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MEMORANDUM

TO: Members, State Board of Education

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

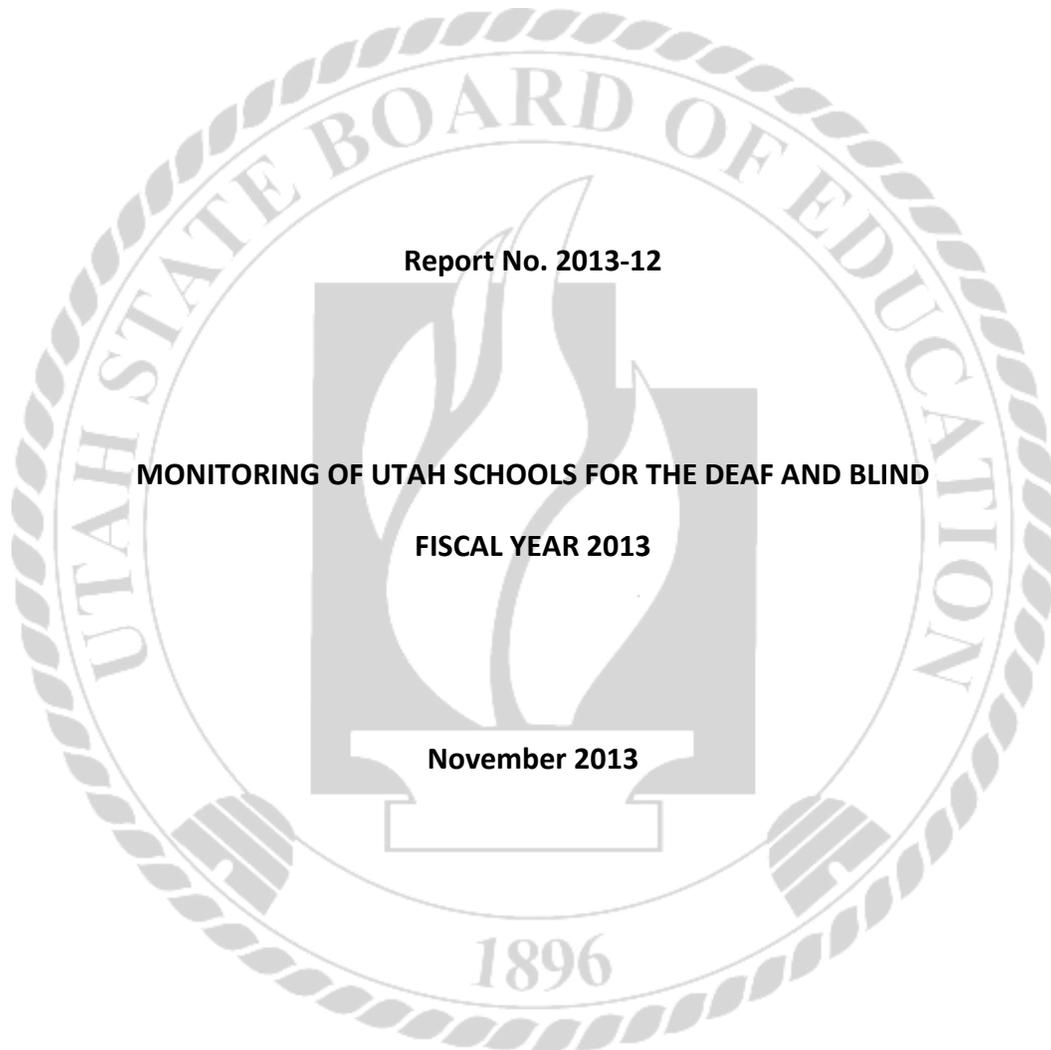
DATE: November 8, 2013

SUBJECT: Report on Monitoring of Utah Schools for the Deaf and Blind – Fiscal Year 2013
(Report #2013-12)

Attached is the report on the **Monitoring of Utah Schools for the Deaf and Blind – Fiscal Year 2013** (Report #2013-12). The objectives of this monitoring review are explained on page one of this report.

