

Audit Brief – LEA Audit (Athenian)

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 and 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:

- Minimum School Days
- Official Records and Coding of Student Status
- Procurement
- Internal Controls
- Allowable Costs and Activities

Though there were several reasons for the findings above, it appears the most common reason was lack of oversight and internal controls. The impact of the concerns is generally increased risk of fraud, waste and abuse of public education funds and potentially student outcomes.

Internal Audit Recommendations:

- Ensure appropriate governance by establishing policies, procedures, and internal controls and ensuring they are operating effectively.
- Train staff on policies, procedures, and internal controls to ensure proper implementation.

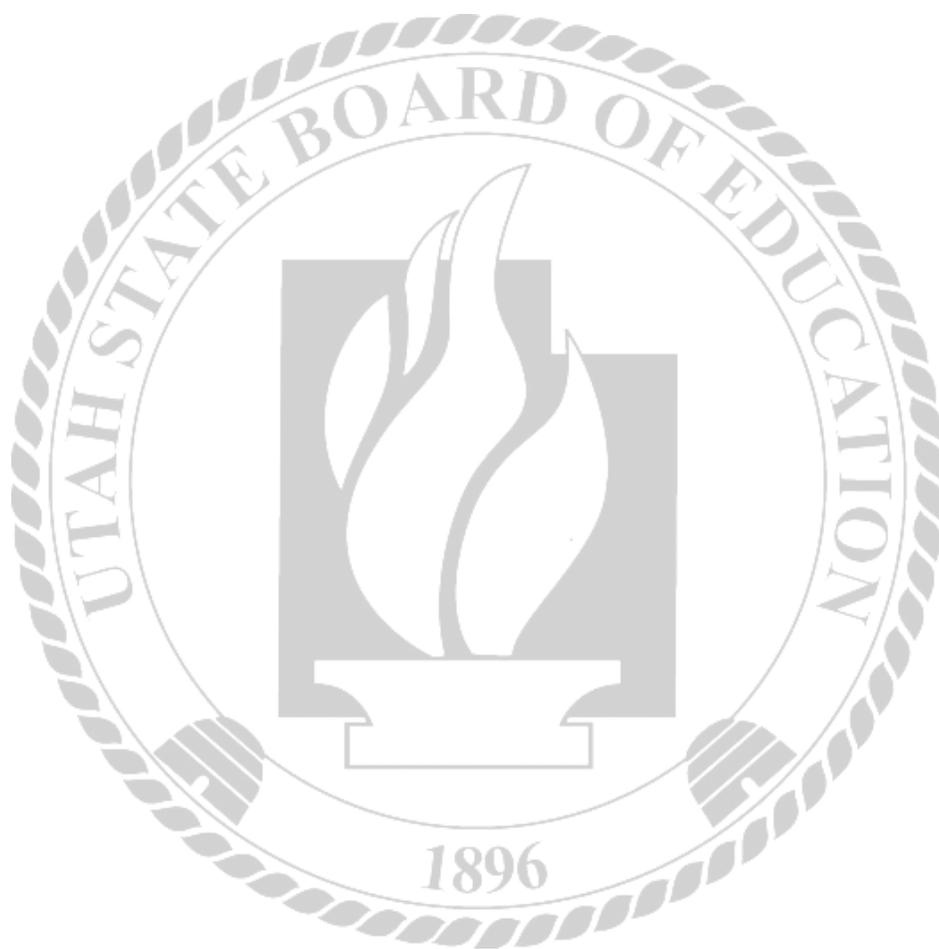
Management Response:

The LEA responded that they will better implement continuous policies and procedures monitoring to ensure compliance with regulations and overall operating effectiveness.

Utah State Board of Education

16-03.H

ATHENIAN ACADEMY



USBE Internal Audit Department

04/14/2017

Brett Nielsen, Chair

And

Athenian eAcademy Board Members

Athenian eAcademy

765 East 340 South, Suite 203

American Fork, UT 84003

Dear Chair Nielsen and Athenian eAcademy 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 Athenian eAcademy (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 2016, 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
Members of the Utah State Charter School Board
Matt Throckmorton, CEO, Athenian eAcademy

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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. 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.

(b) an LEA may seek an exception to the number of school days described in Subsection (1)(a) for an individual student or school as provided for in Section R277-419-11.

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.

Condition: The LEA is currently only providing 936 instructional hours for students within 180 school days.

Cause: The LEA did not establish appropriate internal controls to ensure compliance with required instructional hours.

Effect: Increased risk of students not achieving successful outcomes and potential waste and abuse of public education funds.

Recommendation: We acknowledge the school personnel were very responsive as we discussed this concern with them and they are working on corrective action. The LEA Board and administration should ensure compliance with school days and instructional hour's requirements through proper oversight and internal controls (i.e., policies, procedures, and training).

b. Official Records and Coding of Student Status

Criteria: Utah Administrative Code R277-419-4.B(1) Minimum School Days, LEA records, and Audits (Effective July 8, 2015) requires that a local education agency (LEA) maintain official student records that clearly and accurately show for each student, several things, including the entry date, exit date, and whether or not an absence was excused.

