPS even though the school continued to verify their attendance and received their scholarship payments. SEPS personnel indicated that one of the four students had never attended the school. SEPS received and deposited two quarters of scholarship payments for this student totaling \$3,520.

Two students were using a software program provided by the school in their home, which the school felt was sufficient instruction. *Utah Code 53A-1a-705* states to be eligible to receive a Carson Smith Scholarship, a student's private school must "have a physical location in Utah where the scholarship student attends classes and have direct contact with the school's teachers." That same section later states "A home school is not eligible to enroll scholarship students." This statutory language implies that homeschooling, even if students are using software provided by the school, is not allowed for Carson Smith Scholarship students. The USOE Director of Special Education reviewed the IEP for both students and indicated that the software program administered at home does not appear to comply with the intent of the Carson Smith statute. Payments totaling \$10,560 were received by SEPS for these students.

A student was attending another private school at the time and using the software program. SEPS indicated there was an agreement with the other school for them to receive part of the Carson Smith Scholarship funding; however, we found no records to substantiate this claim. Furthermore, this practice is not allowed by statute or rule. Scholarship payments totaling \$3,520 were received by SEPS.

A total of \$17,600 in Carson Smith Scholarship funds were received by SEPS for these four students. These payments appear to be out of compliance with statutory provisions or inappropriate based on students not attending SEPS. We will question the entire \$17,600.

### ***Recommendation:***

We recommend that SEPS immediately discontinue claiming scholarship payments for students who are not attending, or are "enrolled" on a home school basis and comply with Utah Code. We also recommend that SEPS develop a more reliable attendance and tracking system to ensure sufficient records can be viewed when verifying students for continuing enrollment. See USOE overall recommendation below.

## **3. NONCOMPLIANCE WITH STUDENT VERIFICATION 2012-2013 SCHOOL YEAR**

SEPS does not have a consistent process to verify that students are returning for the next school year which results in improper verification of students and in scholarship payments being issued inappropriately. As we reviewed scholarship payments for the 2012-2013 school year, we noted a significant number of outstanding checks that had been issued to SEPS for quarters one and two. Verification of continuing enrollment to the USOE for quarter one was

due on August 15, 2012 and checks were issued on August 24, 2012. Quarter 2 verification was due on October 15, 2012 and checks were issued on November 2, 2012. SEPS was able to demonstrate that they had attendance logs for the 2012-2013 school year; however, based on the significant numbers of outstanding checks it does not appear that a reconciliation is occurring between attendance logs and the check verification process.

State Board *Administration Rule* R277-602.3.E states, “The parent shall, consistent with 53A-1a-706(8), endorse the warrant received by the private school from the USOE no more than 15 school days after the private school’s receipt of the warrant.” Section F indicates that parents are required to notify the Board within five days if the student does not continue in enrollment in the private school or if the student misses more than 10 consecutive days. When we visited SEPS on November 26, 2012, the State Director of Special Education reclaimed 16 checks for first quarter tuition payments totaling \$28,420, and 10 checks totaling \$21,315 for second quarter tuition payments that were never endorsed by parents or deposited. SEPS indicated the checks were not deposited because the students were not attending SEPS.

While no time line exists in code or rule that sets forth a deadline for return of checks to the USOE, it seems very unreasonable that 26 checks in the amount of \$49,735 remained at SEPS, in a potentially unsecured location, some for nearly three months without being returned. The lack of internal controls and improper verification also resulted in eight student scholarship payments being requested for quarter two when each student’s quarter one check had not been deposited because the student was not attending SEPS.

***Recommendation:***

We recommend that SEPS create a consistent and reliable process for verification of students through the USOE system that results in requesting Carson Smith Scholarship payments. SEPS should only request scholarship payments for students that are attending and enrolled in the school. See USOE overall recommendation below.

**4. SCHOLARSHIP PAYMENTS MADE FOR STUDENTS NOT ATTENDING SEPS IN 2012-2013 SCHOOL YEAR**

We reviewed all Carson Smith Scholarship students from the 2012-2013 school year and noted that SEPS began keeping attendance logs for this school year. These attendance logs provide evidence that 9 students are not attending SEPS, or ceased attending SEPS during the school year and the USOE was not notified.

