

## Audit Brief – LEA Audit (Duchesne)

### Objective and Scope:

As approved by the Utah State Board of Education, the Internal Audit Department (IA) is performing an audit of funding allocations, use of funds, and student membership at a selection of local education agencies (LEAs). Financial, compliance, and performance aspects are subject to consideration during the audit and the period of time covered is dependent on the LEA area being reviewed. As directed by the Audit Committee, reports are being released by LEA to facilitate timely and effective communication and corrective action.

### Findings and Observations:

Findings and observations were identified in the following areas and are listed below with recommendations for corrective action. Per auditor judgement, findings are considered more severe than observations. Finally, findings and observations are prioritized by significance.

#### Finding areas:

- Procurement
- Use of Public Education Funds
- Internal Controls over Expenditures

#### Observation area:

- Tax Exempt Status Policy

Though there were several reasons for the findings above, it appears the most common reason was lack of oversight, likely impacted by limited financial staff. The impact of the concerns is generally increased risk of fraud, waste and abuse of public education funds.

### Internal Audit Recommendations:

- Ensure policies, procedures, and internal controls are operating effectively; as necessary, design, implement, and monitor new policies, procedures, and internal controls
- Train staff on new and existing policies to ensure proper implementation

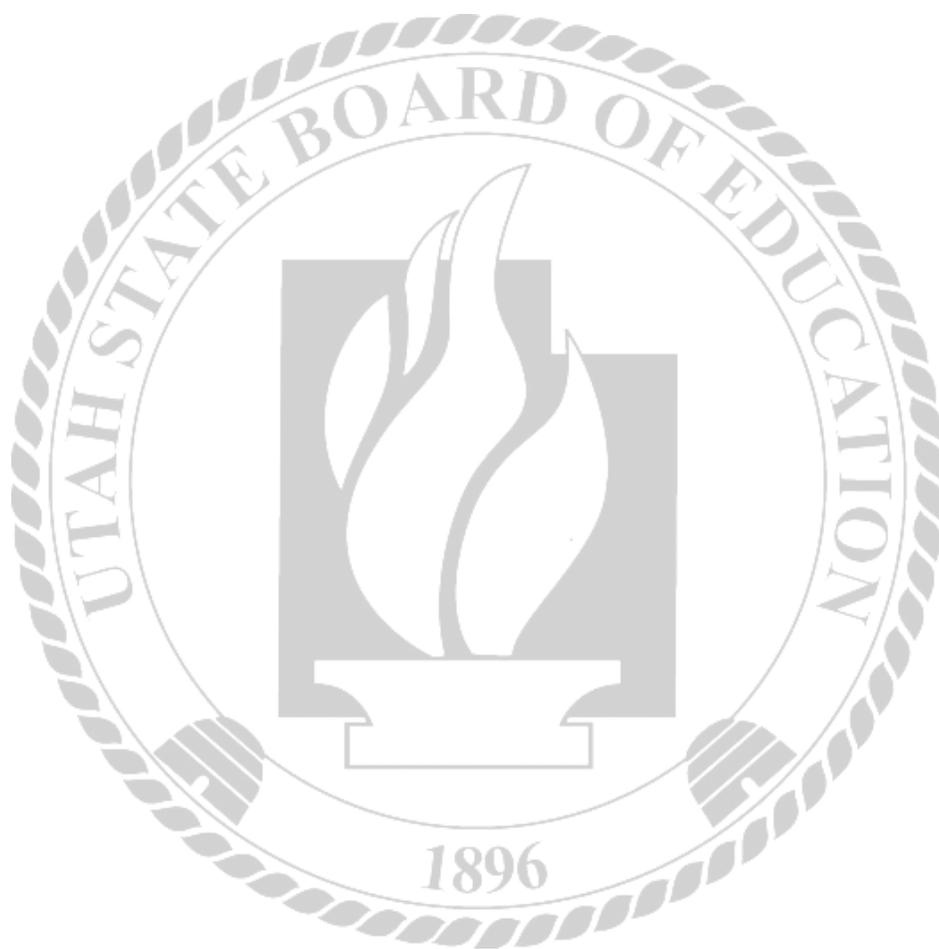
### Management Response:

The LEA feels they have a good system of approvals and reviews, but will review documentation for sufficiency. Staff have been trained on policies and procedures.

