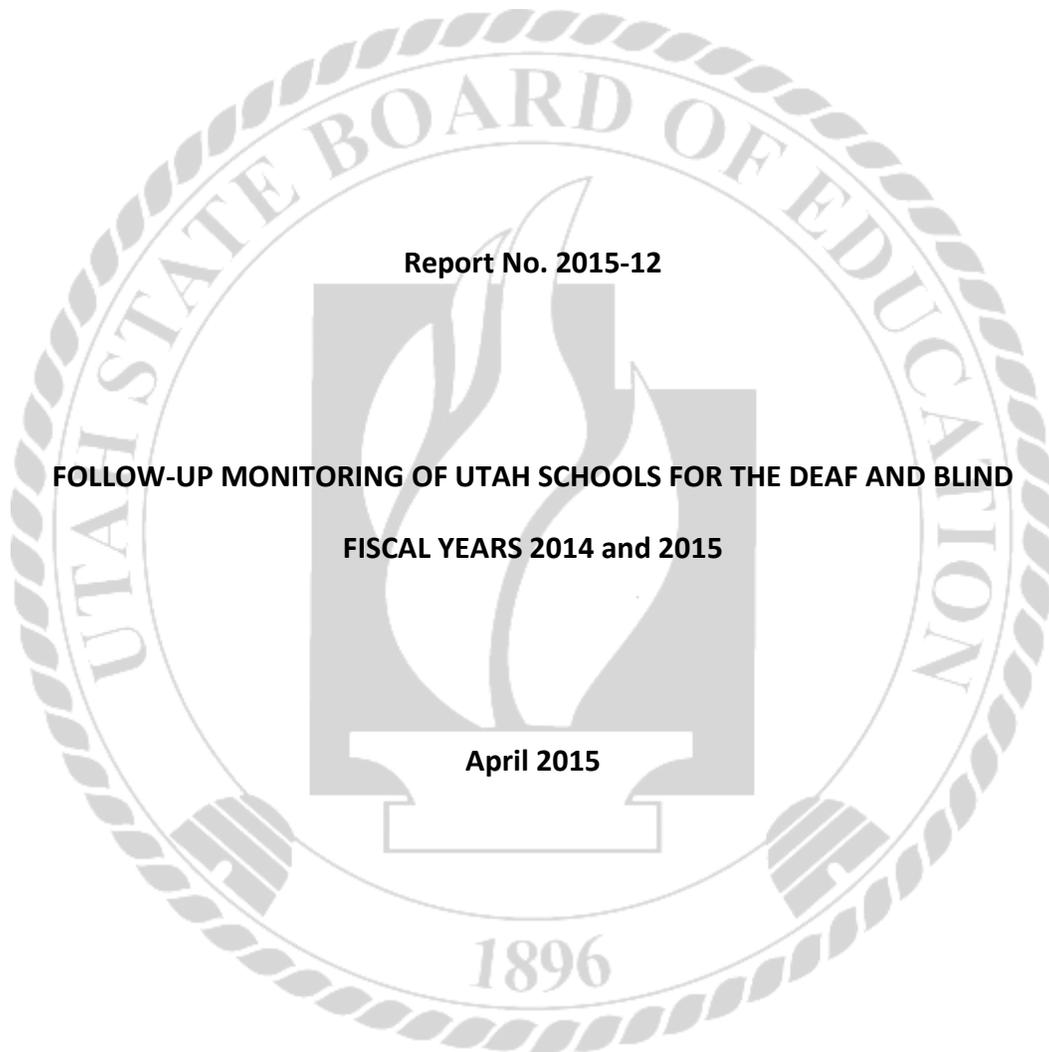


**REPORT TO THE
UTAH STATE BOARD OF EDUCATION**



**Audit performed by:
Utah State Board of Education's Internal Auditors**

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Report 2015-12

April 8, 2015

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

Dear Board Members:

The Utah State Board of Education's (the Board's) *Administrative Rule 277-116-4(E)* authorizes the Internal Audit (IA) Section to perform audits recommended by the Audit Committee of the Board. In November 2013, after conducting risk assessment procedures, IA performed a review of the Utah Schools for the Deaf and Blind (USDB). This review included an assessment of the control environment over major accounting areas, compliance with funding restrictions, and a review payroll and expenditure transactions. IA issued report 2013-12 *Monitoring of Utah Schools for the Deaf and Blind*, which contained the four findings outlined below with 14 corresponding recommendations.

1. Inadequate Supporting Documentation, Improper Coding, and Insufficient Internal Controls Over Expenditures
2. Insufficient Internal Controls Over Payroll and Payroll Errors
3. Noncompliance With Required Payroll Certifications For Federal Grants
4. Additional Internal Control Weaknesses

IA performed a follow-up review of the Utah Schools of the Deaf and Blind (USDB) to determine if appropriate corrective action was taken on the findings identified in the initial report. This follow-up review included:

- Inquiry with USDB financial staff on January 29, 2015 about controls, policies and procedures recommended in the initial report in response to the four findings identified.
- Review of a selection of 30 expenditure transactions for propriety and compliance.
- Review of payroll transactions for 2 pay periods of 10 employees for propriety and compliance.

With the exception of two findings and one observation noted in the Findings and Recommendations section, it appears that the USDB has implemented policies, procedures, and internal controls to address and correct the findings noted in the prior review. In particular, the USDB has implemented a budget process where, on a monthly basis, year-to-date expenditures for each of the USDB's units are reviewed by the Unit Director and discussed in a meeting with the Finance Director. This control is beneficial in preventing, and correcting if necessary, coding errors, ensuring propriety of transactions, and ensuring compliance with established budgets.

