

Audit Brief – Use of Funds (Mana Academy)

Objective and Scope:

As approved by the Utah State Board of Education, the Internal Audit Department (IA) performed an audit of the use of funds for state fiscal year 2016 at a selection of local education agencies (LEAs). Financial, compliance, and performance aspects were subject to consideration during the audit. Reports are being released by LEA to facilitate timely and effective communication and corrective action.

Findings and Observations:

Findings were identified in the following areas and are listed below with recommendations for corrective action. Findings are prioritized by significance. Observations are considered less significant than findings.

Finding areas:

- Internal Controls
 - Inadequate policies and procedures
 - Override of internal controls
 - Lack of segregation of duties
- Compliance with State and Local Procurement Regulations
 - For 41 transactions reviewed:
 - Lack of competitive procurement (e.g., obtaining required quotes, bids, RFPs, etc.) for over \$189,000 related to 6 transactions
- Electronic Benefit Transfer (EBT) Purchases
 - For 70 transactions reviewed:
 - Cash reimbursements for purchases made on an EBT card for over \$2,400 related to 26 transactions.
 - Lack of documentation for 58 transactions (83%).

Observations areas:

- Prudent Use of Funds
 - May have used up to \$2,700 in public funds to purchase amusement park tickets.

Cause:

Potential reasons for the findings include, a lack of governance, management, and/or internal control activities, including staff training.

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Effect:

The impact of the concerns varies, but there is an increased risk of fraud, waste, and abuse of taxpayer dollars for public education, which may reduce assets and resources available to support enhanced student outcomes. Inability to show transparency, consistency, and value-obtained from purchases is also a significant risk.

Internal Audit Recommendations:

Ensure policies, procedures, and internal controls are comprehensive and operating effectively; as necessary, design, implement, and monitor new policies, procedures, and internal controls. Additionally, staff should be trained on policies, procedures, and internal controls regularly.

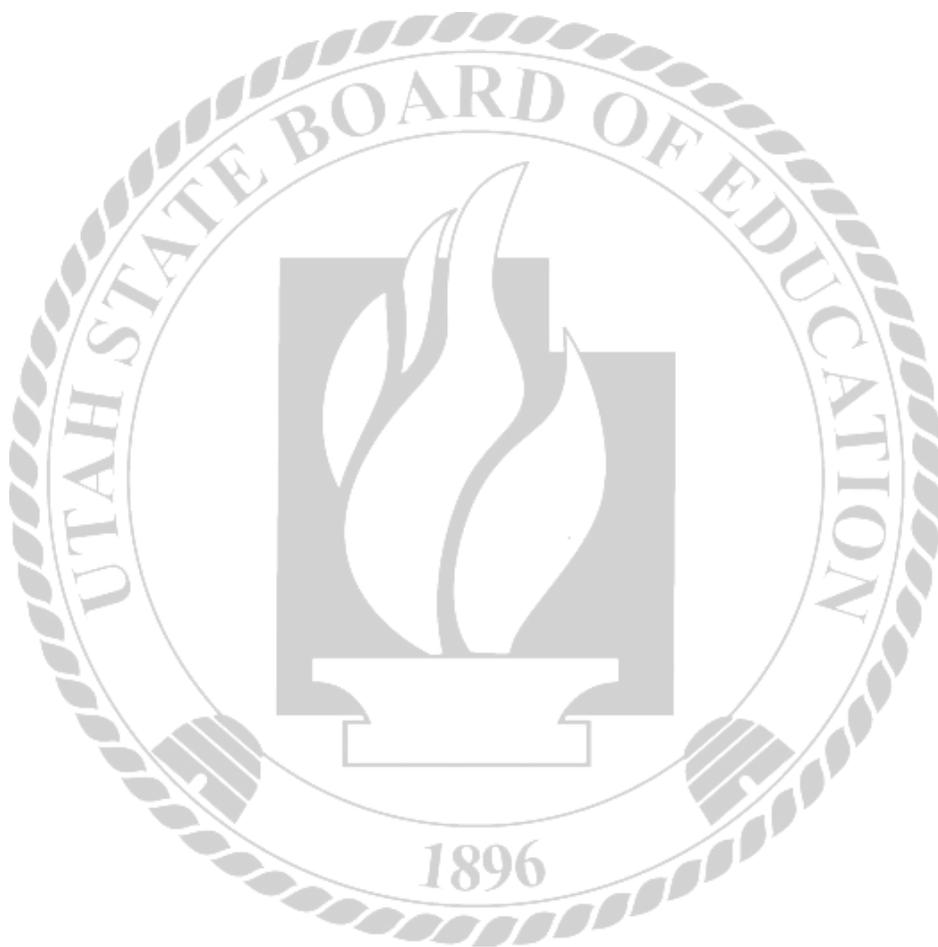
Management Response:

