REPORT TO THE

UTAH LEGISLATURE

Number 2007-13

A Performance Audit of School District Internal Controls

October 2007

Audit Performed By:

Audit Manager	Rick Coleman
Audit Supervisor	Susan Verhoef
Audit Staff	Tim Bereece

Table of Contents

Page

Digest i

Chapter I
Introduction 1

Davis District's and Weber Foundation's Losses Were Substantial 1

Components of Internal Control 5

Audit Scope and Objectives 6

Chapter II
Davis' Control Weaknesses Not Apparent At Other School Districts . . . 9

Similar Control Weaknesses Generally Not Apparent at Other School Districts 10

Better Monitoring Is Needed 16

Recommendations 22

Chapter III
Other Foundations Have Internal Control Weaknesses Similar to Weber 23

Some Other Foundations Have Similar Control Weaknesses 24

Additional Oversight and Guidance Is Needed 33

Recommendations 38

Appendices 41

Agency Response 47

Digest of
A Performance Audit of
School District Internal Controls

Recent allegations that three public education employees embezzled more than $5 million over many years in Davis and Weber school districts raised concerns that fraud prevention and detection controls may not be adequate in these and other school districts. Our evaluation showed that Davis School District has implemented correction action and other districts generally do not have similar control weaknesses. The Weber School District Foundation is in the process of implementing improvements to its internal controls but some other foundations have similar control weaknesses. Our review highlights the importance of establishing internal control activities and shows that it is also essential to monitor that those controls are implemented and effective.

Chapter II: Davis' Control Weaknesses Not Apparent at Other School Districts

Davis' Internal Control Weaknesses Have Been Addressed And Are Not Apparent At Other School Districts. A federal indictment accuses the former Title I director and her husband of defrauding the district of at least $4.3 million by selling unauthorized copies of books and materials at highly inflated prices to the school district. A second indictment alleges the assistant to the Title I director embezzled at least $338 thousand by submitting and approving orders for fictitious books.

Three of the more important control weaknesses were an inadequate separation of duties, centralized order and delivery of Title I purchases, and an inadequate approval and review of vendors. Davis has addressed these internal control deficiencies and the sample districts we visited generally do not have control weaknesses similar to those found at Davis. These long term nature of these cases highlight the importance of monitoring that controls are implemented and effective.

Chapter II Recommendations

1. Davis School District should continue to establish dollar thresholds for vendors as an alert that additional monitoring is needed.
2. School districts should ensure that the routinely scheduled reviews of school financial activities also include district departments,
3. School districts should review their purchasing policies to ensure:
   a. an adequate separation of responsibilities or that compensating controls have been implemented.
   b. appropriate vendor control procedures, including approving new vendors and periodically reviewing sole source vendors.

4. School districts should consider requiring key managers and employees to sign an annual conflict of interest disclosure.

5. The Utah State Office of Education Title I office should provide additional oversight including monitoring expenditure trends and providing additional scrutiny to those trends that are atypical.

6. The Utah State Office of Education should evaluate the feasibility of assigning an auditor to serve as the internal auditor for several small school districts.

Chapter III: Other Foundations Have Internal Control Weaknesses Similar to Weber

Weber's Internal Control Weaknesses Are Being Addressed And Some Other Foundations Have Similar Weaknesses. A former secretary employed by the Weber School District and assigned to work for its foundation acknowledged embezzling close to $1 million over a five-year period. The more important internal control weaknesses identified include using an accounting system separate from the district without developing sufficient purchasing and personnel policies and procedures, an inadequate separation of duties, and not keeping schools informed about available funds. The foundation has delayed implementing many of the changes they intend to make while waiting for updates to their accounting software and because their new director is assessing the changes. Similar control weaknesses exist in some other foundations that should be addressed. In addition, because public funds are used to help finance foundations, they should be provided additional oversight and guidance.

Chapter III Recommendations

1. The boards of school district foundations that do not use their district's accounting system should ensure that adequate written policies are established and followed.

2. The boards of school district foundations should review their accounting, purchasing, and check issuance policies to ensure that there is an adequate separation of responsibilities.

3. School district foundations should provide schools with information detailing all transactions in their accounts.

4. The boards of school district foundations should ensure procedures are in place to verify that payments issued have been approved.

5. The Legislature should consider additional statutory guidance to clarify the roles, responsibilities, and oversight of school district foundations.

6. The Utah State Office of Education should evaluate the feasibility of providing guidance to school district foundations.

Chapter I
Introduction

Recent allegations that three public education employees embezzled funds for many years in Davis and Weber school districts raised concerns that fraud prevention and detection controls may not be adequate in these and other school districts. We reviewed the specific allegations of fraud in the two districts and evaluated whether corrective action had been taken to make similar frauds more difficult to commit and conceal in the future. In all, we visited eight sample districts and assessed whether they were exposed to control weaknesses similar to those that were allegedly exploited in the Davis and Weber school districts.

Our review showed Davis School District has made improvements in the specific internal control deficiencies they identified. In addition, at the time of this audit, we found the seven other districts we visited generally did not appear to be at risk for the same internal control weaknesses that existed at the Davis School District. However, the Weber School District Foundation still needs to correct some of their internal control weaknesses. Similar control weaknesses exist in some other foundations that we feel should be addressed.

Our review highlights the importance of establishing internal control activities and shows that it is also essential to monitor that those controls are implemented and effective. Because of pending legal action, we do not specifically address the activities of the individuals who were charged with criminal acts. However, our analysis of internal controls focused on those controls that could have prevented or identified the type of activities alleged in the criminal indictments.

Davis District's and Weber Foundation's Losses Were Substantial

School district employees have been charged with embezzling over $5 million in three separate instances.

In three separate instances, employees have been charged with defrauding the Davis School District and the Weber School District Foundation of more than $5 million over the last seven years. However, Davis School District staff believe the actual losses could be more because the alleged frauds may have continued for as much as 20 years.

The first two cases involved the Title I program in the Davis School District. Title I is a federal program designed to educate financially disadvantaged students who struggle academically. The third case involved the Weber School District Foundation. School district foundations are nonprofit entities created to raise and/or manage funds donated to schools. A brief description of the allegations for each case follows.

Davis School District
Title I Program Director

A federal indictment accuses the Davis Title I director and her husband of defrauding the district of at least $4.3 million by selling unauthorized copies of copyrighted books.

The former Title I director and her husband are accused of defrauding the district of at least $4,295,787 (from January 2000 to May 2005) by selling unauthorized copies of copyrighted books and educational materials at highly inflated prices to the school district for the program that she managed.

According to a press release from the U.S. Department of Justice, the indictment alleges:

> . . . The defendants devised a scheme to get the school district to purchase unauthorized copies of copyrighted books for use in its Title I program at fraudulently inflated prices from Notable Education Writing Services (NEWS), a company owned and controlled by the defendants, through an intermediary company, Research and Development Consultants, Inc. (R&D). R&D was run by two professional associates of [the defendants–the Title I director and her husband].
>
> . . . The defendants routed purchases through R&D and had the school district mail checks to R&D to conceal the defendants' identity as the recipients of the payments for the material purchased by the Davis School District. The defendants used NEWS to collect the proceeds of their scheme to defraud the school district. . . .
>
> As a result of the scheme, the indictment alleges, the school district paid higher prices for the books and educational materials purchased from R&D than it would have if [the defendants] had solicited competitive bids from other vendors. As charged in the indictment, the prices charged by R&D were as much as seven times the list prices for the same books as sold by the publishers. For example, in one case, R&D charged the school district $93 for

a book that at that time had a list price of $13.22. Additionally, the list prices were for hardbound professionally-produced books. The copies R&D sold to the district were spiral bound stacks of color copies.

