

# Utah State Board of Education – Audit Brief 2015

## Report 15-04A DSBVI Trust Funds

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**Objective and Scope:** This report addresses risks and allegations received regarding policies and procedures for and appropriate use of trust funds administered by the Division of Services for the Blind and Visually Impaired (DSBVI).

### **Background:**

For financial purposes, all donations to DSBVI trust funds are tracked in one fund in the general ledger system; 2355 Visually Impaired Fund. Within that fund there are several units that are used to track donations based on various donor or division criteria; the two main sub-funds being a General Trust Fund and the Peterson Trust fund.

### **Lack of Policies and Procedures Governing DSBVI Trust Funds**

DSBVI does not have adequate policies and procedures governing the use of the various trust funds.

### **Internal Control Weaknesses Related to DSBVI Trust Funds**

A review of transactions in state fiscal years 2014 and 2015 (through October 2014) indicated the following:

- 1) Unallowable Activities in the Peterson Fund – funds of approximately \$1,084 were used for items other than covering an economic benefit of a needy blind or visually impaired individual.
- 2) Inadequate Approval of Transaction – one check was signed by only one individual rather than the two required.
- 3) Inadequate Separation of Duties for the General Trust – the reconciliation of these items should be from DSBVI documentation to the system.

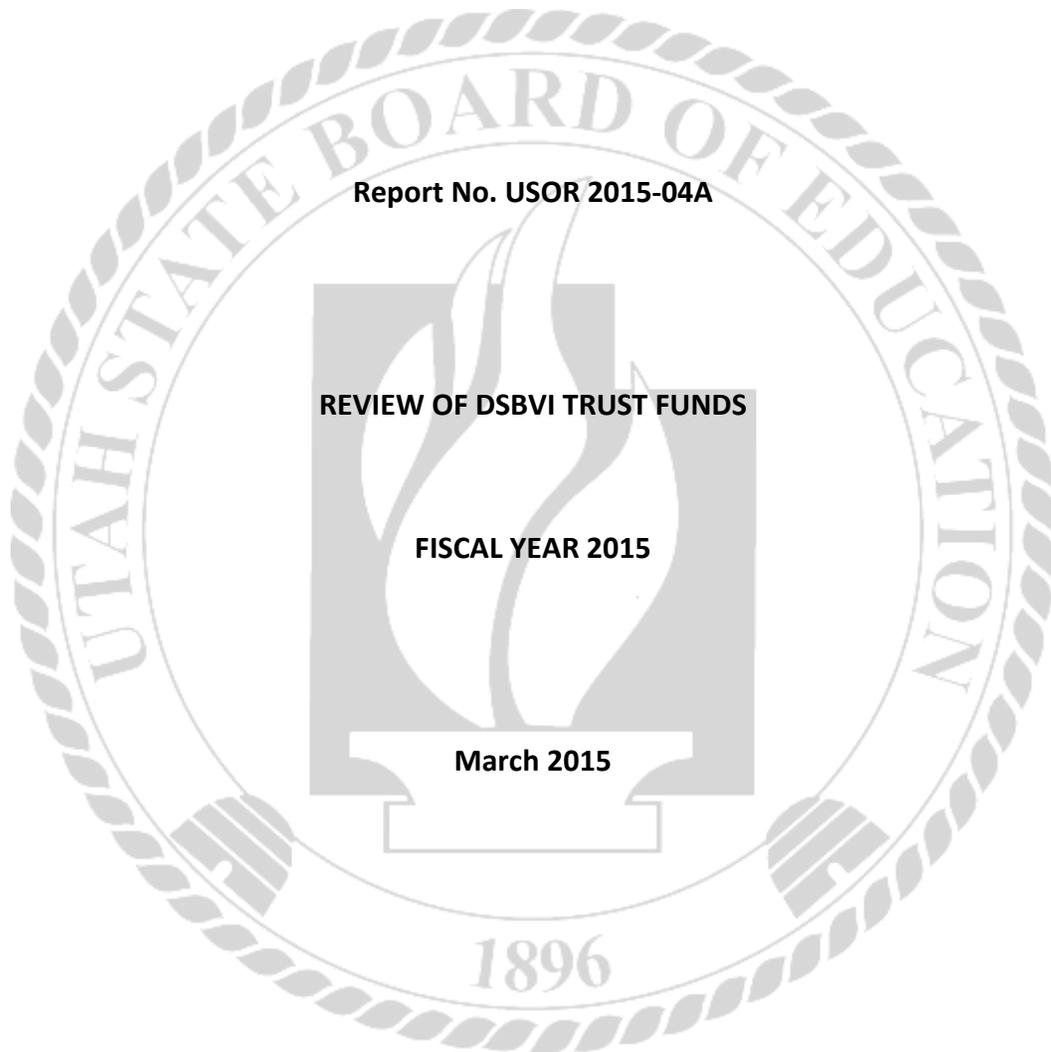
### **Finance Accounting Considerations and Recommendations**

