

## Audit Brief – LEA Audit (Granite)

### 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 were identified in the following areas and are listed below with recommendations for corrective action. Findings are prioritized by significance.

#### Finding areas:

- Minimum School Days
- Internal Controls Over Expenditures
- Allowable Costs and Activities
- Continuing Enrollment Measurement and 10 Day Rule Compliance
- Official Student Records and Coding and Documentation of Student Status

Though there were several reasons for the findings above, it appears the most common reasons were insufficient oversight, training, or lack of specific procedures. The impact of the concerns varies, but of note there is an increased risk of fraud, waste and abuse of public education funds and potential impact on funding.

### 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
- Train staff on new and existing policies to ensure proper implementation

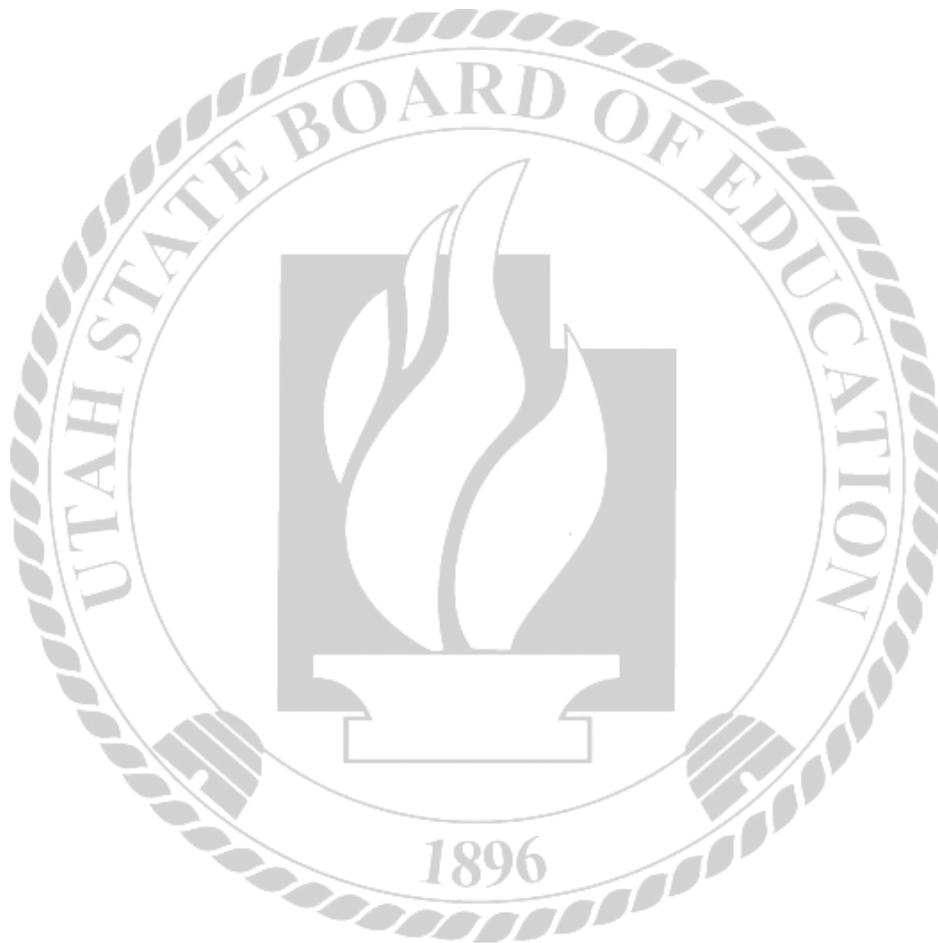
### Management Response:

The District responded that they will gladly make the corrections needed for compliance and that effort has already begun. They also indicated that the audit was conducted in a professional, collaborative and respectful manner.

# Utah State Board of Education

## 16-03.B

GRANITE SCHOOL DISTRICT



**USB E Internal Audit Department**

11/30/2016

Terry Bawden, Board President  
And  
Granite School District Board Members  
Board of Education, Granite School District  
2500 South State Street  
Salt Lake City, UT 84115

Dear President Bawden and Granite 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 Granite 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 #7

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  
Martin W. Bates, Ph.D., Superintendent, Granite School District  
David F. Garrett, Business Administrator, Granite School District  
John Welburn, Assistant Superintendent, Granite School District  
Doug Larsen, Policy and Legal Services, Granite 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 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 were identified in the areas listed below with recommendations for corrective action. Per auditor judgment, findings 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:** Suggestions for how to resolve it (i.e., the cause)?