There were 63 individual students that had Carson Smith Scholarship checks sent to SEPS during the 2012-2013 school year. In the case of 25 students, checks were issued to SEPS that were later returned to the USOE because the students were not attending the school. SEPS received checks for four students for which they had no record of attendance during the school year, payments for these students totaled \$15,986.25. SEPS received scholarship payments for five students that withdrew or stopped attending during the school year. Neither SEPS nor the parents notified the USOE that these students stopped attending. Total scholarship payments

questioned for these students totaled \$12,433.75 and are made up of quarters or portions of quarters after the student ceased to attend.

In order to continue receiving scholarship checks, SEPS certified continued enrollment for each of these students each quarter. In all cases, SEPS has maintained records that indicate that the school is requesting, receiving, and depositing scholarship payments for students not attending the school. Furthermore, it appears that SEPS is not in compliance with Board rule requiring notification to the USOE when Carson Smith Scholarship students do not continue in their enrollment or have more than 10 consecutive absent days of school.

In total, we questioned \$28,420 in scholarship payments received and deposited by SEPS for students that never attended or ceased attending SEPS during the current school year.

***Recommendation:***

We recommend that SEPS create a consistent and reliable process for verification of students through the USOE system that results in requesting Carson Smith Scholarship payments. SEPS should only request scholarship payments for students that are attending and enrolled in the school. See USOE overall recommendation below.

**5. INSUFFICIENT INTERNAL CONTROLS OVER STUDENT RECORDS AND BUSINESS OPERATIONS**

Our review focused on student records, attendance records, and the functions within the business operations at SEPS. The management at SEPS developed a printed roll sheet that is marked to track student attendance for the 2012-2013 school year. While this is an improvement over the lack of records in the prior school year, there are no internal control practices in place to ensure that the roll sheet is being tracked and updated in a consistent manner, and no way to verify when the sheet was marked. Furthermore, SEPS does not appear to have a process in place to identify when students withdraw or exit from the school that is linked to the attendance process. A teacher is recording attendance daily but the Executive Director is determining which Carson Smith students are attending in order for SEPS to receive the Carson Smith Scholarship checks. There does not seem to be a reconciliation between the roll sheet and the verification for scholarship checks. This is evidenced by the scholarship payments that were requested in 2012-2013 for students that were not attending SEPS.

We noted that SEPS does not have an accounting system or a business manager/accountant. An accountant prepares the taxes for SEPS yearly but a functioning accounting system that tracks revenues and expenditures, processes transactions daily, and reconciles accounts timely does not exist.

We noted an insufficient internal control environment and lack of segregation of duties in all aspect of the business operations. Carson Smith checks are not secured prior to deposit. The Executive Director has access to all cash and checks received, to SEPS' bank accounts and statements, and to the student files and rolls. Significant weaknesses exist in the fact that

anyone serving in the position of Executive Director has access to all cash receipts and there is no oversight over the transactions initiated and approved by the Executive Director. These weaknesses, in combination with the lack of an accounting system and no process to verify student attendance or exit dates, could result in errors or misappropriations. This is of primary concern to the USOE and the Board as the majority of SEPS students receive the maximum amount of the Carson Smith Scholarship yearly and these students make up the majority of the students attending SEPS.

***Recommendation:***

We recognize that it is impractical for SEPS to achieve full segregation of duties due to budget constraints and the small number of employees; however, mitigating controls, such as reviews by an individual independent of the business operations should be implemented to reduce the risks. SEPS should consider hiring a business manager to handle the daily business operations.

We recommend that SEPS secure Carson Smith checks from the time they are received until they are deposited at a financial institution. We further recommend that SEPS develop a better method to track student attendance which will help mitigate the risk of human manipulation or error and that a reconciliation process between attendance and the certification of student enrollment is implemented immediately.

**6. OVERALL USOE RECOMMENDATION**

We recommend the State Director of Special Education review the provisions of *Utah Code* 53A-1a-708 to determine what actions should be taken to develop a corrective action plan and consider steps to evaluate and potentially recover the questioned scholarship costs identified in the findings.