There are some inefficiencies and inconsistencies related to the financial account coding for the sub-funds in the Visually Impaired Trust Fund.

### **Internal Audit Recommendations**

- 1) Establish policies and procedures to govern the use of the various trust funds.
- 2) Implement or strengthen internal controls to ensure appropriate use of the trust funds.
- 3) Consolidate sub-funds as appropriate and ensure interest from the PTIF is appropriately allocated back to sub-funds.

**REPORT TO THE  
UTAH STATE BOARD OF EDUCATION**



**Audit performed by:  
Utah State Board of Education - Rehabilitation Internal Auditor**

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## Report USOR 2015-04A

March 6, 2015

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

Dear Board Members:

The Utah State Board of Education (the Board) *Administrative Rule 277-116-4(E)* authorizes the Utah State Office of Education's (USOE) Internal Audit section (IA) to perform audits recommended by the Audit Committee of the Board. IA performed a risk assessment which identified the Utah State Office of Rehabilitation (USOR) Division of Services for the Blind and Visually Impaired (DSBVI) trust funds as a risk area. It also received a hotline call regarding the use of funds in the Trust funds. A preliminary review of the issues indicated that further investigation was warranted. The IA obtained relevant documentation from DSBVI management and USOE Internal Accounting. The purpose of this limited review is to further address the risks identified and assess the validity of the allegations made and compliance with donor restrictions.

IA performed the following procedures:

1. We reviewed the rules, regulations, and policies and procedures currently governing the DSBVI trust funds, specifically the Peterson Trust Fund.
2. We gained an understanding of the process for receipting and disbursing funds from the trust funds; including a review of relevant documentation and reconciliations maintained by DSBVI and/or USOE Internal Accounting.
3. We performed other procedures as considered necessary.

These procedures were limited to only the DSBVI trust funds and focused specifically on the Peterson Trust Fund. We have identified the procedures we performed (see above) and the findings and recommendations resulting from those procedures (see the attached report).

This report is intended solely for the information and use of the Utah State Office of Rehabilitation (USOR) management and the Utah State Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. If you have any questions, please contact me at (801) 538-7639.

Sincerely,

A handwritten signature in cursive script that reads "Deborah Davis".

Deborah Davis CPA  
Acting Internal Audit Director, Utah State Office of Education

cc. Brad Smith, State Superintendent of Public Instruction  
Russ Thelin, USOR Executive Director  
Stacey Cummings, USOR Admin Services Director  
Bill Gibson, DSBVI Director

## BACKGROUND, FINDINGS, AND RECOMMENDATIONS

### I. DSBVI TRUST FUNDS

#### Background

The Division of Services for the Blind and Visually Impaired (DSBVI) provides services designed to increase independence, community integration, and productivity for the blind and visually impaired. Funds to fulfill this mission are provided by Federal grants, state appropriations, fees, and from donations of generous entities and individuals.

For financial purposes, all donations are tracked in one fund, 2355 Visually Impaired Fund. Within that fund there are several units that are used to track donations based on various donor or division criteria as follows:

- 4871 General Trust
- 4872 Madsen Trust
- 4873 Lindholm Trust
- 4875 Peterson Trust
- 4876 Corpus Trust Fund Distribution – Peterson
- 4877 Campbell, Durham, Gronlund Foundation

Each of these funds is briefly explained below based on inquiry with DSBVI personnel or documentation from the Utah State Office of Education's (USOE's) Internal Accounting Section. DSBVI gives an annual update on trust fund activity to the DSBVI Advisory Council.