### a. Minimum School Days

**Criteria:** Utah Administrative Code R277-419-4 Minimum School Days, LEA Records, and Audits states:

(1)(a) Except as provided in Subsection (1)(b), an LEA shall conduct school for at least 990 instructional hours and 180 school days each school year.

Utah Administrative Code R277-419-2 Definitions states:

(32) "School day" means:

(a) a minimum of two hours per day per session in kindergarten and a minimum of four hours per day in grades one through twelve, subject to the following constraints described in Subsection (32)(b).

(b)(i) All school day calculations shall exclude lunch periods and pass time between classes but may include recess periods that include organization or instruction from school staff.

(ii) Each day that satisfies hourly instruction time shall count as a school day, regardless of the number or length of class periods or whether or not particular classes meet.

Utah Administrative Code R277-419-11 Variances states:

(3)(a) To provide planning and professional development time for staff, an LEA may hold school longer some days of the week and shorter other days so long as minimum school day requirements, as provided for in Subsection R277-419-2(32), are satisfied.

Code of Federal Regulations- Agriculture-National School Lunch Program (Title 7, Subtitle B, Chapter II, Subchapter A, Part 210, Subpart C, 210.10) states:

(1) Requirements for lunch periods. (1) Timing. Schools must offer lunches meeting the requirements of this section during the period the school has designated as the lunch period. Schools must offer lunches between 10 a.m. and 2 p.m. Schools may request an exemption from these times from the State agency.

(2) Adequate lunch periods. FNS encourages schools to provide sufficient lunch periods that are long enough to give all students adequate time to be served and to eat their lunches.

Granite School District Board Policy Article VIII.A.12. Time Schedules states:

A. Statement of Purpose:

The State Board has set the following policies regarding school hours:

1. School Year (R277-419-1(I))

“School Year” means a minimum of 990 hours of instruction in a minimum of 180 school days with the following exceptions:

a. Kindergarten is a half-day program providing a minimum of 450 hours of instruction in a minimum of 180 school days.

b. In grade one, the school shall provide a minimum of 810 hours of instruction in a minimum of 180 school days.

**Condition:** According to the technical definition of school day, with associated instructional hours, one elementary school reviewed is currently only providing 145 school

days and 863 hours for grades first through sixth. The same school is also only providing 145 school days for kindergarten.

**Cause:** For grades first through sixth, the LEA Administration counted part of the lunch period toward the school day/instructional hour calculation; ambiguity within Utah Administrative Code regarding the calculation of school days and hours may have been a factor. For kindergarten, the LEA did not provide sufficient oversight and appropriate internal controls to ensure compliance with required instructional hours and school days.

**Effect:** Potential negative impact to funding and operations.

**Recommendation:** LEA Board and Administration should seek additional clarification regarding Utah Administrative Code R277-419 and other applicable regulations regarding calculation of school days and instructional hours. Based on additional clarification, the LEA should take corrective action, including policy and procedure design and implementation, to ensure compliance.

#### b. Internal Controls over Expenditures

**Criteria:** Granite Fiscal Policy

Section 8.D Reimbursements states:

1. Employees will be reimbursed for District purchases made using personal funds under the following conditions:
  - a. The employee obtained prior approval from their fiscal administrator to make the purchase.
2. District purchases made using personal funds must adhere to the requirements of the District's procurement policies including but not limited to dollar thresholds, documented quote requirements, etc.

Section 7.F Purchases and Procurement Thresholds states:

3. For purchases that total up to \$499.99
  - a. If the items being purchased are not available from the warehouse or on a State or district contract, the school or department's fiscal administrator may make the best source selection and proceed with the purchase utilizing a P-card, school check, or District Pay Voucher.
4. For purchases that total between \$500 and \$999.99
  - a. If the items being purchased are not available from the warehouse or on a State or district contract, documented quotes are required, either written, via telephone or in an email received directly from the vendor.

- b. The school or department shall document two quotes on the District Quote Form and make the purchase using a P-card...a school check, a Pay Voucher, or a District Requisition.