Copies of this report will be released to the board and management of the Utah Schools for the Deaf and Blind, the Utah State Board of Education, and the Utah State Auditor's Office.

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



**Audit performed by:
Utah State Board of Education's Internal Auditors**

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Report 2013-12

November 8, 2013

Utah Schools for the Deaf and Blind
742 Harrison Blvd.
Ogden, Utah 84404

Dear Board Members:

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 Utah Schools for the Deaf and Blind (USDB) pursuant to risk assessment procedures conducted by IA. The IA department visited USDB on July 30 and 31, 2013. The purpose of this limited review is to assess the control environment over major accounting areas, compliance with funding restrictions, and review payroll and expenditure transactions.

IA performed the following procedures at the USDB for fiscal year 2013, which covers the period of July 1, 2012 – June 30, 2013:

1. We reviewed certain aspects of the USDB's internal controls in major accounting areas such as cash receipts, cash disbursements and payroll. We haphazardly selected cash disbursements and payroll transactions to review for appropriateness. Please see findings 1, 2, 3 and 4.
2. We reviewed the process by which payroll is certified for federal programs. Please see finding 3.
3. We reviewed expenditures for compliance with state or federal regulations. Please see finding 1.
4. Other compliance issues as considered necessary.

These procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the USDB'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 the USDB'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 USDB are included on page 9. We have not audited these responses.

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

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. If you have any questions, please contact me at (801) 538-7813.

Sincerely,

A handwritten signature in black ink that reads "Natalie Grange". The signature is written in a cursive, flowing style.

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

FINDINGS AND RECOMMENDATIONS

1. INADEQUATE SUPPORTING DOCUMENTATION, IMPROPER CODING, AND INSUFFICIENT INTERNAL CONTROLS OVER EXPENDITURES

We selected 74 transactions to review from expenditures made during fiscal year 2013. During our review, we noted the following issues:

- 1) We noted two travel reimbursements to an employee for meal per diem for two different out-of-state conferences in October and November 2012. The reimbursement forms for these two conferences did not include the conference agenda as required by State Finance travel policies. Obtaining an agenda helps to ensure correct amounts are reimbursed for per diem meals for the traveler.
- 2) We noted four transactions that were coded to the generic object code 6184 (Educational & Recreational Supplies), which should have been booked to other object codes. There were also some cases where the transaction should have been split and booked to multiple object codes but was not. Object code 6184 increased by \$96,715 from fiscal year 2011 to fiscal year 2012. It increased again by \$89,061 from fiscal year 2012 to fiscal year 2013. Based on our discussion with USDB personnel, many transactions during fiscal year 2013 were booked to object code 6184 instead of identifying the correct, specific object code. USDB should ensure that transactions are correctly recorded in its accounting system to aid with accurate budgeting and forecasting.
- 3) We noted that in some cases expenditures were split between object codes; however, it was very difficult to recalculate the amounts or tie specific items to individual object codes. Sufficient supporting documentation includes the ability to determine which expenditures are coded to specific object codes.
- 4) We noted an \$80.68 credit card charge on the December 2012 statement that was for snacks for students and employee appreciation gift baskets. Per USDB policy, these gift baskets are allowable, but can only be given to an employee once per year. However, a list was not created and retained of the employees who had received the gift baskets. USDB should keep a record of the employees who have received employee appreciation gifts to ensure that each eligible employee only receives one gift each year. Also, this expenditure was coded to object 6184 (Educational & Recreational Supplies) in USDB's accounting system. Only the snacks should have been coded to this object code, the remainder should have been coded to 6270 (Employee Recognition). See discussion in 2) above regarding coding errors in transactions.
- 5) We noted two travel reimbursements for meals for in-state travel of \$45.00 and \$49.00. The first reimbursement was missing the time the traveler left and returned from her destination along with her travel itinerary. The meal reimbursement cannot be determined if the traveler does not document the time they leave and return. The second reimbursement noted that the traveler left after 6 a.m. but was

still reimbursed for breakfast. According to the State of Utah's travel policies, if the traveler leaves their home-base after 6 a.m., the traveler is not entitled to a breakfast reimbursement.