The LEA agrees with the findings and recommendations and is taking measures to strengthen their system, policies, and practices.

Utah State Board of Education

17-02

MANA ACADEMY CHARTER SCHOOL



USBE Internal Audit Department

08/4/2017

Board of Trustees
Mana Academy Charter School
2355 S. Technology Drive
West Valley City, UT 84119

Dear Chair Otukolo-Saltiban and Mana Academy Charter School 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 Mana Academy's (LEA) use of funds for the purpose of verifying compliance with applicable code, rule, and policy and procedures. IA obtained relevant documentation from LEA personnel and performed the procedures below.

1. Gained an understanding, through research and inquiry, of applicable state code, administrative rule, and LEA policy.
2. Reviewed and analyzed, on a limited basis, the LEA's internal control environment.
3. And analyzed the LEA's disbursement of funds and documentation of disbursements.

These procedures were limited to fiscal records for state fiscal year 2016 (07/01/2015-06/30/2016), unless otherwise noted. 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.

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 as Appendix A.

This report is intended solely for the information and use of the LEA Board of Directors 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 black ink that reads "Deborah Davis". The signature is written in a cursive style with a large initial 'D'.

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

cc. Members of the Utah State Board of Education
Kristen Elinkowski, State Charter School Board Chair
Sydnee Dickson, Ph.D., State Superintendent of Public Instruction, Utah State
Board of Education
'Anapesi Ka'ili, Director, Mana Academy Charter School

Contents

I.	Background, Objective, and Scope	1
II.	Findings and Recommendations	1
a.	Internal Controls	1
b.	Procurement	3
c.	Electronic Benefit Transfer (EBT) Purchases	5
III.	Observations	5
a.	Prudent Use of Funds.....	5
IV.	Management Response	Appendix A

I. Background, Objective, and Scope

In the February 10, 2017 Utah State Board of Education meeting the board approved an audit of LEA use of funds (i.e., Co-mingling of funds). Three LEAs were selected for the audit, this report outlines the findings specific to one of the three LEAs (Mana Academy) reviewed.

Mana Academy's vision states, "Mana Academy Charter School is a community and family centered school committed to educational excellence and cultural sustainability."

According to Mana's financial statements for state fiscal year 2016, Mana received approximately \$2.7 million dollars of revenue and had a fall enrollment of 458 students.

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 and other documentation as necessary. The scope of our audit covered records from fiscal year 2016, unless otherwise noted.

II. Findings and Recommendations

Findings were identified in the areas listed below with recommendations for corrective action. Per auditor judgement, findings are prioritized by significance and are considered more significant than observations. Findings consists of five elements. The five elements are:

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, or why should you care?
5. **Recommendation:** Suggestions on how to resolve the cause.

a. Internal Controls

Criteria: GAO-14-704G Standards for Internal Controls in the Federal Government (best practice) states:

OV1.03 Internal control comprises of the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of public resources.

FIACCT 20-00.00 [State of Utah] Internal Control Program Policy (best practice) states:

- A. Agencies must establish and maintain sound internal controls based on the five components of internal control.
- B. Agencies must establish and maintain proper segregation of duties.

