

Audit Brief – LEA Audit (Davis)

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:

- Safeguarding Non-capital Assets
- Allowable Costs and Activities and Use of Public Funds
- Internal Controls over Purchases
- Use of School's Tax Exempt Number

Though there were several reasons for the findings above, it appears the most common reasons were insufficient policy and procedure and inadequate internal controls. The impact of the concerns varies, but of note there is a potential impact on student achievement and an increased risk of fraud, waste and abuse of public education funds.

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 the audit brought to light areas in which they can improve policies and practices and they appreciated the professionalism in conducting the audit.

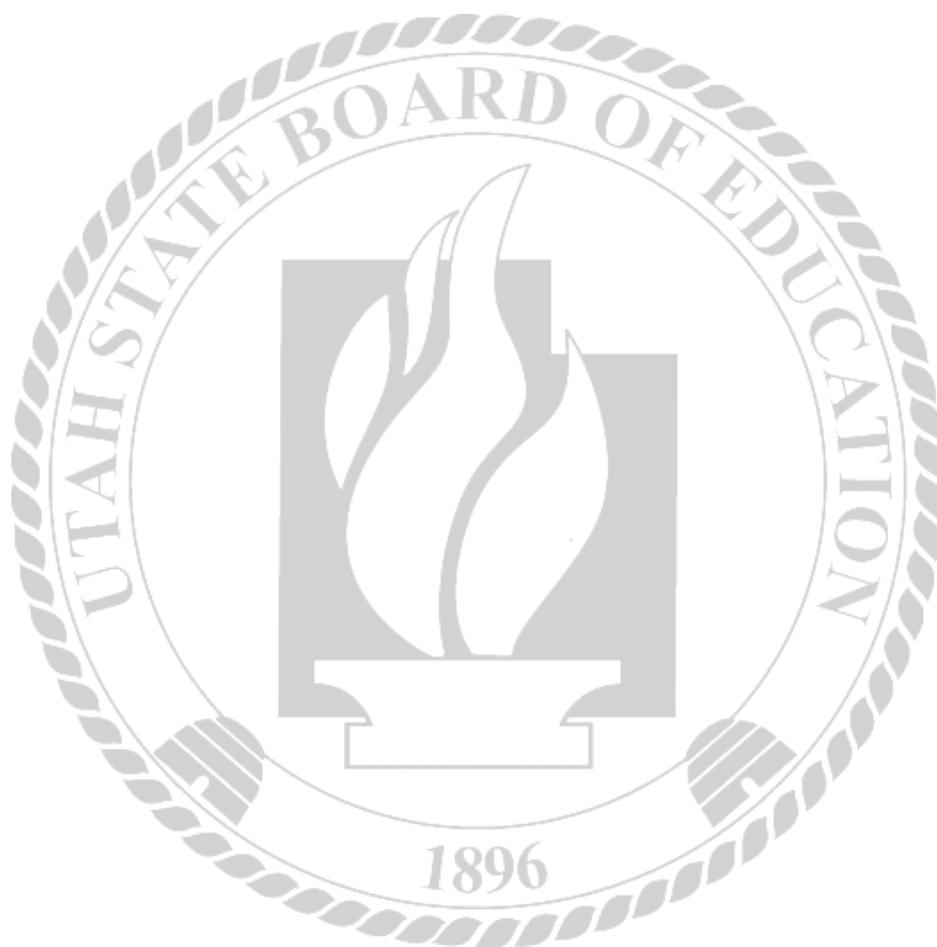
Auditor Concluding Remarks:

The District should consider risks associated with non-capital assets; they should also carefully consider the use of public education funds on items that do not appear necessary, may not be of the highest priority, or the most prudent use of funds in achieving successful student outcomes.

Utah State Board of Education

16-03.C

DAVIS SCHOOL DISTRICT



USBE Internal Audit Department

04/14/2017

John Robison, President

And

Davis School District Board Members
Board of Education, Davis School District
45 E. State Street, PO Box 588
Farmington, UT 84025-0588

Dear President Robison and Davis 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 Davis 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 2016. 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 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 black ink that reads "Deborah Davis". The signature is written in a cursive style and is positioned above the typed name and title.

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
Reid Newey, Superintendent, Davis 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 were identified in the areas listed below with recommendations for corrective action. Per auditor judgement, 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 on how to resolve it (i.e., the cause)?

a. Safeguarding Non-capital Assets

Criteria: 2014-2015 Davis County Youth in Custody Annual Budget Application states:

Program Assurances

4) The grantee will operate in compliance with all federal rules, regulations, and state guidelines, maintaining effective control over, and accountability for all grant funds, property, and other assets or, if that is not feasible, will transfer title over to the Utah State Office of Education-Youth in Custody Program. Grantees shall adequately safeguard all property and assets and shall assure that they are used solely for authorized Youth in Custody program purposes.

6) The grantee assures that receipts and expenditures of all funds associated with the Youth in Custody program will be documented and accounted for, and available for review as required by the USOE.