- 6) We noted a payment for \$90.00 made to an individual who assisted in a volleyball camp held at a USDB location. The payment to this individual was not processed through the payroll system. Instead, it was treated as a reimbursement with no tax withholdings or supervisor approval of hours worked. Stipends or other payments for help in conducting a camp or other activity should be processed through payroll with the appropriate approvals of the employee's supervisor to ensure that the time entered and paid is accurate.

Internal Audit noted that, in addition to the state issued purchasing cards used by USDB employees; USDB also has credit cards issued through Kroger and Sam's Club. These cards are normally used to purchase items for specific students in conjunction with their specific plans and goals. Some cards are assigned to individuals, while others are checked out by various individuals authorized to make purchases. We noted that for some of these transactions, approval is not obtained for the items before they are purchased and specific expenditures are not tied to a specific student or student's goals. Final review and approval of these transactions occur in the accounting office; however, these individuals may not have firsthand knowledge of the activities or plans associated with individual expenditures. We noted one transaction where purchases were made without preapproval and receipts were not returned to the accounting office. It took a significant amount of time and effort for the accounting office to track down the person making purchases and determine the correct coding.

Recommendations:

We recommend that USDB review and implement adequate internal controls over cash disbursements, including the following:

- 1) We recommend that USDB ensure that object coding for expenditures is correct and accurate, that each transaction is correctly split between object codes as it should be, and that adequate supporting documentation is retained showing the coding splits for each transaction.
- 2) We recommend that USDB ensure that all travel reimbursement requests for conferences, seminars, meal per diem reimbursements, etc. include an attached agenda and all proper supporting documentation prior to approval.
- 3) We recommend that USDB create and retain a list of recipients who receive staff appreciation gifts to ensure that only one gift is given to an employee each year and that only those employees who are eligible receive appreciation gifts.
- 4) We recommend that USDB ensure that all stipends or other payments for individuals helping with sporting events or other activities are processed through the payroll system and are approved by the employee's supervisor.
- 5) We recommend that USDB implement policies over the Kroger and Sam's Club credit cards requiring either approval in the accounting system or by email providing details

of menus, the students receiving the purchased items, and additional information as needed before purchases are made. We also recommend that the USDB investigate assigning specific cards to individuals who are authorized to make purchases to limit the risk of unauthorized or unapproved purchases. USDB should also ensure that the final transactions are being approved by someone with firsthand knowledge of the purchases or objective of the expenditures. This approval process is a key control to ensure purchases are only made for allowable items and met specific student plans or goals.

2. INSUFFICIENT INTERNAL CONTROLS OVER PAYROLL AND PAYROLL ERRORS

We selected a sample of 30 employees and reviewed the payroll transactions from three separate pay periods during fiscal year 2013. During our review, we noted the following issues:

- 1) We noted a teacher that was overpaid during each pay period during fiscal year 2013. The teacher's contract was for .49 FTE, but the teacher was paid throughout the fiscal year at 1.0 FTE. This resulted in the teacher being overpaid by \$39,203.36 during fiscal year 2013. Because part-time teachers do not enter time into the payroll system, they are put on autopay and receive the same amount each paycheck. This error occurred because the teacher was incorrectly input into the autopay system at the full-time contract rate instead of a .49 FTE and no review of monthly payroll is conducted by employee or division supervisors who would have detected the difference in teacher pay or hours. After we noted the issue, USDB was successful in recovering the balance of the overpayment.
- 2) We noted an employee whose entered time was not approved in the payroll system for the pay period ending 11/23/12. This employee's time was auto-approved by the payroll system because the employee's supervisor did not approve the time prior to the deadline.

We noted that no one other than the financial manager over payroll reviews monthly payroll reports after payroll is processed. A second review of the payroll reports by division or section directors who are knowledgeable about payroll in each division will help ensure that errors are detected and corrected in a timely manner.