Davis School District
Title I Program Assistant

A federal indictment accuses the assistant to the Davis Title I director of embezzling over $338 thousand by submitting orders for fictitious books from a non-existent vendor with a name similar to that of her spouse.

A second alleged fraud at the Davis School District involved the assistant to the Title I director, who purportedly embezzled $338,189 from the Title I funds starting in about 1999.

According to the U.S. Department of Justice press release, a federal grand jury returned a 37-count indictment alleging:

> . . . [The defendant] worked as a secretary to [the Title I director] at the Davis School District. As a part of her duties, [the defendant] was given responsibility for some of the day to day management of the district's Title I procurement process. The indictment alleges that beginning in about 1999, [the defendant] devised a scheme to defraud the Davis School District of Title I and other funds. As part of the scheme, she formed a company known as E.B. Smith Company, a name similar to the name of her husband.
>
> The indictment alleges that [the defendant] submitted paperwork to the school district to approve E.B. Smith Company as a vendor for books and materials for the district. Once the company was approved, according to the indictment, [the defendant] caused purchase orders for books that had not been requested by district employees and that were not necessary for school programs to be submitted to E.B. Smith Company from the Davis School District Purchasing Department for approval. Under the district's approval process, [the defendant] could personally submit requests to the purchasing department under a $1,000 threshold without management approval.
>
> Once the purchase orders were issued, [the defendant] mailed or caused to be mailed fraudulent invoices representing that the E.B. Smith Company had supplied the requested books to the district, when in truth no such books had been provided. As a result of the fraudulent invoices, the school district issued checks for fictitious purchases and mailed them to the company. The indictment

> alleges [the defendant] submitted invoices totaling about $338,189 to the district on scores of occasions from 1999 to 2005.

At the time this report was issued, both of the court cases involving the former employees of Davis School District were pending.

Weber School District Foundation Secretary

A secretary for the Weber School District Foundation pled guilty and was sentenced to prison for embezzling over $979 thousand from the foundation.

In the third case, a part-time secretary employed by the Weber School District and assigned to work for its foundation pled guilty to theft. She has acknowledged stealing $979,391 since July 2001 but district records show checks were forged as early as 1999.

A probable cause affidavit issued by the Weber County Sheriff's Office charges the secretary with 25 counts of forgery, 25 counts of theft, and 7 counts of money laundering. The affidavit states:

> . . . The school district business administrator found that numerous accounts appeared to have been double paid. School officials found that actual invoices were attached to one check stub and a statement listing the same invoice was attached to a second check stub. Officials found that there were checks being cut for duplicate amounts to the same invoice or statement. . . . They found that one check was cut for the entity that appeared on the invoice. Officials also found that duplicate checks were made out to [a credit card account belonging to defendant]. . . . [Defendant] was a Weber School District employee assigned duties as the Weber School Foundation secretary. [Defendant] was hired in 1994.
>
> During a termination meeting with Weber School District officials, [defendant] confessed to school officials that she had in fact embezzled Weber School District Foundation funds. . . . and forged the names of persons authorized to sign Weber School District Foundation checks. . . . [Defendant] would issue a duplicate check for a legitimate invoice and deposit the check into one of her two credit card accounts. [Defendant] would then use the credit cards to make transactions and would also take cash advances from the credit card accounts.
>
> . . . Affiant has also found evidence that the fraud has been taking place since at least the year 2000 through December 2006. Affiant

has probable cause to believe that the amount of funds embezzled exceeds one million, fifty thousand dollars.

The secretary pled guilty to 45 of the 57 counts she was charged with and was sentenced to prison. However, the foundation has filed a civil suit, which is still pending, in an effort to recover their losses.

All three cases allegedly involved multiple thefts over many years, yet were not noticed.

A common element of all three of these cases is that they allegedly involved multiple thefts over many years, yet were not noticed. Effective internal control activities are designed to prevent the type of fraudulent acts that are alleged from occurring and being concealed. The next section discusses the components of internal control.

Components of Internal Control

Internal control is a broad concept that includes a wide range of activities and processes in an organization. COSO (Committee of Sponsoring Organizations of the Treadway Commission), a private sector organization dedicated to improving the quality of financial reporting, has provided a definition of internal control. They define internal control as a process designed to provide reasonable assurance that business objectives will be achieved based on the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Internal control is the responsibility of management and consists of the five interrelated components shown in the following figure.

Internal control includes five interrelated components.

Figure 1 Components of Internal Control.

1. Control environment sets the tone of an organization, influencing the control consciousness of its people and is the foundation for all other components. Environmental factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors.
2. Risk assessment is the identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
3. Control activities are the policies and procedures that help ensure management directives are carried out. Control activities include approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.
4. Information and communication are the systems that identify and report operational, financial and compliance-related information that make it possible to run and control a business. Communication must flow down, across, and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously.
5. Monitoring is a process that assesses the quality of internal control performance over time. This is accomplished through ongoing monitoring and separate evaluations. Ongoing monitoring occurs in the course of operations and includes regular management and supervisory activities. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board, and corrective actions should be taken to ensure continuous improvement of the system.

**Source: Committee of Sponsoring Organization of the Treadway Commission (COSO)*

As shown in Figure 1, internal controls range from detailed procedural requirements to the overall tone set by the governing board. We could not review all possible controls at the school districts, so the focus of our audit work was on the control activities (number 3 in the above figure) that should have helped to prevent the alleged frauds.

Audit Scope and Objectives

The Legislative Audit Subcommittee directed us to evaluate the accounting and management controls that were not in place or not followed, thus allowing these alleged frauds to occur. The subcommittee

The objective of this audit is to identify the internal controls that were not in place or not followed in relation to the alleged frauds, validate that corrective actions have been implemented, and evaluate if a sample of other school districts have similar risks.

requested that we validate that corrective action has been implemented at the Davis School District and Weber School District Foundation where the frauds were alleged to have occurred and examine if other school districts have similar risks.

To accomplish these objectives, we identified some of the important control weaknesses that existed at the Davis School District and Weber School District Foundation. In fact, staff at both Davis and Weber school districts identified a number of internal control deficiencies and planned changes before we began our audit work. We then visited six other school districts and their foundations to evaluate if they have similar risks. We reviewed corresponding internal controls at Beaver, Box Elder, Duchesne, Granite, Jordan, and Washington School Districts and visited several schools in each district to verify that controls were implemented.

In order to compare the procedures districts use, we examined their policies, interviewed employees, and observed transactions. Each district has somewhat different procedures because of their size and the software programs they use. For example, Davis, Granite, Jordan, and Weber each have different software programs while Beaver, Box Elder, Duchesne, and Washington all use the system provided by the state. Each district also has its own policies and procedures. Because of the complexity of learning different procedures, our objective was only to identify if each sample district or foundation had similar internal control weaknesses and not to attempt a review of all internal controls at each school district or foundation.

Finally, we gathered general information from the foundations in other school districts. This information is briefly discussed in Chapter III.

This Page Left Blank Intentionally

Chapter II
Davis' Control Weaknesses Not Apparent At Other School Districts

Based on the criminal charges filed, it appears that Davis School District had internal control weaknesses that could allow fraud to occur over a long period of time. Large amounts of public funds were allegedly lost because adequate preventive control activities were not implemented. Preventive control activities include appropriate approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. Although good internal control will not always prevent fraud, the absence of controls, ineffective controls, or the ability to override controls provides an opportunity for fraud.

Davis School District had several internal control weaknesses that could allow fraud to occur and continue for many years.