#### General Trust (4871)

The General Trust Fund, which may also be known as the Visually Impaired Trust Fund (VITF), was created in the 1980's from financial gifts of many individuals over several previous years. Currently, donations greater than \$1,000 are deposited in the fund by USOE Internal Accounting and the fund is invested in the Public Treasurer's Investment Fund (PTIF), with interest being returned to the fund balance.

In 1980 when the fund was created, DSBVI outlined the first priority use of funds as "to supplement or implement the programs and services of the Division through financial grants or through the purchase of equipment or renovations." However, the funds "may be used totally or as a part of additional local, state, and Federal money to create new programs and services ...to assist visually handicapped persons in Utah to live a richer, fuller, more constructive life."

Expenditures of less than \$1,000 from the fund may be approved by the trust committee; expenditures of greater than \$1,000 from the fund must be approved by the Utah State Board of Education (Board). There is no restriction on the use of funds (ie. that only interest may be used). In 2014, the Board approved the use of \$500K from the fund to help cover expenditures related to the vocational rehabilitation program.

### Madsen Trust (4872)

Based on our review and inquiry, this unit is not active and has no current balance.

### Lindholm Trust (4873)

Based on our review and inquiry, this unit is has a balance of approximately \$4,800. Per Bill Gibson, Director of DSBVI these funds are to be used for facility or property improvement. However, we were not able to obtain documentation to verify the required use of these funds.

### Peterson Trust (4875 and 4876)

In 1971, DSBVI became a beneficiary of funds from the Marguarite S. Peterson Trust. From 1971 to 2006 DSBVI received a bi-annual interest payment from the fund to be used for the care and benefit of needy blind people in the State of Utah. In 2006, US Bank, as the trustee, requested the trust be terminated as the value of the assets in the trust was uneconomical to administer. Therefore, DSBVI received a final distribution from the Trust of approximately \$40K, which was recorded in unit 4876, where that approximate balance has remained to the present.

The bi-annual interest from the Trust up through 2006 and any other donations made to DSBVI that are less than \$1,000 with no specific use restrictions have been and are recorded in unit 4875. DSBVI maintains a separate checking account for these funds and uses the funds, generally on an emergency basis, for the care and benefit of needy blind people. The current balance in this account is approximately \$5,000. There is no restriction on the use of funds (ie. that only interest may be used).

### Campbell, Durham, Gronlund Foundation (4877)

This fund was established in 2006 and has a current balance of approximately \$4,800. Based on the documentation available, DSBVI receives quarterly net income distributions from this foundation. The use of these funds is not specified, except to prohibit using the funds for lobbying or political purposes.

## **II. RISKS AND ALLEGATIONS**

The risks identified during the risk assessment process and the allegations made from the hotline call regarding the use of the Peterson Trust are outlined below.

1. Risk: Potential lack of internal controls and policies and procedures over receipt and disbursement of trust funds.
2. Allegation(s): Use of Peterson Trust funds for inappropriate items.

## **III. FINDINGS AND RECOMMENDATIONS**

### **A. Lack of Policies and Procedures Governing DSBVI Trust Funds**

Based on inquiry with Bill Gibson, DSBVI Director, he is not aware of formal policies and procedures governing any of the trust funds. Staff training on use of the Peterson Fund is given verbally and a Peterson Fund request form is used to document requests and approval of funds.

Jeff Young, USOE Internal Accounting – USOR Financial Manager, was able to provide several documents related to the trust funds; however, we are concerned because the documents:

- are not widely available to management, staff, and other stakeholders
- appear to be outdated
- are not comprehensive or complete
  - documentation does not include internal controls, policies, or procedures for the receipt or disbursement of all of the funds
- do not appear to have been appropriately approved
- do not correlate the funds with the financial accounting coding
- do not establish responsibility for record retention, accountability of funds, etc. between USOR and USOE Internal Accounting.