Recommendations:

We recommend that USDB review and implement adequate internal controls over payroll, including the following:

- 1) We recommend that USDB ensure that the pay rate and information entered into the payroll system for all teachers who are on auto-pay is reviewed and approved by the appropriate personnel when changes are made. Additionally, we recommend that the payroll supervisor perform a thorough review of auto-pay employees after each payroll

batch has been processed by ERIC to ensure that the amounts being paid are reasonable and match the terms of their contract.

- 2) We recommend that USDB ensure that supervisors review time entered each pay period and that they establish policies surrounding the supervisor's approval to ensure that appropriate action is taken with supervisors who have recurring issues with approving employees' time.

3. **NONCOMPLIANCE WITH REQUIRED PAYROLL CERTIFICATION FOR FEDERAL GRANTS**

There are 3 employees at USDB who are paid from federal grants. We noted that time and effort certifications are not being performed for these payroll expenditures charged to federal funds. Payroll certifications should comply with the guidelines set forth in the Office of Management and Budget (OMB) Circular A-87 Appendix B 8.h. Employees who work solely on a single Federal award must have semi-annual certifications to support their salaries and wages. Employees who work on more than one Federal award must have personnel activity reports (PARs). Circular A-87 Appendix B 8.h(5) states that PARs must document the total actual activity of the employee after-the-fact, "be signed by the employee," and the reports "must be prepared at least monthly."

Recommendation:

We recommend that time and effort certifications be performed for expenditures charged to federal funds. Payroll certifications should comply with the guidelines set forth in the Office of Management and Budget (OMB) Circular A-87 Appendix B 8.h.

4. **ADDITIONAL INTERNAL CONTROL WEAKNESSES**

In conjunction with our review of USDB's expenditures and payroll transactions, we performed a limited review of certain aspects of the USDB's internal controls in major accounting areas such as cash receipts, cash disbursements and payroll. In this review, we noted the following additional issues:

- 1) USDB receives some cash receipts at its Ogden location. IA noted that when cash is received, USDB sometimes waits 1-2 weeks before depositing the money in its fiduciary institution. Utah Code 51-4-2(2)(a) requires all public funds to be deposited daily, but not later than three days after receipt.
- 2) The USDB has a donations bank account which is only recorded in summary in FINET. The USDB operations bank account is managed by state finance and reconciled by state finance. The donations account is not subject to the same internal controls as the regular operations account. We recommend that USDB discuss this donations account with State Finance and determine whether this bank account should be subject to the same internal control and reconciliation procedures as the operations account. The USDB advisory committee directs the activity of this account and receives summary information regarding the revenues and expenditures; however, it

does not appear that a detailed review is occurring. We recommend internal controls be established over the cash receipts and cash disbursements of this donation account because USDB employees manage the funds outside of the state accounting system and make expenditures from this account at the direction of the USDB advisory committee.

- 3) We noted that USDB's policies and procedures have not been updated since 2006. The policies do not contain some of the necessary elements required by *Utah Administrative Rule 277-113* and the new state procurement law. USDB uses State policies in some cases, but also uses USOE's BASE system forms, which could indicate that USDB may use USOE policies for some transactions. We are unclear if USDB should follow all USOE policies or if they have the ability to create their own policies.
- 4) USDB sends out summarized budget statements showing monthly revenues and expenditures to each of the unit directors within USDB. This procedure could be an effective internal control; however, these budget statements do not appear to be reviewed or approved by the unit directors and are not detailed enough to be beneficial.
- 5) USDB currently has a contract with a transportation company to provide transportation to students around the state to USDB facilities. The contract provides that USDB will reimburse the company for fuel costs at actual cost, in addition to a charge per mile for individual students. The fuel invoices submitted by the company are not detailed enough to provide sufficient evidence that fuel is only being charged for USDB transportation miles. Actual fuel costs plus a per mileage charge appear a little unusual and may not be the most economical use of public funds. The contract has many renewal options, one of which has been exercised.