Several internal control weaknesses appear to have existed at the Davis School District. Prior to the beginning of our audit, Davis management listed the changes they have made or are making in response to the alleged frauds (Appendix A). We believe three of the more important control weaknesses were:

- Inadequate separation of duties
- Centralized order and delivery for Title I purchases
- Inadequate approval and review of vendors

Another concern raised by the criminal indictments is that the frauds are alleged to have continued for many years. Even in cases where internal controls are not effective in preventing fraud, good monitoring controls should discover potential problems. Thus in cases where fraud does occur, effective monitoring discovers problems quickly and reduces the associated dollar loss. We are also concerned that important monitoring controls at Davis were ineffective or not implemented.

This chapter identifies and discusses the specific internal control weaknesses at the Davis School District that relate to the alleged frauds involving the Title I program and the changes the district has implemented. This chapter also looks at whether a sample of other school districts has similar weaknesses. A discussion is included about the annual conflict of interest disclosure Davis reported they would implement. Finally, we discuss the importance of monitoring control activities for discovering potential fraudulent acts.

Similar Control Weaknesses Generally Not Apparent at Other School Districts

Our review of seven other school districts revealed that they generally do not have internal control weaknesses similar to those that could have contributed to the alleged Davis School District frauds. However, several improvements could be made to further address concerns about some of their control and monitoring activities.

We visited seven other school districts to evaluate if they have internal control weaknesses similar to those found in the Davis School District.

During the course of this audit, we visited seven other school districts to evaluate if they had control weaknesses similar to those identified in Davis School District. Our evaluation included interviewing the business administrator and staff from the purchasing, Title I, and human resources departments, and observing transactions at the district and in schools. This audit did not attempt to evaluate the overall internal control activities at each district partly because of the complexity of learning, comparing, and evaluating different procedures at so many school districts. We focused on evaluating if the district had internal control weaknesses similar to those found in the Davis district. Figure 2 summarizes our conclusion that other school districts generally do not have similar weaknesses.

Other school districts generally do not have internal control weaknesses similar to those found in the Davis School District.

Figure 2 Similar Control Weaknesses Were Generally Not Apparent at Other School Districts. The few districts with similar weaknesses have established compensating controls.

	Risks		
District	**Inadequate Separation of Duties**	**Centralized Ordering and Delivery**	**Inadequate Vendor Review**
Beaver	No	**Minor***	No
Box Elder	No	No	No
Duchesne	No	No	No
Granite	No	No	No
Jordan	No	No	No
Weber	No	No	No
Washington	No	No	No

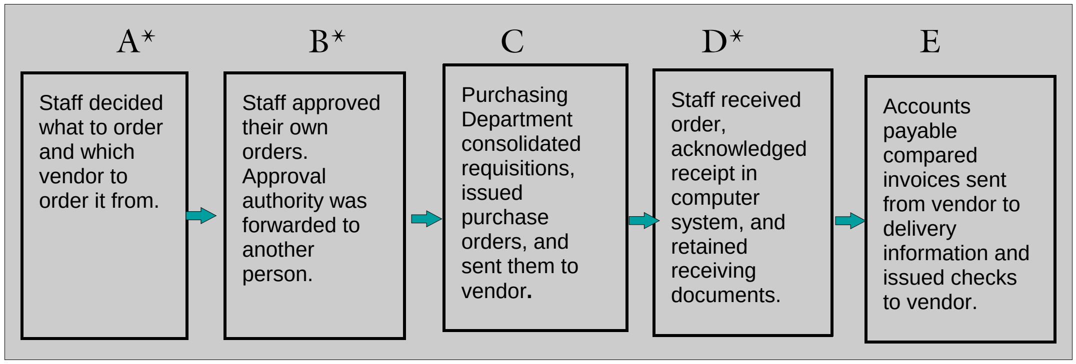
** Although there are similar weaknesses in the centralized ordering and delivery, Beaver's Title I supply budget was under $2500.*

Separation of Duties Were Inadequate

The Davis Title I office did not maintain an adequate separation of duties—one person could control the purchasing process.

An important control weakness that existed at the Davis district was an inadequate separation of duties. The following figure shows the purchasing procedure divided into five segments. Staff in the Title I office could electronically initiate an order, approve it, and then verify that the order was received (A, B, and D). In addition, the director's authority to approve purchases could be electronically forwarded to the assistant.

Figure 3 Summarized Purchasing Procedures. There was not a clear separation of duties because Title I staff could decide what to order, approve it, and acknowledge that it was received.



* *One individual could complete these purchasing procedures.*

An inadequate separation of duties increases the risk of fraud. One of the key concepts of internal control is that no single individual should have control over multiple phases of a transaction or operation. Ideally, different individuals should place, approve, and receive an order. At the minimum, the orders should be approved by the director responsible for that program budget and by a higher level manager if the director is placing the order. Separating duties makes a deliberate fraud more difficult because it then requires the collusion of two or more individuals.

The Title I director's authority to approve purchases could be forwarded to the assistant.

Inadequate separation of responsibilities makes defrauding the system possible. When a single person controls the purchasing process, he can order items and record a receipt even if nothing is delivered. Because the purchasing and accounts payable departments rely on the documents they receive, orders and payments could be sent to a fraudulent vendor.

Davis Recently Modified Its Computer Authorization System. The computerized purchasing system no longer allows one individual to both place and approve the same order. The reprogrammed software also prohibits forwarding purchase approval authorizations downward from a director to an assistant, and it limits the time frame in which approvals can be forwarded.

Davis modified its computerized controls.

The Title I purchasing procedures now include more separation because schools are involved. Orders are shipped to the locations where they are to be used, and receiving documents are sent to the accounts payable department for comparison with the requisition and invoice documents instead of being retained by the person or department that receives the order.

Separation of duty concerns were not apparent in other district Title I offices because schools are included in the purchasing process.

Other Districts Effectively Separate Duties by Involving Schools In the Title I Purchasing Process. In the districts we visited, the same person cannot order, approve, and receive a purchase. Additionally, teachers initiate the purchase request and it is approved first by their principal, and then by the district Title I director. If the cost exceeds a certain threshold, the purchasing department must also approve the order. Orders are delivered directly to the schools, and the packing documents are either retained or sent to accounts payable.

Other districts also have better defined authorization procedures. For example, Weber School District's authorization procedures allow authorizations to be forwarded if an administrator is not available for an extended period of time, but they must specify who the alternate will be and the specific time period.

Title I Purchase and Delivery Procedures Were Centralized

Davis' purchase procedures were centralized—the Title I office determined what to order and the quantity each school needed.

A related control weakness at Davis was that the Title I department's purchasing activities were centralized. The Title I office determined what to order and the quantity each school needed. A school would not be aware that books had been ordered for their use. Centralization of the purchasing process, combined with an inadequate separation of duties, makes it possible for one person to control the purchasing process.

Davis Recently Decentralized Its Title I Purchasing Activities. Principals now oversee their own Title I programs and decide what materials to purchase. As discussed previously, the Title I district office must approve the purchase, and the items ordered are delivered directly to the schools. The district office collects the packing documents and enters the information into the purchasing system. An additional control the district has implemented is to have the curriculum department ensure that Title I materials correlate with the approved curriculum.

Davis decentralized its Title I purchasing process by having schools decide what to purchase and orders are delivered to schools instead of to the district.

Title I Purchases in Six Other Districts Are Not Centralized. Schools initiate the purchases in all districts we visited except the Beaver School District. Someone at the school decides what they would like to purchase and the district Title I office reviews and approves the request if it is appropriate and within budget. Involving schools in the transaction

Title I purchases in most other districts are not centralized.

provides additional assurance that the appropriate items and quantities are ordered and received. Also, the magnitude of risk of theft is reduced because the budget responsibility is allocated across several schools instead of in one central office.