# Utah State Board of Education

## 16-03.E

DUCHESNE COUNTY SCHOOL DISTRICT



**USBE Internal Audit Department**

10/15/2016

Mark Thacker, President

And

Duchesne County School District Board Members  
Board of Education, Duchesne County School District  
PO Box 446  
Duchesne, UT 84021

Dear President Thacker and Duchesne County School District Board Members,

The Utah State Board of Education (Board) Administrative Rule 277-116-3 authorizes the Board's Internal Audit Department (IA) to perform audits as outlined in the audit plan approved by the Board. IA performed an audit of Duchesne County School District's (LEA) funding allocations, use of funds, student membership count, and instructional hours and school day requirement for the purpose of verifying compliance with applicable code, rule, and policy and procedures. IA obtained relevant documentation from LEA personnel and performed the following procedures.

1. Gained an understanding, through research and inquiry, of applicable state code, administrative rule, and LEA policy
2. Analyzed the LEA's process and results for tracking students and student reporting
3. Analyzed the LEA's process and results for fund collection, disbursement, and documentation
4. Analyzed the LEA's calculation of the 180 school day/990 hours of instruction (180/990) requirement
5. Reviewed and analyzed on a limited basis the LEA's internal control environment

These procedures were limited to membership records for fiscal year (FY) 2016, financial records for FY 2015, and 180/990 records for FY 2017. We have identified the procedures performed above and the findings, observations, and recommendations from those procedures are included in this report. These procedures were more limited than would be necessary to express an audit opinion on compliance or the effectiveness of internal control or any part thereof; accordingly, we do not express such opinions.

Audits are conducted in accordance with current International Standards for the Professional Practice of Internal Auditing. IA is in process of completing the peer review quality assurance requirements by those standards.

By its nature this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the LEA

during the course of the audit. Management's response to the audit is included on page #4.

This report is intended solely for the information and use of the LEA Board of Education and management of the LEA, and the Utah State Board of Education; it 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) 538-7639.

Sincerely,

A handwritten signature in cursive script that reads "Deborah Davis". The signature is written in black ink on a light-colored background.

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

cc. Members of the Utah State Board of Education  
Sydnee Dickson, Ph.D., State Superintendent of Public Instruction, Utah State Board of Education  
David Brotherson, Superintendent, Duchesne County School District  
Dee Miles, Business Administrator, Duchesne County School District

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## I. Background

In the March 24, 2016 Utah State Board of Education Audit Committee meeting the committee approved an audit of LEA funding allocations and use of funds as well as student membership counts for a sample of LEAs, including both districts and charters.

## II. Objective and Scope

The Internal Audit Department's (IA) objective was to consider potential fraud, waste, and abuse, appropriate handling of public funds, and to verify compliance with applicable state code, administrative rules, and policies and procedures. We reviewed relevant LEA financial records, membership records, school calendars and other documentation as necessary. The scope of our audit generally covered records from fiscal year 2015 to current.

## III. Findings and Recommendations

Findings and observations were identified in the areas listed below with recommendations for corrective action. Per auditor judgement, findings are considered more severe than observations, both findings and observations are prioritized by significance.

Findings are comprised of five elements. The five elements are:

1. **Criteria:** What should happen?
2. **Condition:** What is happening?
3. **Cause:** Why did it (i.e., the condition) happen?
4. **Effect:** What is the impact, or why should you care?
5. **Recommendation:** How do we resolve it (i.e., the cause)?

### a. Procurement Approvals and Review Process

**Criteria:** Duchesne Policy Manual 1.1014.04 General Small Purchase Process (effective 2/10/2016)/1.1014 4.0 Small Purchases Process (effective 5/8/2014) requires that for small purchase procurements greater than or equal to \$1,000, the purchase order or check request form include signatures of the requestor, immediate supervisor (or authorized business officer for the department), and Business Administrator.

**Condition:** Of the 48 transactions reviewed, 9 required that a purchase order and/or check request be completed. Eight of the nine (91%) transactions, totaling \$40,784.65, did not have any signatures on the purchase order and/or check request as required. For the final transaction, totaling \$18,423.08, the LEA could not provide a purchase order.