We noted that the records and internal controls of USDB have not been the subject of a financial statement audit for at least 10 years. The Utah State Auditor has statutory authority over audits for state agencies. While USDB transactions are part of the Education Fund, and subject to testwork in the USOE financial statement audit, a financial statement audit specifically reviewing USDB transactions is not completed yearly. All LEAs under the supervision of the Board are required to submit to a financial statement audit annually. USDB's expenditures have exceeded \$25 million each year, for the past two fiscal years.

Recommendations:

- 1) We recommend that USDB comply with state law and deposit public funds within three days of receipt.
- 2) We recommend that USDB discuss the donation account with state finance to ensure it is being recorded appropriately and implement internal controls over the cash receipts and cash disbursements.
- 3) We recommend that USDB determine what policies and procedures will be implemented and ensure that these policies are up-to-date and comply with all current Utah State Board of Education rules and State laws.

- 4) We recommend that detailed monthly budget statements be sent to all directors of each unit within USDB (or other applicable custodian of the program) and the statements are reviewed to ensure they appear accurate and correct and that these reviews be documented.
- 5) We recommend that USDB obtain detail fuel logs from the vendor to substantiate the fuel charges. We also recommend that the USDB investigate other transportation alternatives or issue a new RFP, including fuel costs as part of the mileage charge.
- 6) We recommend that the Board consider requiring USDB to obtain an annual financial statement audit, which would be consistent with other LEAs and reasonable based on the level of expenditures made at USDB. We also recommend that the Board consult with the State Auditor's Office to determine the most appropriate way to establish this requirement because the State Auditor's Office has statutory authority over financial statement audits for state agencies.



JOEL COLEMAN
Superintendent

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MEMORANDUM

FOR: Utah State Board of Education
USDB Advisory Council

FROM: Joel Coleman, Superintendent, USDB
Scott Jones, Finance Director, USDB

THRU: Dr. Martell Menlove, Superintendent, USOE
Bruce Williams, Associate Superintendent, USOE
Utah State Board of Education's Internal Auditors

DATE: November 1, 2013

SUBJECT: USDB Comments to Monitoring of Utah Schools for the Deaf and the Blind Fiscal Year 2013, Report No. 2013-12

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1. The subject report confirms deficiencies in Internal Controls, risk mitigation, compliance with funding restrictions, and/or payroll and expenditure transactions. USDB Business Office personnel requested assistance (audit) by the Utah Board of Education's Internal Auditors over concerns with BTOTS, Smith's Purchasing Card, and/or Wasatch Fuel expenditures. The audit was expanded by the Utah State Board of Education's Internal Auditors to provide a more in depth review of USDB Internal Control programs to assess weakness and potential risk in financial operations.
 2. We appreciate this opportunity to comment on the report and look forward to addressing and implementing the recommendations. USDB will ensure adequate Management Internal Control Programs to reduce risk, ensure proper use of funds, proper coding of expenditures, compliance with funding restrictions, and payroll transaction requirements.

Joel Coleman, Superintendent, USDB

Scott Jones, Finance Director, USDB

Enclosure-USDB Responses and Corrective Actions to Utah State Board of Education Internal Audit Report No, 2013-012 Recommendations

ENCLOSURE: USDB Responses and Corrective Actions to Utah State Board of Education Internal Audit Report No. 2013-012 Report Recommendations

INTERNAL AUDIT OBJECTIVE SUMMARY: *The purpose of this limited review is to assess the control environment over major accounting areas, compliance with funding restrictions, and review payroll and expenditure transactions within USDB.*

FINDING 1: INADEQUATE SUPPORTING DOCUMENTATION, IMPROPER CODING, AND INSUFFICIENT INTERNAL CONTROLS OVER EXPENDITURES

First Recommendation: *We recommend that USDB ensure that object coding for expenditures is correct and accurate, that each transaction is correctly split between object codes as it should be, and that adequate supporting documentation is retained showing the coding splits for each transaction.*

USDB concurs. USDB recognizes the importance of ensuring proper object coding for expenditures, proper application of expenditures to appropriate object codes, and the retention of sufficient supporting documentation for all transactions. The USDB Business Office is currently implementing internal controls that ensure program directors and their administrative assistants utilize appropriate object coding for expenditures and proper application of expenditures to object codes. The USDB Business Office implemented, as corrective action, the requirement for and adherence to employees providing sufficient supporting documentation for their respective transactions.