Beaver School District's Title I program, like Davis' program, is completely centralized. However, the risk of fraud in the Beaver district is minimal because their 2005 supply expenditures were less than $2,500. Supply expenditures in Davis were almost $865,000 (see Figure 5).

Vendor Reviews Were Inadequate

Davis did not adequately evaluate new vendors before entering them into the computer system and sole source vendors were not adequately monitored.

The next control weakness that was a serious concern involved inadequate vendor reviews. There were two issues involving vendors: evaluating new vendors before entering them into the computer system, and approving and monitoring sole source vendors.

In the Davis School District, a person could exploit weaknesses in the vendor approval system by submitting information for a fictitious vendor. At the time of the alleged frauds, vendor approval procedures were focused on obtaining a tax identification number and avoiding duplicate vendors but did little to evaluate if the vendor was a legitimate business. Davis allowed several purchasing department personnel to add vendors to the computer system. These personnel included the purchasing department secretary, who may not have had the experience to effectively evaluate vendors. Thus, a person could submit false information about a fictitious vendor without being questioned.

In addition, sole source vendors were inadequately monitored. As stated in the indictment, "Davis School District paid higher prices for the books and educational materials purchased from R&D than it would have if [the defendants] had solicited competitive bids from other vendors." A large portion of Title I expenditures was for purchases from R&D Consultants, a sole source vendor approved by the purchasing department in 1995. Sole source purchases are noncompetitive. Thus, sole source vendors should be approved when they are the only practical source for an item or service.

Sole source vendor applications require written justification as to why no other vendor is suitable to meet the need. District purchasing policy requires detailed information because purchases from approved sole source vendors sidestep the conventional bid process designed to obtain the best price.

Davis amended its procedures for adding new vendors into the system and for monitoring sole source vendors.

Davis Recently Strengthened Its Procedures for Adding New Vendors into the System and for Approving and Reviewing Sole Source Vendors. The purchasing department amended its procedures for adding new vendors into the system. Procedures now require a procurement officer to verify that a new vendor is a legitimate business that has other clients in addition to the district. Only three purchasing staff are authorized to create new vendors in the system.

The procedures for approving and reviewing sole source vendors were also strengthened. Before a sole source vendor is approved, the requestor must estimate the amount that is expected to be spent with that vendor. Once approved, the procurement officer either requires the vendor to receive a new approval for each purchase or issues an ongoing approval for a maximum of 12 months with set expiration and review dates. Each approved sole source provider is assigned a number, and information is posted on the Internet to solicit others to compete.

Most other districts require purchases from sole source vendors to be approved on a case-by-case basis.

Other School Districts Carefully Control Approvals of Sole Source Vendors. All districts in our sample, except Granite School District, require purchasing staff to approve each purchase from sole source vendors on a case-by-case basis. We were initially concerned that Granite may have potential control weaknesses similar to Davis because they allow the global approval of all purchases from a specific sole source vendor. Although the Granite purchasing department approves most of the purchases from sole source vendors on a case-by-case basis, six vendors receive a global approval. However, we believe there is not the same potential risk as was at Davis because these vendors are reviewed annually. We feel it is important for school districts to regularly review global approvals given to sole source vendors.

Davis Plans To Implement An Annual Conflict of Interest Disclosure

An additional control that Davis School District reported they would implement is to require all employees to annually sign a conflict of interest and ethics statement (Number 8 in Appendix A). A conflict of interest is a situation in which an individual's relationships may compromise his or her professional activities. Employees' decisions or other actions should not be, or not perceived to be, influenced by outside activities or associations.

Davis is in the process of implementing a policy requiring employees to annually sign a conflict of interest disclosure.

District policies state that employees must not use their position or knowledge gained as a result of their position for private or personal advantage. Purchasing policies require employees to fully disclose any interest the individual or the individual's family has in any entity that does business with the district; any changes in the information concerning potential conflicts should be immediately provided to the district. Davis School District reports they are still in the process of developing and implementing a policy to require employees to sign a conflict of interest disclosure each year.

None of the sample districts we visited require employees to annually sign a conflict of interest disclosure. The State Auditor in the past recommended that districts "adopt a code of conduct where every management individual and those who handle money sign a document which states that they will adhere to high standards in dealing with the public's trust in their fiduciary responsibility to the taxpayer." This recommendation has not been implemented and, in fact, the districts we sampled did not require either a signed affidavit about their fiduciary responsibility or an annual conflict of interest disclosure. However, disclosures specific to each purchase are generally required.

Given the alleged frauds that led to this report, we think all districts should consider requiring all managers and employees who handle money or approve purchases to sign an annual disclosure to reinforce expected ethical behavior.

Better Monitoring Is Needed

These frauds are alleged to have continued for many years. Monitoring that procedures are implemented and effective could reduce the amount of funds lost by exposing illegal acts sooner.

In general, effective monitoring is important because it can reduce the amount of funds lost when fraud does occur by exposing the illegal acts sooner. One of the most troubling aspects of the criminal indictments of the Davis Title I staff is that the frauds are alleged to have continued for so long. The allegations indicate that Davis needs to ensure that purchasing activities are adequately monitored to determine that established control procedures are implemented and effective.

This section discusses monitoring weaknesses that existed at the Davis School District, identifies changes the district has made, and evaluates if other districts have similar monitoring weaknesses. We also propose additional monitoring be completed by the Title I office at the Utah State Office of Education. Monitoring expenditures and questioning those costs that appeared atypical is a common way to detect fraud.

Davis Purchasing Activities Were Not Effectively Monitored

The Davis School District did not adequately monitor purchases to identify if its policies were effectively administered. Both the purchasing department and the internal auditor were involved in monitoring to enforce purchasing policies. However, this monitoring was ineffective.

Davis did not adequately monitor if policies were effectively administered.

Monitoring compliance with purchasing policies should have revealed that district employees could disregard two policies—purchase approvals and split purchases. Davis policies require that all purchases be approved in advance by the applicable budget manager. These authorizations are governed by purchase price, and the transaction may not be split or divided into smaller units to avoid the proper purchasing procedure. Purchases up to $1,000 require one supervisor's approval; from $1,000 to $5,000, two supervisors must approve and three verbal quotes are needed —these quotes are subject to review/approval by the purchasing department; from $5,000 to $10,000, approval from a higher level manager is needed along with three written bids and a review and approval from a purchasing agent. The computer system prompts the requirements.

These approval procedures are designed to prevent invalid transactions from occurring. The effectiveness of these procedures depends mostly on computer controls and monitoring. However, the purchase approval control restrictions could be circumvented because of the ability to forward electronic authorizations to a lower-level employee. Additionally, the cost thresholds could be circumvented; a purchase could be split into smaller increments and not processed as one transaction because purchase orders are made out to different schools.

Although computer controls are sometimes circumvented, sufficient and regular monitoring should identify possible frauds. The purchasing department was responsible to evaluate if purchases were in accordance with policies until district management recently decided to have the internal auditor monitor the controls. Monitoring should disclose any violations and trigger a prompt investigation. Figure 4 shows an example of how the purchasing policies could be violated by splitting purchases, thus keeping the cost below the $1,000 threshold that would require bids and a higher level supervisor to approve the purchase.

Figure 4 Example of Split Purchase. Costs for each purchase order from the same vendor were kept below the $1,000 threshold. Bids and additional approval would be required if the purchases had been submitted as one order.

On one day, 15 identical purchase orders were issued for less than $1,000 each so no bids or additional approval were required.