7. Artificially dividing a purchase

- a. It is unlawful to intentionally divide a procurement purchase into two or more smaller purchases, to divide an invoice or Purchase Order into two or more invoices or Purchase Orders, or to make smaller purchases over a period of time.
- b. Dividing a purchase, or intentionally splitting a purchase of similar items that would typically be purchased at the same time from the same vendor to avoid requiring competitive quotes is unlawful.

**Condition:** Of 16 reimbursements reviewed, we noted the following:

- Two pay vouchers totaling \$18.05 were missing the program director's signature as evidence of approval of the reimbursements.
- One transaction totaling \$1,159.05 did not have appropriate procurement documentation (i.e., two quotes); the transaction included multiple receipts including one that exceeded \$500. Given the multiple receipts from similar vendors and the proximity of purchases (three purchases within three days) we also question if this purchase was artificially divided.

**Cause:** Insufficient oversight by LEA or school fiscal administrators when processing and approving transactions for payment; lack of staff training (i.e., proper procurement planning) may also have been a factor.

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

**Recommendation:** The LEA should ensure staff are trained on LEA fiscal policies and procedures and staff and administration should ensure that procedures are followed and transactions are appropriately documented.

c. Allowable Costs and Activities

**Criteria:** Utah Special Education Rules (2013) states:

XA-8 Allocation of State of Revenues for Programs for Students with Disabilities:

Allowable direct costs for approved programs for students with disabilities are as follows (aside from payroll needs, employee benefits, and personnel contracts):

Rental of equipment for programs for students with disabilities, Approved travel for personnel in conjunction with their assignments to special education programs/services,

Teaching supplies, Textbooks, Library books, Instructional media/materials (periodicals), Audiovisual materials, Equipment for the special education programs/services.

XA-11, General funds:

All costs of programs for students with disabilities borne by the district that are not classified as direct costs will come from general funds of the district.

Section 8-D.1.c Reimbursements states:

The items or services purchased using personal funds are verified by the fiscal administrator to have been put into use for District purposes and are in compliance with all other District policies.

**Condition:** Two transactions totaling \$2,715.05, out of the 47 transactions tested where expenditures were charged to state special education funding sources, do not appear to be allowable direct costs based on a review of the documentation.

**Cause:** Lack of specific procedures (i.e., internal controls) to ensure restricted funds, such as special education funds, are spent only on allowable costs; lack of training for staff may have also been a factor.

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

**Recommendation:** The LEA should strengthen current policies and establish specific procedures (i.e., internal controls) to ensure that purchases made with restricted public funds are allowable for the funding source.

#### d. Continuing Enrollment Measurement and Ten Day Rule Compliance

**Criteria:** Utah Administrative Code R277-419-5.A(2) Student Membership (effective July 8, 2015) states:

An LEA shall use one of the following continuing enrollment measurements:

- (a) For a student primarily enrolled in a face-to-face learning program, the LEA may not count a student as an eligible student if the eligible student has unexcused absences during all of the prior ten consecutive days.

**Condition:** Of the 61 student exits reviewed, there were two instances where a student was not exited for membership purposes after being absent for ten days.

**Cause:** High staff turnover in student withdrawal process positions. High transfer rate of students may have also been a factor.

**Effect:** Membership, and funds allocated to the schools based on membership, may be overstated. Discrepancies or inaccuracies in the school or state student record tracking system may also exist, which may impact student outcomes.

**Recommendation:** The LEA should employ appropriate strategic human resource planning to address high turnover and develop and implement policies and procedures to ensure membership is accurately tracked and adjusted.

e. Official Records and Coding and Documentation of Student Status

**Criteria:** Utah Administrative Code R277-419-4.B(1) Minimum School Days, LEA Records, and Audits (effective July 8, 2015) requires:

A local education agency (LEA) maintain official records that clearly and accurately show for each student, several things, including the exit date.

Utah Administrative Code R277-484-3 Deadlines for Data Submission states:

“For the purpose of submission of student level data, each Utah LEA shall participate in UTREx.” UTREx includes exit codes and other information that is uploaded from an LEAs student information system.

**Condition:** Of the 61 student exits reviewed, we noted:

- 11 instances where a student was exited with an incorrect code in the student information system, and
- 17 instances where a student did not have a completed withdrawal form.

**Cause:** Lack of LEA policies and procedures (i.e., internal controls) governing the withdrawal process.

**Effect:** Membership, and funds allocated to the schools based on membership, may be overstated. Discrepancies or inaccuracies in the school or state student record tracking system may also exist, which may impact student outcomes.