Utah Administrative Code R277-472-5.B Application Procedures for Students Entering and Exiting Charter Schools states:

Each charter school shall develop and post admission procedures for the charter school including: (6) a readily accessible transfer form.

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

For the purpose of submission of student level data, each Utah LEA shall participate in UTREx (Utah eTranscript and Record Exchange). UTREx includes student exit codes.

Utah Administrative Code R277-419-1 Pupil Accounting Definitions (Effective July 8, 2015) states:

M. “Enrollment Verification data” includes: (1) a student’s birth certificate or other verification of age”

Utah Code 53A-1a-506.5(6) Charter school students – Admission procedures – transfers states:

Unless provisions have previously been made for enrollment in another school, a charter school releasing a student from enrollment during a school year shall immediately notify the school district of residence, which shall enroll the student in the school district of residence and take additional steps as may be necessary to ensure compliance with laws governing school attendance.

Utah Code 53A-11-102(2)(a) Compulsory Education requirements states:

A local school board shall excuse a school-age minor from attendance, if the school-aged minor’s parent files a signed and notarized affidavit with the school-age minor’s school district of residence.

Condition: For 25 students we noted the following related to records and student status:

- Transfer documentation for all students selected for review was not available,
- Twelve students were exited from the school with an incorrect code,
- Five students transferring out to be home-schooled did not have home school affidavits filed with their respective school districts of residence,
- One student did not have a birth certificate on file at the school

Cause: Lack of LEA policies and procedures (i.e., internal controls) governing the student withdrawal process, including notifying a school district of residence regarding homeschool transfers; lack of staff training was also a factor.

Effect: Membership, and funds allocated to the LEA 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 and reporting.

Recommendation: The LEA should develop and implement policies and procedures (i.e., internal controls) to ensure:

- Student membership will be accurately reflected in the student information system,
- Student exit status is appropriately coded.
- School districts of residence are immediately notified when students transfer to homeschool.
- Student enrollment verification data is appropriately maintained.

Additionally, LEA staff should be regularly trained on the policies and procedures.

c. Procurement

Criteria: Athenian Charter Application Procurement/Purchasing Policies

1. The school will select the best value by obtaining three written quotes for items greater than \$1,000 and less than \$50,000.
2. A formal bid process will be used for items greater than \$50,000, in which three bids will be received and evaluated using a formal evaluation process.
3. All purchases must comply with Utah Code section 63G-6 and with Administrative Rule R33.
 - a. 63G-6a-802-2(a) - Sole source procurement.
 - i. 2) The division or a procurement unit with independent procurement authority may award a contract for a procurement item without competition if the procurement officer... determines in writing that:
 1. there is only one source for the procurement item;
 - b. 63G-6a-802-4(a) - Notice of a sole source procurement
 - i. (4)(a) Subject to Subsection (4)(b), the applicable rulemaking authority shall make rules regarding the publication of notice for a sole source procurement that, at a minimum, require publication of notice of a sole source procurement, in accordance with Section 63G-6a-406, if the cost of the procurement exceeds \$50,000.
 - c. R33-5-107 - Quotes for Small Purchases from \$1,001 to \$50,000
 - i. (1) For procurement item(s) where the cost is greater than \$1,000 but up to a maximum of \$5,000, a procurement unit shall obtain a minimum of two competitive quotes that include minimum specifications and shall purchase the procurement item from the responsible vendor offering the lowest quote that meets the specifications.
 - ii. (2) For procurement item(s) where the cost is greater than \$5,000 up to a maximum of \$50,000, a procurement unit with independent procurement authority ... shall obtain a minimum of two competitive quotes that include minimum specifications and shall purchase the procurement item from the responsible vendor offering the lowest quote that meets the specifications.
 - iii. (3) For procurement item(s) costing over \$50,000, a procurement unit with independent procurement authority... shall conduct an invitation for bids or other procurement process outlined in the Utah Procurement Code.
 - d. R33-5-108 - Small Purchases of Professional Service Providers and Consultants.
 - i. The small purchase threshold for professional service providers and consultants is a maximum amount of \$100,000.
 - ii. (2) After reviewing the qualifications of a minimum of two professional service providers or consultants, the chief procurement officer, or as applicable, the head of a procurement unit with independent procurement authority, may obtain professional services or consulting services:
 - iii. (a) up to a maximum of \$50,000 by direct negotiation; or
(b) Over \$50,000 up to a maximum of \$100,000 by obtaining a minimum of two quotes.

4. Athenian will execute a Purchase Order for all purchases over \$1000 and it shall be approved by the Board Treasurer for purchases less than \$25,000 and by the Board of Trustees for purchases greater than \$25,000.

Condition: Nine of 45 (20%) non-payroll transactions, totaling \$32,035.25 violated one or more rules/policies related to procurement, including competitive bidding requirements, required use of a purchase order, and required approvals.