Purchase Order	Recipient	Purchase Description	Amount
1	School A	25 dictionaries and 50 notebooks	$ 971.25
2	School B	25 dictionaries and 50 notebooks	971.25
3	School C	25 dictionaries and 50 notebooks	971.25
4	School D	25 dictionaries and 50 notebooks	971.25
5	School E	25 dictionaries and 50 notebooks	971.25
6	School F	25 dictionaries and 50 notebooks	971.25
7	School G	25 dictionaries and 50 notebooks	971.25
8	School H	25 dictionaries and 50 notebooks	971.25
9	School I	25 dictionaries and 50 notebooks	971.25
10	School J	25 dictionaries and 50 notebooks	971.25
11	School K	25 dictionaries and 50 notebooks	971.25
12	School L	25 dictionaries and 50 notebooks	971.25
13	School M	25 dictionaries and 50 notebooks	971.25
14	School N	25 dictionaries and 50 notebooks	971.25
15	School O	25 dictionaries and 50 notebooks	971.25
		TOTAL:	**$ 14,569**

As the above figure shows, the purchases from the same vendor for one day could far exceed the $1,000 threshold that requires additional approval and price quotes. Although the items are purported to be delivered to different locations, the vendor, price, and items purchased are identical. Even with the different delivery locations, the purchases should be combined into one order and additional approvals and bid procedures should be required. In our opinion, fraud can be identified more quickly and the amount of a theft reduced when the purchasing department effectively monitors if purchasing policies are violated.

Davis hired a full-time internal auditor and expanded monitoring activities by the purchasing department.

Davis Recently Expanded Its Internal Audit Function and the Purchasing Department Regularly Receives Reports. The audit department was expanded from a half-time to a full-time auditor. Until recently, the auditor divided his time between auditing and accounts payable. The new full-time auditor focuses only on auditing activities including monitoring a newly established fraud hotline. The auditor now includes district departments as part of his scheduled reviews.

The Davis purchasing department has expanded its monitoring activities. They now routinely monitor some purchasing activities instead of completing ad hoc queries only when there are questions about specific vendors. Reports are automatically generated involving vendors who exceed established spending expectations, and alerts are issued for those with purchases that exceed an expected dollar threshold. However, while the alerts are in place for new vendors, Davis has not yet identified what the appropriate threshold should be for existing vendors. We believe the Davis purchasing department should continue to evaluate and implement appropriate parameters. Another improvement is a report which aggregates purchases for a vendor within a defined time period, allowing the purchasing department to quickly identify split purchases.

Other Districts Monitor if Purchasing Policies Are Followed. The purchasing departments in each district we visited actively monitor purchasing activities to determine if policies involving authorizations and split purchases are followed. For example, the Weber purchasing department issues reports specifically to help them audit purchasing activities.

Most of the monitoring completed by auditors is directed at the schools but auditors do not appear to routinely monitor the financial activities of district departments. The internal auditor or independent auditor prepares a rotating list so that all schools are monitored. However, the auditors in a district we visited does not routinely monitor the financial activities of district departments. In our opinion, frauds can be overlooked for a longer period of time if there is not a routine evaluation of district office purchases and other financial procedures. Some districts conduct ad hoc evaluations of district financial activities, but we believe it would be beneficial to also include district offices as part of the auditor's scheduled review.

USOE Could Provide Additional Monitoring

The Utah State Office of Education (USOE) could provide districts with additional oversight by monitoring Title I expenditures and by providing additional internal audit support, particularly to small districts that do not have internal auditors.

Evaluating atypical patterns may detect fraud.

Monitoring Trends Can Assist in Detecting Fraud. The USOE's Title I office could monitor for potential fraud by evaluating Title I expenditures. Reviewing operating performance is one of the control activities cited in the components of internal control. A comparative analysis of expenditures identifies trends and atypical patterns which may detect fraud. For example, the following figure compares Davis supply expenditures to the sample districts in our review.

Figure 5 Title I 2005 Expenditures. Davis School District's proportion of supply expenditures was higher than other districts.

District	Total Expenditures*	Supply Expenditures	Percent Supplies
Beaver	$ 136,356	$ 2,489	1.83%
Box Elder	655,275	28,039	4.28
Davis	**3,487,069**	**864,641**	**24.80**
Duchesne	650,131	68,451	10.53
Granite	8,351,543	708,751	8.49
Jordan	2,238,576	64,088	2.86
Washington	3,207,080	325,667	10.15
Weber	1,158,847	11,296	0.97

** Excludes indirect costs.*

As Figure 5 shows, Davis spent considerably more for supplies than the seven other sample districts reviewed. The indictment states that approximately one fourth of its total annual Title I budget was used to purchase the overpriced copies of books from R&D. Interviews with other districts revealed they spent more of their Title I funds to hire staff while Davis purchased supplies (which included the allegedly fraudulent purchases). Although Davis' decision to spend more on supplies may be allowable according to federal guidelines, we feel an analysis of unusual spending patterns could have resulted in additional scrutiny and subsequently detected the alleged frauds. In 2006, Davis spent 14.1 percent of their total direct costs on supplies instead of the 24.8 percent spent in 2005.

Analyzing trends and evaluating those that are atypical is a common way to detect fraud. The Title I office is already obligated to monitor compliance with the many federal requirements of the program. Had the USOE Title I department also monitored expenditures and evaluated those that appeared atypical, the allegedly fraudulent purchases may have been discovered and dealt with many years ago.

Additional Internal Audit Support Is Needed. In our opinion, some districts need additional internal audit support. A common thought is that each district's independent audit will detect fraud. These audits focus more on the financial statements and only recently have been required to report on internal controls. Although this is an improvement, we feel an internal auditor can provide more in-depth oversight.

The need for additional internal auditor support could be met by assigning a USOE auditor to serve as the internal auditor for several small school districts.

The Davis alleged frauds were discovered by a part-time internal auditor, and most districts do not have an internal auditor. Further, until recently, the USOE has only had one auditor, who is very busy. He does not audit each district but only investigates concerns—he "puts out fires." The USOE also has a statewide fraud hotline, but it receives very few calls. We believe all districts would benefit from the oversight provided by an internal auditor. Therefore, we recommend that the USOE evaluate the feasibility of assigning a USOE auditor to serve as the internal auditor for several small school districts.

In conclusion, serious internal control weaknesses allowed frauds to allegedly occur in the Davis School District, and inadequate monitoring allowed them to continue over a long period of time. Lenient controls allowed improper authorizations and insufficient separation of duties. The control environment sets the tone of an ethical and responsible organization. Clear policies and procedures, and honest managers help to set a positive tone. According to COSO, "The effectiveness of controls cannot rise above the integrity and ethical values of the people who create, administer, and monitor them."

Although many of the specific weaknesses have been resolved in the Davis School District, it is important to frequently reassess that controls are established and implemented. Additionally, management must respond promptly and adequately to findings of internal and external investigations and to suggestions and complaints.

Recommendations

1. We recommend that the Davis School District continue to establish appropriate dollar thresholds for existing vendors as an alert that additional monitoring is needed.

2. We recommend that school districts ensure that the routinely scheduled reviews of school financial activities also include district departments as part of the scheduled reviews.

3. We recommend that all school districts review their purchasing policies to ensure

    a. an adequate separation of responsibilities or that compensating controls have been implemented.
    b. appropriate vendor control procedures, including approving new vendors and periodically reviewing the status of approved sole source vendors.

4. We recommend that school districts consider requiring all managers and employees who handle money or approve purchases to sign an annual conflict of interest disclosure.

5. We recommend that the Utah State Office of Education Title I office provide additional oversight including monitoring expenditure trends and providing additional scrutiny to those trends that are atypical.

6. We recommend that the Utah State Office of Education evaluate the feasibility of assigning an auditor to serve as the internal auditor for several small school districts.