**Recommendation:** The LEA should develop and implement policies and procedures to ensure student membership will be accurately reflected in the student information system and that the student exit status is appropriately coded. All appropriate staff should be regularly trained on the policies and procedures.

## IV. Management Response

See Appendix A

## V. Auditor’s Concluding Remarks

See Appendix B

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December 14, 2016

**VIA EMAIL AND FIRST CLASS MAIL**

State Board Audit Committee  
Utah State Board of Education  
250 East 500 South  
Salt Lake City, UT 84114

**Re: Management Response to November 30, 2016 Audit Letter**

Dear Mr. Thomas:

I write this letter in response to your November 30, 2016 letter addressed to the Granite School District (the District) Board of Education (GSD Board). Attached to the letter, you sent a draft copy of the audit report bearing the same date (Report). That Report summarizes audit findings regarding GSD's "funding allocations and use of funds as well as student membership." The report is divided into five sections. Each section contains the standards articulated in Utah State statute or Utah State Board of Education (State Board) Rules (State Board Rules), the observations of the Utah State Board of Education Audit Committee (Committee), the cause and potential effects of a finding, and a recommendation made by the Committee. I respond to each of the five findings and the respective recommendations in turn.

**A. MINIMUM SCHOOL DAYS**

1. Finding and Recommendation

The Committee found the District did not provide sufficient oversight and appropriate internal controls to ensure compliance with required instructional hours and school days. District elementary schools count part of the lunch period toward the school day/instructional hours calculation causing a deficit of instructional time on early-release/planning days. The Committee acknowledged ambiguity in the State Board Rules regarding the calculation criteria for school days and hours.

2. Response

The District agrees with the findings and recommendations. The rule defines a “school day” as a two-hour session (minimum) for kindergarten, and a four-hour-session (minimum) for grades one through twelve. The rule further states, “All school-day calculations shall exclude lunch periods and pass time between classes but may include recess periods that include organization or instruction from school staff.” (Utah Administrative Code, R277-419(b)).

For decades, the District has counted lunch recess, in addition to morning and afternoon recess, as instructional time. If lunch recess is applied to the calculation the District would be compliant for grades one through six. The District fully acknowledges, however, that an agency has authority to interpret its own rules, and the District will make corrections to its schedule. The District will add five minutes of instructional time to Kindergarten and ten minutes of instructional time to grades one through six on early-release/planning days starting second semester to meet the minimum time requirements and bring all schools into compliance.

**B. INTERNAL CONTROLS OVER EXPENDITURES**

1. Finding and Recommendation

Of 16 reimbursements reviewed, the Committee found two discrepancies. The first consisted of two pay vouchers that were missing signatures totaling \$18.05. The second discrepancy involved a transaction totaling \$1,159.05 that did not have appropriate procurement documentation (i.e., two quotes) and included three receipts from two stores.

2. Response

The District agrees with the findings and recommendations. The two pay vouchers in question were signed by the principal at Hartvigsen Special Education School. Those vouchers should have been approved by the Special Education program director according to District policy. The District will strengthen its internal controls to identify and obtain missing approvals prior to processing payment.

The District also agrees with the finding regarding the insufficient procurement documentation, but the District would like to note the practical difficulty of complying with the procurement code on this narrow issue. Because membership fees are required at warehouse, membership-based retailers like Costco, schools are encouraged to maintain

only one membership. Further, the products are purchased in bulk quantities and in proprietary packaging that is highly convenient for schools. Moreover, in instances where schools maintain more than one membership, many specialized products are not sold by both stores, and not all of their products are available on their websites. For these reasons, obtaining useful comparisons is not always possible.

In this particular instance, the transactions in question were made in two warehouse, membership-based stores and the principal should have obtained appropriate quote comparisons. However, the second transaction at Sam's Club occurred because the needed items were not available from Costco. The third transaction occurred because some items were forgotten in the initial Costco purchase. While these explanations do not absolve the principal of her obligations, the explanations illustrate the difficulty of following procurement rules in this narrow circumstance. The District is reviewing its fiscal policy to determine how to best handle procuring from warehouse stores as their business structure is unique.

## **C. ALLOWABLE COSTS AND ACTIVITIES**

### **1. Finding and Recommendation**

Two audited transactions totaling \$2,715.05 out of 47 were improperly charged to state special education funding sources.