Second Recommendation: *We recommend that USDB ensure that all travel reimbursement requests for conferences, seminars, meal per diem reimbursements, etc. include an attached agenda and all proper supporting documentation prior to approval.*

USDB concurs. Corrective action is in place. No travel reimbursement requests for conferences, seminars, meal per diem reimbursements, etc. are approved without sufficient supporting documentation. USDB will release an accompanying Internal Control directive that ensures communication of the requirement(s) to our employees and continuity of this process.

Third Recommendation: *We recommend that USDB create and retain a list of recipients who receive staff appreciation gifts to ensure that only one gift is given to an employee each year and that only those employees who are eligible receive appreciation gifts.*

USDB concurs. We have implemented this tracking mechanism.

Fourth Recommendation: *We recommend that USDB ensure that all stipends or other payments for individuals helping with sporting events or other activities are processed through the payroll system and are approved by the employee's supervisor.*

USDB partially concurs. USDB requests further assistance, direction and/or guidance on this particular finding/recommendation. Many of the individuals we pay stipends to are not State of Utah employees. We will research the process by which we pay these particular individuals in order to ensure compliance with applicable Internal Revenue Service policies and procedures as discussed in the Audit Closing Conference on October 26, 2013. However, additional guidance

ENCLOSURE: USDB Responses and Corrective Actions to Utah State Board of Education
Internal Audit Report No. 2013-012 Report Recommendations

on the proper processing of stipend payments by USOE is requested to ensure understanding of the process and adherence to the requirements.

Fifth Recommendation: *We recommend that USDB implement policies over the Kroger and Sam's Club credit cards requiring either approval in the accounting system or by email providing details of menus, the students receiving the purchased items, and additional information as needed before purchases are made. We also recommend that the USDB investigate assigning specific cards to individuals who are authorized to make purchases to limit the risk of unauthorized or unapproved purchases. USDB should also ensure that the final transactions are being approved by someone with firsthand knowledge of the purchases or objective of the expenditures. This approval process is a key control to ensure purchases are only made for allowable items and met specific student plans or goals.*

USDB concurs. USDB Business Office is in the process of writing the Internal Control to ensure compliance with this recommendation. Expected date of publication and implementation of this control is 1 December 2013. However, in the interim, USDB has implemented the policy effective 8/1/2013 and the dorm supervisor now approves each purchase as the representative with firsthand knowledge of the both the purchase and the objective of the expenditures.

FINDING 2: INSUFFICIENT INTERNAL CONTROLS OVER PAYROLL AND PAYROLL ERRORS

First Recommendation: *We recommend that USDB ensure that the pay rate and information entered into the payroll system for all teachers who are on auto-pay is reviewed and approved by the appropriate personnel when changes are made. Additionally, we recommend that the payroll supervisor perform a thorough review of auto-pay employees after each payroll batch has been processed by ERIC to ensure that the amounts being paid are reasonable and match the terms of their contract.*

USDB concurs. There are now two staff members who review payroll. There are some additional concerns with the processing and potential oversight by ERIC. Currently, DHRM and USDB are addressing those concerns.

Second Recommendation: *We recommend that USDB ensure that supervisors review time entered each pay period and that they establish policies surrounding the supervisor's approval to ensure that appropriate action is taken with supervisors who have recurring issues with approving employees' time.*

USDB concurs. As an initial control ERIC sends emails throughout the payroll week reminding USDB supervisors to sign off on any unapproved time entered by their employees. USDB will address further controls and concerns with DHRM in our current discussions regarding ERIC and what ERIC will provide as far as assurances as to ensuring payroll controls such as these are implemented.