Chapter III
Other Foundations Have Internal Control Weaknesses Similar to Weber

Weak internal controls contributed to theft from the Weber School District Foundation. A former secretary, employed by the district and assigned to work for its foundation, acknowledged in an affidavit to the courts that she embezzled $979,391 over a five-year period. The secretary admits the funds were embezzled by forging checks and entering false information into foundation accounting records showing the checks had been paid to schools or vendors. In the affidavit, she states the forged checks "were deposited and credited against my credit card accounts." She was charged with 57 counts of theft, money laundering, and forgery. She pled guilty to 45 of the counts and was sentenced to prison. District management believes the theft may have started as early as 1994 when she was first hired to work for the foundation. This chapter discusses relevant internal control weaknesses and monitoring activities.

School district foundations are nonprofit entities created to raise and/or manage funds donated to schools. The federal government approves their nonprofit status, and they are designated as a 501(c)(3) entity. ***Utah Code*** 53A-4-205 provides for the creation of public education foundations, but provides little guidance about the requirements or accountability of foundations. The statute allows school boards to establish foundations that may solicit and receive contributions to assist in the development and implementation of a program that was established to promote educational excellence; and to assist in the accomplishment of other education-related objectives. Each foundation has a separate board to govern their activities.

Weber School District Foundation had several internal control weaknesses that could allow fraud to occur and continue for many years.

The Weber School District Foundation had several internal control weaknesses that could enable a dishonest employee to embezzle funds. The following controls were absent or ineffective:

- Separate accounting system used without sufficient purchasing and personnel policies and procedures.

- Inadequate separation of duties—the same person could issue checks and enter information into the accounting system.

- Schools were not informed about available funds.

Some Other Foundations Have Similar Control Weaknesses

The Weber School District Foundation had several internal control weaknesses. The Legislative Audit Subcommittee asked us to identify the weaknesses and changes implemented by the foundation, and then evaluate if a sample of other school district foundations have similar weaknesses. The following figure summarizes our conclusions that some other foundations do have similar weaknesses. However, in some cases, the risk is minor.

Other school district foundations have similar internal control weaknesses similar to those found in the Weber School District Foundation.

Figure 6 Some Foundations Have Similar Control Weaknesses.

	Risks		
Foundations	**Separate Accounting System without Sufficient Policies**	**Inadequate Separation of Duties**	**Schools Not Informed About Available Funds**
Box Elder	No	No	No
Davis	No	No	No
Duchesne	No	No	No
Granite	Yes	**Minor***	Yes
Jordan	No	**Minor***	Yes
Washington	No	No	No

"Minor" means the foundation has a similar weakness but the risk is minor because they have implemented other controls. For example, Granite and Jordan foundations have a separation of duties weakness because staff both enters information into the accounting system and issues checks. However, they have minimized the risk with other controls. Granite has a district employee who monitors transactions. Jordan's risk is minimal because the account in question is only a secondary account, and funds are transferred to that account only when needed. Other Jordan foundation checks are issued from a primary account that goes through the district accounting system.

Separate Accounting System Is Used Without Sufficient Policies and Procedures

Weber foundation uses its own accounting system without implementing sufficient policies and procedures.

The Weber foundation uses its own accounting system instead of using the district system but has not implemented sufficient policies and procedures to clearly describe the asset control procedures, responsibilities, and expectations. By having a separate accounting system, the foundation has forfeited important controls already addressed in the district's procedures and must, therefore, develop its own policies and procedures. For example, the control of assets, which includes issuing checks, has been addressed by the district but foundation procedures are very different. An employee could exploit inadequate asset control procedures by issuing and forging checks. Theft would not be discovered because monitoring procedures were also inadequate. The foundation should, therefore, have its own procedures that include adequate controls to address each potential risk posed by not using the district accounting system and by the unique nature of their operation.

The foundation should also have specific purchasing policies. Weber School District's policies emphasize the importance of purchasing policies, stating that they are designed to "establish contracts and generally carry on its procurement functions in a manner that deals equitably with all vendors and provides for efficient management and proper expenditure of public monies." Likewise, the foundation should design purchasing policies to govern the use of the funds they control.

In our opinion, all foundations should have policies that address purchasing procedures, and if foundations do not use their district's accounting system, they should have procedures for issuing checks and reconciling the bank account that clearly address the potential risks. In addition, because of the interrelationship with their districts, foundations should follow district-established policies. Weber School District's purchasing procedures appear to support this position by stating—

> These procedures apply to all purchases made by the district or any of its subdivisions; i.e. schools, departments, programs, etc. The procedures apply regardless of the source of money to be expended, including but not restricted to:
> I. Tax money
> ii. State and federal grants
> iii. Donations

Weber foundation has not developed purchasing and personnel policies.

Weber Has Not Yet Developed Written Purchasing and Personnel Policies and Procedures. In the past, foundation accounting was integrated within the district. The foundation changed to a separate accounting system to expand available donor information, and the foundation is still deciding if they should keep that separate system. Plans are to have most of the accounting activities completed by an accounting firm owned by a board member. The firm is donating its services and currently issues all foundation checks. Eventually they will also reconcile the bank account and issue financial reports. These additional services are pending the receipt of an updated software program the foundation is purchasing.

We feel that because the foundation has decided not to use the district's accounting system, it is important for them to establish policies and procedures that address their control of assets. They have job descriptions that outline the director's and secretary's responsibilities, but they should also have procedures addressing the responsibility of volunteers, such as the accounting firm that is donating its services.

One other foundation in our sample has an accounting system separate from the district.

One Other Sample Foundation Has an Accounting System Separate from the District but Has Not Established Some Policies And Procedures. All but one of the six other foundations we visited (Beaver does not have a foundation) use their district's accounting system. Only the Granite foundation has an accounting system that is separate from the district. And, much like Weber, the separate accounting system introduces potential weaknesses by relinquishing the district's established controls. The Granite foundation appears to have minimized the risk by having a district accountant review the transactions the foundation secretary enters into the accounting system. Although we feel foundations should use their district's accounting system, if they do not, they should establish written policies and procedures that specifically address their asset control procedures. These policies should identify how they have addressed the risk introduced by not using the district's accounting system and should also include procedures and job descriptions that clearly identify the essential duties and responsibilities of each staff.

We also believe that it is good practice for all foundations to establish written job descriptions for their directors, employees, volunteers, and board members that clearly describe their responsibilities. Of the seven foundations we visited, Jordan, Washington, and Weber have job descriptions for their employees. Duchesne, and Granite foundations only list the responsibilities and duties of board members in their by-laws. In response to the Weber fraud, Box Elder developed a list of control procedures that provides a level of guidance. Davis has a job description for the foundation secretary but not for the other two staff.

Most foundations sampled do not have purchasing policies.

Of the foundations in our sample, only Davis has purchasing policies specific to the foundation. Some foundation staff stated they follow their district's policies, but there were no policies addressing the unique procedures foundations have developed. In our opinion, it is a good practice for foundations to follow their district's policies but they should also state in their own policy that they adhere to the district's policy or establish their own policies. For example, foundation policy could be similar to Davis School District policies stating that all donations are considered public funds and are subject to state procurement laws, rules, and the district purchasing policy. Davis foundation policies include specific information but also instruct readers to refer to the district procedures for greater detail than is provided. As previously stated, these policies are especially important for Weber and Granite which do not use their district's accounting system.

Separation of Duties Was Inadequate

Weber foundation did not have an adequate separation of duties—the same person could issue checks and enter information into the accounting system.

A major weakness at Weber was an inadequate separation of duties. The same individual could both issue checks and record check information into the accounting system; she also controlled the check stock. There is a higher risk of fraud when a single individual has control over multiple phases of an operation. Weaknesses in segregation of duties often occur in entities where there are few employees who must perform multiple duties; this is often the case for foundations. In a situation where it is impractical to separate duties due to the small number of employees, additional or compensating controls should be implemented.