The policy further defines internal control activities as, “the policies and procedures that help ensure management directives are carried out. They help to ensure that necessary actions are taken to address risks to achievement of the entity’s objectives. They include a range of activities as diverse as approvals, verifications, reconciliations, security of assets and segregation of duties.”

Condition: The LEA lacks specific and comprehensive internal control activities, examples are outlined below.

- I. Inadequate policies and procedures
 - a. The LEA does not have any established policies and/or procedures regarding recording procurement transactions, disbursement of funds, and performing reconciliations.
 - b. The LEA’s documented purchasing thresholds inadequately address annual cumulative thresholds, individual procurement thresholds, and/or single procurement aggregate thresholds for purchase amounts.
 - c. The LEA’s document retention policy for purchases from \$1000 to \$5000 does not ensure accountability and transparency.
- II. Override of controls
 - a. Management did not adhere to the established pre-approval policy/procedure; instead, management and staff pursued procurements without obtaining and/or documenting approvals.
 - b. Management reimbursed staff without first obtaining proper documentation. See *b. Procurement* for additional details.
- III. Lack of segregation of duties
 - a. Staff with access to the general ledger, received and opened the mail.
 - b. Management who approve procurements, collect, retain, and destroy fiscal records, prepare disbursements, approve disbursements, sign payments, and send payments.
 - c. Additional personnel who approve procurements, collect, retain, and destroy fiscal records, prepare disbursements, approve disbursements, and reconcile bank statements.

Cause: Lack of governance and management.

Effect: Potential fraud, waste, and abuse of public funds, which may reduce assets and resources available to support enhanced student outcomes, poses a significant risk. Potential inability to accurately report financial results, which may lead to a loss of stakeholder confidence and have an adverse effect on obtaining future

funding is also a significant risk. See conditions in *b. Procurement* for other specific effects of weak internal control activities.

Recommendation: The LEA board and administration should ensure an effective internal control environment by designing and implementing specific and comprehensive policies, procedures, and internal controls to safeguard public funds and assets and protect employees. Segregation of duties, or alternative controls if duties cannot be segregated given the size of the organization, should be of paramount consideration when designing internal controls. The LEA board and administration should also regularly monitor internal controls for operating effectiveness, revising them as needed.

b. Procurement

Criteria: Mana Academy Policies and Procedures, 5.1 Procurement and Purchasing Policy, states:

Step 2: Legal Requirements

1. Up to \$1,000: No legal requirements, but select the best source.
2. Over \$1,000, up to \$5,000: Must obtain "price competition" but no requirement to keep records.
3. Over \$5,000, up to \$50,000: Must seek to obtain two quotes, with the purchase from "the responsible vendor offering the lowest quote meeting specifications" and "the names of the businesses offering quotations and the date and amount of each quotation shall be recorded and maintained as a public record."
4. Over \$50,000: Most likely must conduct a formal bidding process consistent with applicable law. Consult with School's attorney to ensure compliance with law.

Utah Code Annotated 63G-6a-2002 Records—Retention states:

- (1) All procurement records shall be retained and disposed of in accordance with Title 63G, Chapter 2, Government Records Access and Management Act.
- (2) Written determinations required by this chapter shall be retained in the appropriate official contract file of:
 - (a) the division;
 - (b) the procurement unit with independent procurement authority; or
 - (c) for a legislative procurement unit or a judicial procurement unit, the person designated by rule made by the applicable rulemaking authority.
- (3) A procurement unit shall keep, and make available to the public, upon request, written records of procurements for which an expenditure of \$50 or more is made, for the longer of:

(a) six years;
(b) the time otherwise required by law; or
(c) the time period provided by rule made by the applicable rulemaking authority.

- (4) The written record described in Subsection (3) shall include:
- (a) the name of the provider from whom the procurement was made;
 - (b) a description of the procurement item;
 - (c) the date of the procurement; and
 - (d) the expenditure made for the procurement.

Condition: Out of 41 transactions we noted the following concerns related to compliance with an applicable state and/or local regulation regarding procurement.