Cause: Lack of consistency between procurement requirements in LEA policies and procedures and the policies and procedures outlined in the LEAs founding documents. Lack of governance ensuring appropriate training of staff and effectively operating internal controls also appears to be a factor.

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

Recommendation: The LEA should review their procurement policies and procedures. and ensure they are comprehensive, consistent, and operating effectively. Staff should be regularly trained on policies and procedures.

d. Internal Controls

Criteria: Athenian Charter Application

- Accounts Payable – Only valid accounts payable transactions based on documented vendor invoices, receiving reports, or other approved documentation are recorded as accounts payable.
- Payroll - Employee's time is properly approved by both the individual and the supervisor and reported to the Business Office or designated representative.
- Mileage - All employees requesting such mileage reimbursement are required to furnish a Travel Report containing the destination of each trip, its purpose and the miles driven, parking fees and tolls, within 30 days after the travel date. Each employee is responsible for detailing the travel and related expenses and including the required supporting documentation. The travel report must be signed by the employee and approved by their direct supervisor.
- Use of School Cards (Debit, etc.) - All charges must be supported by invoices or travel reports to be eligible for payment by Athenian eAcademy. Monthly credit card statements are reconciled to invoices and travel reports and are approved by Athenian eAcademy Director or Business Manager.

Athenian eAcademy Travel Policy - Travel of more than 100 miles:

Mileage is calculated from Charter Academy's primary facility or traveler's starting location, whichever is shorter, to the destination and back, using Google Maps or MapQuest as verification. Reimbursement will be made using the following mileage calculations at \$.335 per mile.

Athenian eAcademy Finance Policy - Out of State Travel:

Employees who travel out of state travel with itineraries booked through school administration, except as otherwise approved. Under certain circumstances, employees may be required to use a personal credit card for hotel and/or vehicle rental. Employees may not use public funds to pay for (or submit for reimbursement) personal expenses while traveling for the school. (Pg. 15 Finance Policy RH-02)

Utah Administrative Code R277-481-3 State Charter School Board Oversight, Minimum Standards and Consequences, states:

B(4) Charter schools shall have all teachers properly licensed and endorsed for teaching assignments in CACTUS

Condition: We noted the following while reviewing a selection of transactions:

- Eight transactions totaling \$4,213.77, lack documentation, have insufficient documentation, and/or lack adequate authorization.
- One transaction included \$699 for paid time off that was charged to a general expense account rather than the payroll account.
- Seventy-five employees receiving \$20 each as a cash gift that was not appropriately included in payroll.
- Seven transactions totaling \$4,250 did not comply with travel policies.
- Five educators were not appropriately included in CACTUS (Comprehensive Administration of Credentials for Teachers in Utah Schools).

For internal control concerns specific to procurement, see finding d. Procurement.

Cause: Lack of governance and oversight by LEA or school fiscal administrators when processing and approving transactions; lack of staff training and lack of specific procedures (i.e., internal controls) may also be a factor.

Effect: Increased risk of fraud, waste, and abuse of public education funds and increased liability related to potential noncompliance with IRS regulations associated with payroll. Additionally, not appropriately tracking teacher licensing status could impact school status with their authorizer and student outcomes.

Recommendation: The LEA should review their policies and procedures, in both the charter application and LEA policy and procedure manuals, and ensure they are comprehensive, consistent, and operating effectively. Staff should be regularly trained on policies and procedures.

e. Allowable Costs and Activities

Criteria: Utah Special Education Rules (2013) states:

XA-8 Allocation of State 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 cost 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.

Condition: Four of 19 non-payroll transactions charged to restricted special education funds included expenditures that were not allowable; the questionable charges total \$656.78.

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 also have been a factor.

Effect: Increased risk of fraud, waste, and abuse of public education funds, specifically those restricted to special education, which could ultimately impact student outcomes.

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 based on the funding source.

APPENDIX A



March 28, 2017

To Whom It May Concern,

Athenian eAcademy and its administration team thank you for the time taken to assist us throughout the audit process. Your auditors were extremely helpful and considerate. The following is the management response to items discussed in the conference and included in the preliminary report:

In response to the items discussed in the exit conference, Athenian will better implement continuous policy and procedures monitoring to ensure compliance with the State of Utah Procurement Code and overall operating effectiveness.

We will also, moving forward, require Spedco, our SpEd service provider, to provide more descriptive invoices that specify the services provided in detail, along with the corresponding rates and hours. This will allow better determination for proper expense coding.

Other items discussed, such as records of public meetings, were incident to start up and the inconsistencies before policies and procedures were established. These were quickly remedied after the first year start up in the fall of 2015, as policies and procedures were then instigated and followed.

Again, we thank you for your consideration and help in assisting Athenian through the audit process. We were able to glean much from our meetings with the auditors and will implement their recommendations and requests.

Kindest Regards,



Matt Throckmorton
Ex Officio Board Member,
CEO, & Founder

Athenian eAcademy
765 East 340 South Suite 203
American Fork, UT 84003