**Recommendation:**

We recommend that DSBVI consult the available documentation and establish comprehensive, formal policies and procedures related to each trust fund identified. DSBVI should consider including the following in their policies and procedures:

- 1) Allowable use of or restrictions on use of all trust funds, including:
  - a. Use of funds for only the client or also a client’s family
  - b. Which Training and Adjustment Services activities are not restricted under the allowable use restriction in the Peterson Fund of “money [is] not be used for entertainment and social occasions.”
- 2) Associated financial accounting coding and updating of the FINET general ledger system for activity and interest earned
- 3) Receipt and disbursement policies, procedures, and internal controls, including:
  - a. Procedures for receipt and disbursement of funds when the individual with primary responsibility is absent
  - b. Procedures to ensure compliance with Utah State Code 51-4-1-2a, which requires deposit of funds received once every three banking days
- 4) Bank reconciliation policies and procedures, including:
  - a. How to handle reconciling items and the write-off of reconciling items if necessary
  - b. Reconciling back to the system (FINET) as well as the bank and hardcopy records
- 5) Record retention and accountability requirements for both DSBVI and USOE Internal Accounting

Staff should be trained on the policies, procedures, and internal controls and any related forms should be updated.

**B. Internal Control Weaknesses Related to DSBVI Trust Funds**

We scanned the transactions in the FINET general ledger for 2014 and 2015. We also performed a detail review of transactions on the fiscal year 2015 bank reconciliation and scanned transactions on the fiscal year 2014 bank reconciliation. Additionally, we did an analysis of individuals with duties associated with the DSBVI trust funds to ensure appropriate separation of duties. We identified several internal control weaknesses as described below.

**1. Unallowable Activities in the Peterson Fund**

We identified several transactions in the Peterson Fund that appear to be for unallowable items.

- a. Two transactions in 2014 relate to expenditures for a safe deposit box maintained by DSBVI at US Bank. It is unknown when the safe deposit box was initially obtained, but it was paid for annually from the Peterson Fund since at least 2007. In 2014, unable to locate the key to the box, DSBVI had the box drilled, removed the old documents and discontinued use of the safe deposit box. As the Peterson Fund is to be used for “the care and benefit of needy blind people...a direct benefit for their economic need”, we question the use of funds to pay for a safe deposit box, which over 7 years would be approximately \$300, in addition to the drill fee of \$75.
- b. One transaction for \$209 was used to fund a portion of the lodging cost for a client to attend the ACB National Convention in Las Vegas, Nevada. This item does not appear to reflect a direct benefit for the economic need of the client and as such, we question that the Peterson Fund was used to cover this cost.
- c. One transaction on July 5, 2013 for \$500 was used to cover two months of a lease for a vocational rehabilitation (VR) client in conjunction with a self-employment plan. Though the transaction was approved because the lessor would apparently not accept a VR authorization, in scanning this client’s file in IRIS we noted that at the time of this transaction, the narrative indicated the self-employment plan had not been fully prepared or implemented; therefore, payment of the lease was premature. Additionally, the narrative in July 2013 indicated that the security deposit needed for the lease was \$3500 and as of August 27, 2013 the lease fell through. The VR case file did not mention use of the Peterson Fund to pay for 2 months of the lease. Because of the circumstance surrounding the VR self-employment plan (ie. that it was not complete), we question if this transaction represented a direct benefit of economic need to the client. We also question why the

initial request/approval for this item came from one of the teachers of the blind, rather than the VR counselor.

The total amount of funds we are questioning as unallowable transactions in the Peterson Fund is \$1,084.

**Recommendation:**

We recommend that DSBVI establish policies and procedures and internal controls, as noted above, to ensure appropriate use of trust funds in accordance with donor stipulations.

**2. Inadequate Approval of Transaction**

We noted one transaction for \$100, where the check from the Peterson Fund had only one signature rather than two. The authorization documentation included the appropriate approvals and the bank reconciliation was reviewed by an independent individual with no issues noted; therefore, the amount transacted was appropriate and we will not question the cost.

**Recommendation:**

We recommend that DSBVI establish policies and procedures and internal controls, as noted above, to ensure appropriate safeguarding of funds.

**3. Lack of Separation of Duties for the Visually Impaired Trust (VITF)**

There is a lack of controls for receipts and disbursements for the VITF, General Trust. USOE Internal Accounting handles the receipting and disbursing functions for this fund once they receive any applicable funds from DSBVI; however, reconciliation back to the system by an independent individual is not completed. Therefore, an individual could misappropriate funds without detection.

**Recommendation:**

We recommend that DSBVI establish policies and procedures and internal controls, as noted above, to ensure appropriate separation of duties for safeguarding of VITF General Trust funds.