In conjunction with the inadequate separation of duties, assets were not adequately secured because the foundation's check stock was not well controlled. Poor control of the check stock provides an opportunity for a dishonest employee to issue and forge checks. Permitting the same individual to record the check information into the accounting system allows that person to conceal the theft by showing that the checks were paid to a legitimate individual or business.

By comparison, Weber School District implements several controls over the checks they issue. First of all, the district check stock is not useable until it is printed because checks are not numbered until they are issued. The entire check, including the check number, is printed on a special printer that has a specific type of ink. Once printed, a log of check numbers is sent to the bank informing them that they were legitimately issued. The bank notifies the district if they receive a check not included on that log.

Because the foundation uses a separate accounting system, they must implement their own procedures including tracking check numbers and having a separate individual control the check stock. An additional control, discussed later in this chapter, would be to track that the checks issued agree with those the board has approved.

The Weber foundation did provide some separation of duties by having a district accountant complete the bank reconciliation. However, the bank did not provide copies of the cleared checks. Therefore, the accountant reconciled the checking account based only on check numbers and dollar amounts. Copies of cleared checks will disclose if checks are not issued to the payee listed in the records.

Weber foundation is in the process of separating duties. The new director continues to evaluate and implement improvements.

The Foundation Is in the Process of Separating Duties. The foundation has limited the responsibilities of a newly hired secretary. The new secretary is a district employee who divides her time between the foundation and the district. She records information into the accounting system, but an accounting firm owned by a board member issues checks twice per month after payments have been approved by the board.

After the director retired, a new director was hired. Although the new director is evaluating other possible changes, the foundation plans to have the volunteer accounting firm issue financial reports and reconcile the bank account. For now, the bank reconciliation continues to be completed by the district accountant who carefully reviews copies of the cleared checks.

Two Other District Foundations Also Have Separation of Duty Concerns. As shown in Figure 6, we found minor separation control concerns at the Granite and Jordan foundations. These concerns are similar to those we have with the Weber foundation; however, the risks at Granite and Jordan appear minor because the foundations have implemented several compensating controls. Compensating controls are additional procedures designed to reduce risks.

Two other foundations with similar separation of duty concerns have minimized the risk by implementing compensating controls.

For example, the Granite secretary issues checks and records information into the accounting system. She issues checks, handles deposits, reconciles the bank accounts, tracks school balances, develops financial statements, and calculates fund-raiser net profits. This poses a potential separation of duties problem, but the foundation has minimized the risk by having a district accountant, who is not involved in the day-to-day activities of the foundation, involved in the process. Although the secretary enters deposit information and some checks into the books, the district accountant reviews transactions, records some checks, and examines the bank reconciliation.

Another similar concern found at the Granite foundation is that the secretary also has access to the foundation check stock. However, the risk is minor because the foundation keeps the check stock in a locked area, and copies are made of each check once they are issued; these copies are kept in a different location.

The Jordan foundation also has a separation of duty concern similar to Weber's because an employee issues checks for a secondary account and controls the check stock. However, this is also a minor risk because the separate credit union account is not the foundation's primary account; instead, it is used only to manage a few specific transactions, and there is no balance kept on hand that could potentially be embezzled.

Additionally, there were similar risks possible for Granite and Jordan foundations because both have checking accounts through a credit union that does not normally return copies of cleared checks. However, the risks were addressed because of the Weber fraud; both foundations now obtain copies of the cleared checks. Obtaining copies of cleared checks is not a concern for other foundations sampled because they use their district's accounting system.

Schools Not Well Informed About Available Funds

Schools were not well informed about funds held by the foundation on their behalf.

Another control weakness at Weber is that schools were not well informed about their account balances. Most foundations both manage funds that belong to specific schools (pass-through funds) and award grants to schools funded from the net proceeds of fund-raising events.

Foundations keep ledgers showing the transactions and balance for each of the schools. One reason theft at the Weber foundation was not noticed was because schools did not know about the transactions, such as checks supposedly issued for their benefit. Schools that are informed will know something is amiss when expected funds are not received.

Weber Foundation Plans to Provide Schools with Copies of Updated Ledgers. Schools have been notified each time the foundation either received a donation on their behalf or the board approved a grant they had requested. However, in the past, the foundation did not provide schools with an updated copy of the foundation ledger that lists all transactions and the current balance that remains in their account. Because the schools were not well informed, the Weber foundation secretary could more easily embezzle the funds without being noticed.

Weber foundation plans to provide schools with copies of ledgers after changes to its accounting system have been completed.

The foundation now plans to regularly give schools a copy of the ledger but is waiting until changes to the foundation's accounting system have been completed. We feel schools should also be provided with information that is not currently recorded on each school's ledger. School ledgers do not include information about grants awarded from the net proceeds of fund-raising events because the accounting system is organized with those transactions on a separate ledger. Therefore, even if schools receive copies of their own ledgers, they will not know if there has been a transaction on their behalf. This is concerning because a lot of the funds that the secretary embezzled was from fund-raising events.

One solution is to transfer the funds from the fund-raising ledger to the school's ledger as soon as the board approves the transaction, which is the procedure used by the Davis foundation. Each school's ledger would then show the grants awarded to them. The new foundation director believes the current accounting system can be modified so that complete information will be on each school's ledger.

Schools in Some Other Districts Are Also Not Very Well Informed About Balances in Their Foundation Accounts. We found other foundations also do not regularly provide schools with copies of their ledgers. Of the six foundations in our sample, schools in Granite and Jordan districts do not know the balance of funds held by their foundation.

Schools in some other districts are not well informed about balances in their foundation accounts.

For example, although the Jordan foundation keeps a large, handwritten ledger book that shows transactions for each individual school, and the district periodically reconciles the balance on the ledgers to the balance on the district books, the five schools we contacted did not know their balances. The foundation regularly informs schools when donations are received or grants are awarded, but they rarely send copies of school ledgers disclosing the balance remaining in their accounts. The foundation sends the schools a summary statement only about once a year, but it does not list all transactions that have occurred. Therefore, schools can not monitor if inappropriate transactions have occurred and must call to verify the amount of funds that are available.

Schools in other sample districts reported they occasionally receive copies of the ledgers, even though their foundations reported the copies are regularly sent to schools. Duchesne does not keep funds for their schools and, therefore, does not maintain any ledgers. The other three foundations, Box Elder, Davis, and Washington, regularly provide information to their schools, either by providing schools with direct computer access to the balances or by sending copies of the schools' ledgers showing all transactions and balances. We feel it is important that schools receive copies of the ledgers so that they can monitor that all transactions have been included and are accurately recorded.

We identified an additional concern pertaining to school information. Schools could not clearly identify which donations remained in their balances so that the donations could be used as intended. For example, although the Davis foundation provides information to schools by integrating its data into the district system, the schools we visited were not able to identify how the funds in the balance were intended to be spent. One elementary school had over $29,000 in their account, which included $9,500 carried over from the previous fiscal year. The school could not identify the breakdown of the carry-over funds. Staff at the school told us the foundation tracks the identity of the funds, and the foundation told us that the district could figure out the identity of the remaining balances. In our opinion, schools should track donations to ensure that funds are spent only for the intended purpose.

Foundations should track expenditures including verifying that payment amounts agree with the amounts the board has approved.

Foundations Should Also Track Expenditures. Foundations need to verify that payments issued agree with those approved. Foundations should have a complete and ongoing list of all checks issued or voided that can be easily reviewed to ensure the payments are appropriate. At Weber, regular review of an ongoing check register would have revealed that some checks were issued without authorized signatures and that some grants were purportedly paid numerous times. Reviews also could have shown that payment amounts differed from amounts approved by the board.