**FINDING 3: NONCOMPLIANCE WITH REQUIRED PAYROLL CERTIFICATION
FOR FEDERAL GRANTS**

First Recommendation: *We recommend that time and effort certifications be performed for expenditures charged to federal funds. Payroll certifications should comply with the guidelines set forth in the Office of Management and Budget (OMB) Circular A-87 Appendix B 8.h.*

USDB concurs. We have obtained the necessary forms to certify staff time spent on federal grants and have informed the appropriate staff members of the requirement.

FINDING 4: ADDITIONAL INTERNAL CONTROL WEAKNESSES

Frist Recommendation: *We recommend that USDB comply with state law and deposit public funds within three days of receipt.*

USDB concurs. We are in the process of further reviewing this recommendation and implementing controls that contribute to our ability to ensure deposit of public funds within three days of receipt. We expect to publish and implement the Internal Control for this particular process no later than 15 December 2013.

Second Recommendation: *We recommend that USDB discuss the donation account with State Finance to ensure it is being recorded appropriately and implement internal controls over the cash receipts and cash disbursements.*

USDB concurs. We are in the process of further reviewing this recommendation with State Finance and determining their policy and guidance on how best to record appropriately cash receipts and cash disbursements. We expect to publish and implement the Internal Control for this process no later than 15 December 2013.

Third Recommendation: *We recommend that USDB determine what policies and procedures will be implemented and ensure that these policies are up-to-date and comply with all current Utah State Board of Education rules and State laws.*

USDB concurs. This has been a top priority of Superintendent Coleman and USDB is in the process of implementing structured and reliable Internal Controls across all aspects of our financial and business operations.

Fourth Recommendation: *We recommend that detailed monthly budget statements be sent to all directors of each unit within USDB (or other applicable custodian of the program) and the statements are reviewed to ensure they appear accurate and correct and that these reviews be documented.*

USDB concurs. The USDB Finance Director is in the early stages of implementation of this process. We demonstrated the tools used for compliance to this recommendation and Internal Control during the Audit Closing Conference on October 26, 2013. In addition, Scott Jones,

ENCLOSURE: USDB Responses and Corrective Actions to Utah State Board of Education
Internal Audit Report No. 2013-012 Report Recommendations

USDB Director of Finance, has initiated the process of monthly one-on-one meetings with each program director to personally review budgetary data.

Fifth Recommendation: *We recommend that USDB obtain detail fuel logs from the vendor to substantiate the fuel charges. We also recommend that the USDB investigate other transportation alternatives or issue a new RFP, including fuel costs as part of the mileage charge.*

USDB partially concurs. We completely concur with obtaining detailed fuel logs from the vendor to substantiate the fuel charges. We have recently requested this information from the vendor. We concur with the need to determine other potential transportation alternatives. We are in the process of analyzing whether or not the current method of transportation of our students is the most cost effective method. We are scheduled to release these findings on or about 15 December 2013, subject to approval by the Education Appropriations Interim Committee of a deadline extension to that date. The report was originally scheduled for presentation on November 6, 2013. USDB non-concurs with the issue of a new RFP. We consulted with State Procurement and they advised against publication of an RFP at this time. They recommended publication of a Request for Information (RFI) that will solicit information from potential vendors in the marketplace regarding their level(s) of ability and cost to provide USDB transportation services. USDB will present its findings to the Education Appropriations Committee as part of the overall requirement in House Bill 2 to analyze the cost effectiveness of the current method of transportation.

Sixth Recommendation: *We recommend that the Board consider requiring USDB to obtain an annual financial statement audit, which would be consistent with other LEAs and reasonable based on the level of expenditures made at USDB. We also recommend that the Board consult with the State Auditor's Office to determine the most appropriate way to establish this requirement because the State Auditor's Office has statutory authority over financial statement audits for state agencies.*

USDB concurs. We request at least an annual financial statement audit.