**Cause:** Lack of enforcement of LEA procurement policy; limited financial staff contributes to these exceptions.

**Effect:** Increased liability and risk of fraud, waste, abuse, or misappropriation of public education funds.

**Recommendation:** The Board and LEA administration should ensure an appropriate internal control environment that includes monitoring current policies and procedures for effectiveness. The LEA should also ensure that all staff are routinely trained on current policies and procedures, including procurement policies and procedures.

## **b. Use of Public Education Funds**

**Criteria:** Duchesne Policy Manual 3-0230-03 Private, Controlled, or Protected Information states:

District employees may not: Use or attempt to use the employee's position with the District to substantially further the employee's economic interest or to secure special privileges or exemptions for the employee or others.

**Condition:** One transaction, for \$93.71, included the purchase of a pair of boots. This constitutes an expenditure for personal purposes and is not allowed.

**Cause:** Oversight of LEA administration in complying with existing policies and procedures; limited business office staff may also have been a factor.

**Effect:** Increased risk of fraud, waste and abuse of public education funds.

**Recommendation:** Upon being notified of this concern the LEA resolved the concern and was reimbursed appropriately; however, the School Board and LEA Administration should ensure existing policies and procedures are understood and operating effectively. Further, all staff should be regularly trained on the policies and procedures.

## **c. Internal Controls over Expenditures**

**Criteria:** Utah Administrative Code R277-113-5.C(2)(a) Required LEA Fiscal Policies requires:

The LEA expenditure policy include the establishment of internal controls and procedures over the initiation, approval and monitoring of expenditures, credit or purchase card transactions, employee reimbursements, travel, and payroll (for school sponsored activities, as well as best practice for general accounting processes).

**Condition:** One of the 48 transactions reviewed, for \$79.98, was a duplicate payment. The initial payment was made on 2/5/2016 and the duplicate check was processed on 2/19/2016. The duplicate check had not been sent to the vendor; however, the District accounting staff, though aware of the error, had not voided the check and transaction more than 3 months after the issuance of the duplicate payment.

**Cause:** Oversight by limited LEA accounting staff with multiple priorities.

**Effect:** Increased risk of waste, abuse, or misappropriation of public funds.

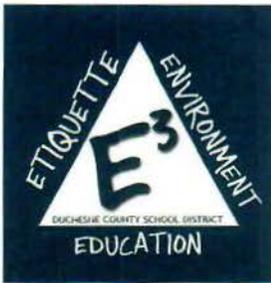
**Recommendation:** The LEA has now appropriately voided the duplicate check; however, the Board should consider if resources allocated to ensuring that LEA fiscal policies and procedures and state regulations are adequate and take action accordingly.

## **IV. Observations**

### **a. Policy on Tax Exempt Status Number Use**

Outside of the required policy for school sponsored activities, the LEA does not have a documented policy regarding appropriate use of the LEA's tax exempt status number for general LEA transactions. We noted an instance when a school was reimbursed for the full amount of transactions, subtotal and tax. Establishing a policy on use of the LEA's tax exempt status could allow the District to take advantage of the available sales tax exemption for applicable transactions, which would allow the District to repurpose funds from tax to other priority areas.

## **V. Appendix A - Management Response**



# Duchesne County School District

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PO Box 446, 50 East 100 South  
Duchesne, UT 84021

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Superintendent

Dee E. Miles  
Business Administrator

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December 6, 2016

Utah State Board of Education  
Deborah Davis  
Internal Auditor

RE: Response to Findings and Recommendations

## Finding a. Procurement Approvals

We feel that we have a good system of approvals and reviews in place though the documentation of those approvals is not showing up on the purchase orders. We will review our systems and computer programs to see if we can better document the approvals on the purchase orders.

## Finding b. Use of Public Education Funds

The funds were returned and that specific budget discontinued. Employees have also been trained on the appropriate use of funds.

## Finding c. Internal Controls over Expenditures

Staff was trained to be more vigilant to avoid the possibility of duplicate payments.

## Observation a. Policy on Tax Exempt Status Number Use

We will look at strengthening our policy. The majority of our transactions (approximately 99.5%) are processed using the tax exemption. There are a number of small transactions initiated by individual teachers where it becomes difficult to ensure the tax exemption is use, but we are looking into a system that might alleviate that situation as well.

Sincerely,

Bart Morrill, CPA  
Audit Committee Chairman