R277-113-4. LEA Responsibilities states:

C. Each LEA board shall designate board members to serve on an audit or finance committee, consistent with Section 53A-30-102(1). The LEA audit or finance committee has the following responsibilities:

(3) ensure that the LEA management properly develops and adheres to a sound system of documented internal controls consistent with the requirements of R277-113-5.

Condition: During a review of 13 televisions purchased for the Youth in Custody program, we noted:

- 1) At one location, the initial list of televisions provided by the LEA was incomplete and inaccurate; the initial records did not list serial numbers for seven televisions.
- 2) At another location, the list of televisions was also inaccurate; and we could not account for two of the televisions on the list.

Cause: Lack of oversight, including establishing and implementing policies and procedures to safeguard the program's non-capital assets.

Effect: Increased risk of non-compliance with applicable rules and regulations, waste and abuse of public funds, and poor public perception of fiscal accountability.

Recommendation: The LEA was very responsive in addressing these concerns when they were identified and later located the two televisions identified in 2) above. However, to ensure appropriate safeguarding of non-capital assets the LEA should consider establishing policies and procedures (i.e., internal controls) to ensure that assets are accounted for. Also, staff should be trained on the policies and procedures.

b. Allowable Costs and Activities and Use of Public Education Funds

Criteria: Utah Special Education Rules (2013), XA-8 Allocation of State of Revenues for Programs for Students with Disabilities states:

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.

2014-2015 Youth in Custody Application states:

2) The Grantee assures that funds will only be expended on eligible activities as outlined in the application.

Davis School District Policy and Procedures/Davis Educators' Agreement (8DA)/Davis School District Employee Code of Ethics states:

(11) Use facilities and equipment in a manner that protects the resources and property of the District.

(12) Protect District assets and financial resources by following accepted accounting practices and District policy.

Condition: 17 of the 76 (22%) transactions reviewed, totaling \$1,874.43 are questionable costs to the state program they were charged to, including:

- \$206.44 to Youth in Custody for snacks, candy, a counselor social, etc.,
- \$3,632.90 to district Special Education for televisions, an annual breakfast, candy, etc., and
- \$832.36 school Special Education for tickets to Lagoon, pizza, candy, etc.

While reviewing Youth in Custody documentation we identified an additional \$438.54 in expenses, not included in the transactions selected for testwork above, which are also questioned.

Cause: Lack of specific procedures and internal controls, and monitoring of internal controls, to ensure restricted funds are spent only on reasonable and allowable costs; lack of training for staff may also have been a factor.

Effect: Increased risk of fraud, waste, and abuse of public education funds, which could impact student outcomes for specific student populations.

Recommendation: The LEA should strengthen internal controls (i.e., documentation and approval) over the expenditure process to ensure the expenditures are reasonable and appropriate for the funding source.

c. [Internal Controls over Purchases](#)

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

The LEA expenditure policy includes 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).

Davis School District Policy and Procedures, 6F-103 Purchase Policy states:

6. GENERAL PROCUREMENT POLICIES, 6.1. Prior Approval Required to Commit Funds

All anticipated transactions that could result in a commitment of District funds shall be approved by the principal/director prior to making any purchasing arrangements.

11. PURCHASING AND TRAVEL CARDS

11.4 Purchases made by way of Cards shall be pre-approved by the principal/director or designee and subsequently reviewed by the same and reconciled upon posting.

Condition: Two transactions (3%), totaling \$457.46, out of the 76 transactions reviewed for proper procurement, contained approval dates that were after the actual date of purchase. We also noted 14 special education transactions totaling \$848.16 that did not include the required Director's approval.

Cause: Internal controls operating ineffectively and inconsistently.

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

Recommendation: The LEA should strengthen their policies and procedures, revising them as necessary, to ensure they are comprehensive and consistent; all procurement methods should be considered. Staff should be regularly trained on policies and procedures to help ensure operating effectiveness.

d. Use of School's Tax Exempt Number

Criteria: Utah Administrative Code R277 113-5 Required LEA Fiscal Policies states:

C. LEA fiscal policies shall address the following:

(2) Expenditure of Public Funds: The LEA expenditure policy shall address expenditures made by checks, electronic transfers and credit/purchase cards that are made by the LEA and individual public schools through school sponsored activities and shall include:

(b) directives regarding the appropriate use of the LEA tax exempt status number

Utah Tax Commission Publication 35, Sales Tax Information for Public and Private Elementary and Secondary Schools states:

Utah law provides for a sales tax exemption on sales or rentals to a public school. To qualify as a sale made to a public school, the purchase must be made with the public funds.

Condition: The LEA's fiscal policies and procedures do not provide directives regarding the appropriate use of the LEA's tax exempt status number.

Cause: Lack of oversight by the LEA Board and administration to ensure proper design and implementation of policies and procedures.

Effect: Increased risk of waste and abuse of public education funds; specifically, we identified that a teacher was reimbursed for the total amount from a receipt including the taxes of \$14.81.

Recommendation: The LEA should establish and implement policies and procedures (i.e., internal controls) to ensure they are compliant with state regulations, including directives regarding use of the LEA's tax exempt status number, which will maximize the use of public education funds for student outcomes rather than taxes. All staff should be trained on the policy and associated procedures.