- Five out of eight (63%) transactions reviewed for required quotes for a purchase per the LEA's policies, did not obtain the requisite number of quotes; questioned transactions total \$35,891.73.
- One out of one (100%) transaction reviewed that required public notice and a request for proposal (RFP) process per the LEA's policies, did not comply with applicable criteria; the questioned transaction totals \$153,575.65.
- One out of the 41 (02%) transactions initially reviewed didn't have adequate documentation. However, the single transaction identified contained information that required additional inquiry (see finding c. Electronic Benefit Transfer Purchases), which led to an added review of 70 targeted transactions. Upon review of the added transactions, 58 (83%) contained inadequate documentation and/or errors.

Cause: Lack of comprehensive internal control activities governing the procurement process. Limited management and staff procurement training is also likely a factor. See conditions in *a. Internal Control* for specific causes.

Effect: Potential fraud, waste, and abuse of public education funds, which may reduce assets and resources available to support enhanced student outcomes, poses a significant risk. Inability to show transparency, consistency, and value-obtained in financial transactions, which may lead to a loss of stakeholder confidence and have an adverse effect on obtaining future funding, is also a significant risk.

Recommendation: See the recommendation for finding *a. Internal Controls*; the LEA should consider all procurement methods when designing and implementing comprehensive and consistent policies, procedures, and internal controls.

c. Electronic Benefit Transfer (EBT) Purchases

Criteria: 7 Code of Federal Regulations (CFR) 271.2 Definitions states:

Trafficking means:

- (1) The buying, selling, stealing, or otherwise effecting an exchange of SNAP benefits issued and accessed via Electronic Benefit Transfer (EBT) cards, card numbers and personal identification numbers (PINs), or by manual voucher and signature, for cash or consideration other than eligible food, either directly, indirectly, in complicity or collusion with others, or acting alone;
- (4) Purchasing a product with SNAP benefits with the intent of obtaining cash or consideration other than eligible food by reselling the product, and subsequently intentionally reselling the product purchased with SNAP benefits in exchange for cash or consideration other than eligible food;

Condition: Out of 70 transactions reviewed for potential cash reimbursement of SNAP benefits, we identified 26 (37%) transactions, totaling \$2,418.75, where cash reimbursements were provided by the LEA.

Cause: Lack of internal controls, see conditions in *a. Internal Controls* for more specific causes.

Effect: Potential fraud, waste, and abuse of public education funds and/or SNAP benefits, which could potentially result in fines, fees, and/or loss of individual program benefits and further public scrutiny of education's ability to monitor the use of taxpayer funds, which could have an adverse impact on obtaining future funding.

Recommendation: We recommend the LEA work with the proper authorities to remedy the identified concern. Additionally, the LEA should ensure internal controls are properly designed and implemented to detect and deter questionable transaction reimbursements.

III. Observations

a. Prudent Use of Funds

We identified one transaction, totaling \$2,719.60, where it appeared that public funds may have been spent on amusement park tickets; documentation was insufficient to conclude the amount of funds students contributed to the cost. Due to the limited nature of public funds and the heightened scrutiny of their use, we question whether the use of public funds for this type of activity is considered prudent and necessary. Also see finding b. above regarding lack of documentation.

Appendix A



June 24, 2017

Deborah Davis, CPA
Director of Internal Audit
Utah State Board of Education
250 East 500 South, PO Box 144200
Salt Lake City, UT 84114

Dear Director Deborah Davis,

Thank you for working diligently on the independent audit with your team members to provide Mana Academy with important findings regarding our use of funds. We concur with the results that emerged from your audit, and we are prioritizing these issues to address them, immediately. We have made changes to our practice to align with the findings and feedback from the auditors and are working to complete all the necessary policies and procedures as outlined in the report.

As a school, we appreciate the professional, collaborative and respectful way the audit was conducted and we look forward to rectifying the identified limitations and are committed to ensuring that we do all that is needed to strengthen our system, policies, and practices.

Best regards,

Belinda 'Otukolo Saltiban, Ph.D.
Board Chair, Mana Academy

Anapesi Ka'ili
Director, Mana Academy

cc: Kevin John and Barbie Faust