### **2. Response**

The District does not agree with part of this finding. Some of the funds identified in this finding are the same funds discussed in the previous finding (\$1,159.05). The principal of Hartvigsen purchased food items for the 2014-15 Extended School Year (ESY) program. ESY serves 185 students during a 15-day program in June, July, and August each year. The program serves students with severe disabilities from Pre-K to 12<sup>th</sup> grade. The program focuses on students' IEP goals including pre-academic and basic academic skills, communication skills, independence skills, and social skills. Edible items such as goldfish crackers, fruit snacks, M&M's, and trail mix are used for basic mathematics instruction and tactile, fine motor (pincer grasp), sorting, and other kinesthetic skills. The food provides a tangible, immediate reward for students that incentivizes learning. The food is also used to initiate communication such as: "I want," "I can wait," "more please," "I am hungry," "my turn," and "thank you." Students are also taught vocabulary and basic sign language using the food. The money spent equated to approximately \$.42 per day, per student, none of the food is used for any other purposes, and the food helps teachers meet the objectives of the ESY program.

As for the remaining amount spent on printing and laminating yearbooks, the District agrees with finding. \$1,556.00 was originally charged to the same ESY account by mistake. This mistake was caught by the Special Education Department as it reviewed the accounts to be audited. The expense was corrected by Journal Entry 161276 on June 30, 2016. Those expenses were moved to the school's supply account 21-048-16-2870-1000-0610-000. The District will provide additional training to principals and bookkeepers to charge expenses to the correct account and strengthen internal controls of authorization at the District level.

**D. CONTINUING ENROLLMENT MEASUREMENT AND TEN-DAY RULE**

1. Finding and Recommendation

Two of 61 students were not properly exited for membership purposes after being absent for ten days.

2. Response

The District agrees with this finding. By way of explanation, however, many students in the District leave the school without notice and the schools never receive information about where students end up. Additionally, many students leave the country with their families to renew visas. Visa renewal is typically required each year. Students often go home during the holidays and stay longer than ten days. Schools have difficulty tracking these students if the schools are not familiar with the family or their need to renew visas annually. Indeed, schools are not permitted by the Department of Justice and the Department of Homeland Security to question families about immigration status.

In this instance, the two students left the country with their families and were not properly exited from the school. This documentation has been corrected and the District has already put measures in place to track students better without inquiring about immigration status. Schools will ask parents how long they plan for a student to be absent and exit paperwork will be completed upon the student's tenth absence.

**E. OFFICIAL RECORDS AND CODING AND DOCUMENTATION OF STUDENT STATUS**

1. Finding and Recommendation

Of the same 61 students referenced in the previous finding, 11 students were exited with an incorrect code and 17 students did not have completed withdrawal forms.

2. Response

The District agrees with this finding, but similar to the previous finding, the majority of the 61 students identified were part of families that departed without notice and/or left the country to renew visas. Again, to remedy this issue, schools will fill out documentation to the extent possible as soon as it suspects students will leave the state or the country. Schools will not ask families about immigration status, but schools will try to keep communication lines open with families so documentation can be filled out as accurately as possible. After ten days, schools will automatically submit exit paperwork regardless of whether the school expects the student back.

The District hopes this response is helpful to the Committee in completing its final draft of the Report. The District would like to reiterate that the audit was conducted in a professional, collaborative, and respectful manner, which was highly appreciated. We hope the information will be useful to the Committee in conducting future audits and making recommendations on changes to State Board Rules. The District will gladly make the corrections needed for compliance. Finally, if there are additional questions or concerns the District can address, the Committee is always welcome to reach out to District personnel.

Sincerely,



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Martin Bates  
Superintendent, Granite School District



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Terry Bawden  
President, Granite School District Board of Education

C: David Garrett, Business Administrator, Granite School District  
John Welburn; Assistant Superintendent, Granite School District

## **APPENDIX B – Auditor’s Concluding Remarks**

The following is a concluding remark to the response to finding c. Allowable Costs and Activities, issued by the Granite School District found in Appendix A.

Allowable costs and activities inherently include a consideration of reasonableness and necessity. Therefore, USBE Internal Audit Department questioned if purchases of “goldfish crackers, fruit snacks, M&M’s, and trail mix” *in their quantities* were necessary for the program objectives. The USBE Internal Audit Department recognizes there is some discretion in making these decisions, but urges caution in using limited public education funds on items that do not appear necessary and may not be the most prudent use while achieving successful student outcomes.

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