Appendix A



Davis School District

Established 1911

Reid P. Newey, Superintendent

Learning First!

March 15, 2017

Dear Audit Committee Utah State Board of Education:

We have received the final report from your internal audit department in regards to the use of funds and student membership for the period of July 2014 through June 2016. We appreciate the work of your staff and their professionalism in conducting the audit. Several of their comments have brought to light areas in which we can improve policies and practices in our District. We would like to take this opportunity to address the findings and recommendation provided by your staff.

Finding #1

During a review of 13 televisions purchased for the Youth in Custody program, the initial list of locations was incomplete and inaccurate and did not have a complete list of serial numbers. Two televisions on the list could not initially be located.

Management Response

Upon inquiry of the school technology specialist who works with this equipment, all televisions were located and properly accounted for. As suggested by both Federal and USBE guidelines, our inventory tracking level is \$5,000. Because televisions fall below this threshold, they are not part of the formal tracking system. Safeguarding all assets is important to us and we work diligently to ensure assets are properly used and maintained. Although specific lists are not maintained for these items, program and building supervisors are responsible for such equipment and their proper use.

Finding #2

17 of 76 transactions tested, totaling \$4,671.70, are questionable costs to the State program to which they were charged.

Management Response

We have reviewed the questioned transactions with our program directors. Two items noted were a \$40 reimbursement for a counselor social out of youth in custody funds and \$80.66 for an annual special education breakfast. Although we encourage departments to occasionally celebrate successes throughout the year, we concur and will use a different source of funding for

these items in the future. The following explanation is provided for the balance of these potentially question costs:

Snacks, Games & Candy (\$733.94): Per discussion with our directors, these items are used as incentives and rewards for the students in that program. During the exit conference with the USBE internal audit staff, it was discussed that perhaps these incentives and rewards were purchased in excess. While we are not aware of any standard to define "excess", we believe our teachers and directors are providing these incentives to help students accomplish their objectives and goals. Nevertheless, we understand that excessive food and snacks would be an undesirable use of funds and will discuss the subject with our directors and teachers.

Lagoon tickets (\$667.62): Per discussion with our special education director, these tickets were for self-contained students. The Lagoon day is part of their educational experience; partly as a reward and partly as an experience in the community. This day is used to instruct students on proper behaviors in this type of atmosphere, demonstrating access in public environments and to reward them for reaching educational and physical goals. We feel based on the structure and activities of this day, funds are used appropriately.

Meals at teacher working meeting (\$349.50): This meeting during a lunch period was used to discuss specific students and their progress toward instructional objectives. Although we avoid purchasing meals for staff, at times it becomes necessary to accommodate the schedules of teacher and needs of students. We understand the concern and will continue to avoid purchasing meals for staff.

2 smart TVs (\$2,799.98): These televisions are used within 2 conference rooms located in the special education department. Our District often uses televisions in place of mounted projectors as they are cheaper and easier to move. Because they are located within the special education department, use by other District departments is negligible.

Finding #3

Two transactions out of 76 reviewed for proper procurement contained approval dates after the date of purchase. Also, 14 special education transactions did not include required Director's approval.

Management response

Based on our current policy which states that all transactions are to be pre-approved, we concur with this finding. Most of these transactions were on District approved P-cards which are approved after-the-fact by appropriate personnel. We are currently amending our purchasing policy to reflect this practice.

Finding #4

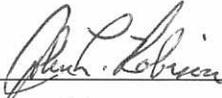
The LEA's fiscal policies and procedures do not provide directives regarding the appropriate use of the LEA's tax exempt status number.

Management Response

Although it is our practice to avoid paying sales tax whenever possible, we do not have a policy specifically stating such. We are adding this language into our purchasing policy which will be amended in the next few months.

We appreciate the efforts of the State Board in helping us maintain compliance with State and Federal regulations. We will continue to examine our internal controls and policies as well as provide training to appropriate personnel in these areas. If you have any additional questions, please feel free to contact us at 801-402-5234, we will be happy to respond.

Sincerely,



John L. Robison
Board President

APPENDIX B – Auditor’s Concluding Remarks

The following are concluding remarks to the response provided by Davis School District (the District) found in Appendix A.

Finding a: Safeguarding Non-capital Assets

The USBE Internal Audit Department acknowledges that the District was eventually able to account for all televisions and that the threshold for capital assets is \$5,000. However, non-capital assets also constitute an area of risk to the District as noted in the audit; therefore, the District should consider implementing internal controls to mitigate the risk.

Finding b: Allowable Costs and Activities and Use of Public Funds

Allowable costs and activities inherently include a consideration of reasonableness *and* necessity. Therefore, the USBE Internal Audit Department questions if purchases for snacks, games, candy, meals, and tickets to Lagoon were necessary incentives to reach the program objectives. The USBE Internal Audit Department recognizes there is 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 highest priority and most prudent use of funds to achieve successful student outcomes.

The nature of restricted funds is that they are used for the specific purpose for which they are outlined. Therefore, regarding the televisions purchased with restricted funds, because they are used by others to some extent they should have been purchased with unrestricted funds to ensure the restricted funds were used only for the specific program for which they were intended.