The procedures we performed were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the USDB's internal control or any part thereof. Furthermore, these procedures were more limited than would be necessary to provide assurance that no errors or misappropriations occurred. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed above and the findings resulting from those procedures. Had we performed additional procedures or had we conducted an audit of the effectiveness of the USDB's internal controls, other matters might have come to our attention that would have been reported.

This report is intended solely for the information and use of the management and Advisory Committee of the USDB 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.

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 white background.

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

FINDINGS AND RECOMMENDATIONS

1. IMPROPER CODING OF EXPENDITURES

We selected 30 expenditure transactions from state fiscal years 2014 and 2015 for review and noted three transactions that were coded to incorrect object codes. These transactions were coded to 6184 Educational & Recreational Supplies when they should have been coded to other object codes, such as food, books, and furnishings. As was noted in our prior review, it appears that many times expenditures are booked to the generic 6184 object code instead of identifying the correct code. Miscoding transactions could result in inaccurate budgeting and forecasting.

Recommendation:

We recommend that the USDB ensure that object coding for expenditures is accurate.

2. NONCOMPLIANCE WITH STATE STATUTE REQUIRING DEPOSIT OF FUNDS WITHIN 3 DAYS

The USDB is not depositing funds periodically received at their Ogden location in compliance with Utah Code 51-4-2(2)(a), which requires all public funds to be deposited daily if possible, but not later than three days after they are received. The USDB generally deposits funds each Wednesday at its financial institution; though if large sums of cash are received sometimes deposits occur on a more frequent basis. If funds are not deposited within the three day time requirement the USDB is not in compliance with state law.

Recommendation:

We recommend that USDB implement policies, procedures and controls as necessary to comply with state law and deposit public funds no later than three days after receipt of said funds.

OBSERVATION REGARDING FUTURE AUDITS OF THE USDB

In the initial report there was a recommendation that the Board consider, in consultation with the Office of the Utah State Auditor (OSA), requiring the USDB to obtain an annual financial statement audit. The USDB has consulted with OSA about this; however another, potentially more effective option, would be to have the Board's Internal Audit Section perform needed audits based on their annual risk assessment. Funding for the latter option could be in the form of paying part of the salary of an internal audit staff or fee-for-service.

Recommendation:

We recommend the Board consider the above options, particularly the funding considerations, and determine which option best meets the objective of ensuring appropriate oversight and financial accountability of the USDB.

MEMORANDUM

April 7, 2015

FOR: Utah State Board of Education
USDB Advisory Council

FROM: Scott Jones, Finance Director, USDB

THRU: Joel Coleman, Superintendent, USDB
Bruce Williams, Assistant Superintendent, USOE
Brad Smith, Superintendent, USOE

SUBJECT: USDB Response to Audit Report No. 2015-12: FOLLOW-UP MONITORING OF UTAH SCHOOLS FOR THE DEAF AND BLIND FISCAL YEARS 2014 and 2015

We appreciate this opportunity to comment on the report and look forward to addressing and implementing the recommendations. USDB will ensure adequate Management Internal Control Programs to reduce risk, ensure proper use of funds, and proper coding of expenditures.

FINDING 1: IMPROPER CODING OF EXPENDITURES

USDB concurs with this finding with further elaboration and clarification. Three out of thirty transactions indicates improvement in our coding over the past 16 months since implementation of controls and fund management procedures. Specific to the three transactions:

IET4005P531054841 - The pizza purchased from Ogden Pizzeria should have been coded to 6214, food-we concur. However, this was a purchase made by students as part of an educational program. Therefore, the coding was misinterpreted as 6184-Educational and Recreational.

PRC40051000000074 – The cabinets purchased from VIRCO would have been more properly coded to 6188, furnishings less than \$5,000-we concur. No further elaboration or clarification.

IET4005P521059594 – This p-card transaction contained a number of book purchases from Barnes and Noble that would have been more properly coded to 6185, books-we concur but want to point out that this is a particular area where the two object codes are misinterpreted. Educators deem book purchases as Educational in nature especially in situations where the

books actually end up in the hands of the student. However, we will clarify that any book purchases get coded under object code 6185.

Recommendation:

We recommend that the USDB ensure that object coding for expenditures is accurate.

USDB concurs with this recommendation. Each month the Finance Director meets with the respective Fund Manager or Director of Programs. These meetings facilitate the discovery of improper coding so that the correct coding can be applied.

FINDING 2: NONCOMPLIANCE WITH STATE STATUTE REQUIRING DEPOSIT OF FUNDS WITHIN 3 DAYS

USDB concurs with this finding.

Recommendation:

We recommend that USDB implement policies, procedures and controls as necessary to comply with state law and deposit public funds no later than three days after receipt of said funds.

USDB concurs with this recommendation. USDB will implement written policy and controls that ensure that funds received by any representative of USDB get to the Business Office within three days and then the USDB Business Office deposits the funds within three days of receipt to include donated funds.

OBSERVATION REGARDING FUTURE AUDITS OF THE USDB

USDB concurs with this observation.

In the initial report there was a recommendation that the Board consider, in consultation with the Office of the Utah State Auditor (OSA), requiring the USDB to obtain an annual financial statement audit. The USDB has consulted with OSA about this; however another, potentially more effective option, would be to have the Board's Internal Audit Section perform needed audits based on their annual risk assessment. Funding for the latter option could be in the form of paying part of the salary of an internal audit staff or fee-for-service.