**C. Financial Accounting Considerations and Recommendations**

The financial coding for the various DSBVI trust funds is outlined in section I above. While gaining an understanding of these trust funds and scanning the transactions recorded we noted some inefficiencies and inconsistencies related to the financial account coding as explained below; recommendations for each fund are also noted below.

**1. Campbell, Durham, Gronlund Foundation (4877)**

The initial deposit(s) from this Foundation was made into unit 4877; however, all subsequent deposits and current practice is to deposit the quarterly net income from the Foundation into unit 4871, which is the General Trust.

**Recommendation:**

To simplify and ensure consistency, we recommend DSBVI consider moving the initial deposit(s) from unit 4877 into unit 4871.

**2. Peterson Trust (4875 and 4876)**

As noted above, the Peterson Trust is tracked in two separate units; 4875 for interest and activity and 4876 for the principal distribution; however, there does not seem to be current justification for tracking this trust in two separate units.

**Recommendation:**

Because the original intent for use of the different coding is unknown and because there does not seem to be justification for tracking this trust in two separate units we recommend DSBVI combine these units into one coding stream. Additionally, because the principal distribution is currently invested in the PTIF, we recommend DSBVI ensure the interest earned is appropriately credited back to the fund.

**3. Lindholm Trust (4873)**

The Lindholm Trust is tracked in a separate unit due to apparent use restrictions; however, it is invested in the PTIF as part of the larger, Visually Impaired Trust Fund.

**Recommendation:**

We recommend that DSBVI consider if interest earned from the PTIF has been appropriately credited back to this fund.

**IV. USOR RESPONSE**

**III.A Lack of Policies and Procedures Governing DSBVI Trust Funds**

*USOR agrees that comprehensive formal policies governing all sections of the trust fund need to be developed. USOR is working to gather existing information and will clarify and expand existing policies following the suggestions listed above.*

**III.B.1 Unallowable Activities in the Peterson Fund**

*a. DSBVI administration did not have knowledge of a safe deposit box until in July 2013 when an automatic debit notice was received indicating that a \$30 annual rental fee would be charged to the account. They were unable to determine the when the box was*

*obtained or what it was used for and they were unable to locate a key for the box. On the suggestion of the bank DSBVI paid to have the box drilled and opened. The box was empty. The rental was cancelled. Because these charges may not meet the intent of the fund the fees incurred for the rental and drilling of the box will be refunded to the Petersen Trust Fund from other state funds.*

*b. The referenced client attended several training sessions at the National Conference that were directly related to his education toward a vocational goal. He was able to obtain alternative funding for all other costs related to the conference except the lodging costs and DSBVI contends support of the training and funds for lodging was an economic need of the client intended to have a long term economic benefit and that the funds spent were used appropriately.*

*c. The referenced client had been in the process of establishing a business for several months including participation in discussions with several DSBVI staff members. Business space was located in Bountiful, visited by staff and it was recommended through a teacher and other DSBVI staff that money from the Peterson Fund be used to help the client start the business. There was an economic need and the client would have benefitted from the income from a business. The client was ultimately unsuccessful however it was believed that the client would be successful at the time of payment therefore the payment was reasonable and appropriate when authorized and DSBVI contends that it was an appropriate use of Peterson Funds.*

*USOR agrees that policies and procedures including internal controls need to be written, expanded and formalized. USOR is working on these policies.*

### **III.B.2 Inadequate Approval of Transaction**

*USOR agrees that policies need to be clarified and that all checks should have two signatures before being submitted for payment. USOR will finish clarifying policies as needed and make sure that staff are trained appropriately to ensure future compliance.*

### **III.B.3 Lack of Separation of Duties for the Visually Impaired Trust Fund (VITF)**

*As indicated above USOR agrees that policies and procedures which include internal controls need to be clarified, written and expanded as needed to include the suggestions above.*

### **III.C Financial Accounting Considerations and Recommendations**

*a. DSBVI agrees and will follow the recommendation to move the deposit.*

*b. USOR is in agreement with the suggestion to combine these units into one coding stream. USOR consulted with USOE accounting and they are also in support of this change.*

*c. USOR will follow the recommendation and consult with the bank and USOE accounting to make sure that the interest earned has been and will be appropriately credited back to the fund.*