Reviews could reveal forgeries. Each Weber foundation check required signatures from two of the four authorized check signers. The fact that none of the authorized signers expects to sign every check makes it easier to conceal forged signatures. Although it could take many different forms, some control is needed to verify checks are appropriately issued. One technique that could be used is for the check register to show who signed each check and have authorized check signers periodically review the register.

Foundations cannot properly approve all expenditures if they are unable to account for all checks issued. The Weber foundation did not have procedures addressing the need for a check register. A check register may reveal if several checks are issued for the same purpose. For example, in March 2006, the board approved $5,500 for a junior high school. Foundation records show three $5,500 checks were issued—one issued in February, and two issued in March. Staff from the school told us they did not receive any payments. Foundations should verify that payments issued agree with those approved and provide schools with information about transactions involving them.

The Weber foundation also did not have a procedure to verify that the amount paid out agreed with the amount the board approved. Board minutes show the board approved one amount but checks were issued for different amounts. The procedures used by the Davis School District Foundation would help to prevent this type of discrepancy. As previously noted, the Davis foundation transfers funds to schools at the time the board approves them, and the foundation does not pay invoices on behalf of schools. Therefore, it is less likely someone could embezzle funds by duplicating payments.

Foundations should budget fund-raising events and measure actual performance versus budgeted expectations.

Foundations Should Budget Fund-Raising Events. In addition to managing funds that are passed directly to schools, most foundations conduct fund-raising events. A concern raised about the Weber foundation involved false financial reports the secretary gave to the board. District staff told us the secretary gave the board false financial reports involving their fund-raising events. These reports showed that the expenses were significantly higher than the actual expenditures and, thus, the net proceeds were lower. The foundation board, therefore, was misinformed about the profitability of specific fund-raising events because they were not provided with accurate information.

The Weber foundation's independent auditor raised concerns that the foundation did not have a budget in place to compare actual contributions and expenses against planned operations. The auditor's report stated that in response to the repeated recommendations, "the Foundation has developed a budget worksheet, however, we repeat our recommendation that the budget be integrated into the financial reporting system to allow it to measure actual performance versus budgeted expectations." Had the foundation followed this recommendation, they may have identified fraud sooner.

Checks and balances are essential to thwart fraud by dishonest employees and are especially important when a foundation chooses to have an accounting system that is separate from the district. The next section discusses foundation oversight.

Additional Oversight and Guidance Is Needed

In addition to foundations carefully monitoring their own finances, we feel foundations need additional oversight and guidance. Foundation accountability is important because public funds are used to help finance foundations. We estimate at least $1.5 million of public funds were donated to foundations by hiring district employees to staff foundations. The actual amount of public funds involved is greater because our estimate excludes the value of employees who use some portion of their time for foundation work, as well as the value of office space and other expenses that districts donate.

Foundation oversight is needed to ensure foundations are accountable for the public support they receive.

Adequate oversight is needed to ensure foundations are accountable for the public support they receive. Additional state guidance could assist foundations in implementing consistent financial practices.

Additional Statutory Guidance May Improve Accountability

The Legislature may want to clarify the roles and responsibilities of foundations and the school districts they serve. Currently, the ***Utah Code*** authorizes school districts to establish foundations, but it does not identify responsibilities of the foundation board or district school board. The full text of ***Utah Code*** 53A-4-205 is as follows:

> (1) State and local school boards may establish foundations to:
> (a) assist in the development and implementation of the programs authorized under this part to promote educational excellence; and
> (b) assist in the accomplishment of other education-related objectives.
>
> (2) A foundation established under Subsection (1):
> (a) may solicit and receive contributions from private enterprises for the purpose of this part;
> (b) shall comply with Title 51, Chapter 7, State Money Management Act, and rules made under the act;
> (c) has no power or authority to incur contractual obligations or liabilities that constitute a claim against public funds except as provided in this section;
> (d) may not exercise executive, administrative, or rule making authority over the programs referred to in this part, except to the extent specifically authorized by the responsible school board;
> (e) is exempt from all taxes levied by the state or any of its political subdivisions with respect to activities conducted under this part; and
> (f) may participate in the Risk Management Fund under Section 63A-4-204.

The Utah Code provides foundations with minimal guidance.

Because foundations receive significant public funding (as described below) we think additional statutory guidance is warranted. We are not suggesting that foundations are not an appropriate and effective recipient of public funding. But we are suggesting that foundation oversight expectations should be clarified. For example, some of the issues that could be clarified in statute include the following:

Foundation oversight expectations should be clarified.

- The responsibility of school district boards to provide oversight to foundations they create

- The responsibility of school district boards to monitor the amount of school district funds spent on foundation operations

- The level or type of financial reporting required of foundations

- The applicability of open and public meeting laws to foundations

- The responsibility of foundations to follow school district policies unless superceded by specific foundation policies

- Whether foundations are subject to state level audits, including by the State Auditor or USOE

- Whether the State Board of Education or USOE has a role in providing any guidance or oversight to foundations

The role USOE could play in guiding foundations is discussed later, but first we review some funding and operating characteristics of foundations.

Districts Provide Foundations With Financial Support

Foundation staff and office expenses are often paid for by their school districts.

School districts pay most of their foundations' expenses by donating employee and office costs. For example, in 2005 the Granite School District paid the employee costs and benefits for a foundation director and three staff valued at $342,105 (the foundation also has two staff that are paid by the foundation). This amount does not include the cost of district staff who spend a portion of their time doing foundation work, and the cost of a significant amount of donated office space.

Donating district employees to work for foundations is common. We contacted school district foundations throughout the state and Appendix B provides information they reported to us, including the number of staff they have and if they are district or foundation employees. Most districts assign foundation responsibilities as part of the district employees' additional responsibilities, but there are 22 district-paid employees that work only for their foundation. The employee costs and benefits, as well as their office space, are considered donations from the district to the foundation.

Only four foundations, Cache, Park City, Uintah, and Wasatch, operate independent of their districts. Except for Cache, the foundations use their own accounting system and either hire staff that are not paid by their districts or use volunteers. However, even then there is an overlap with their districts. For example, office space is donated to the foundation by the Park City School District, and Cache and Wasatch school districts donate funds.

It was beyond the scope of this audit to evaluate the adequacy of foundation accountability, but there are concerns because public funds are used for employee costs and office space. Further, it is unclear if there are additional liability issues because employees are employed by the district and supervised by the foundation. It was beyond the scope of this audit to evaluate these liability issues, but these issues could be addressed in a future audit.

Foundations Have Inconsistent Operational Characteristics

Interviews with foundation staff throughout the state disclosed that there are inconsistent operational characteristics and various ways that foundations manage their finances. We did not evaluate the effectiveness of the 30 district foundations or compare the amount of donations received to their expenses donated by a district because there are many inconsistencies. In addition to uncertainty in the district-donated costs, there are variations in the sizes and potential revenues of each foundation. Some foundations have large amounts of revenue and assets and they actively seek donations (e.g., Alpine, Davis, Granite, Jordan, Ogden, Park City, Salt Lake, Washington, and Weber), while most others have minimal revenues and assets and only process donations as needed.

Foundations inconsistent operational characteristics make it difficult to evaluate their effectiveness.

Districts also manage donations meant for specific schools differently. For example, our review of the seven sample foundations revealed that the Davis foundation prefers that all donations, even those that are targeted for a specific school, be passed through the foundation. The Jordan foundation recommends that donors send their donations directly to the schools instead of funneling them through the foundation. Thus, their revenues in relation to their expenses appear low.

Another inconsistency is how foundations are structured. Although foundations stress that they are legally separate organizations with a separate board, foundations generally also include district employees on their board. Some boards are very large while other foundations have only three or four board members. Most foundation boards include district employees, most often the business administrator, and others expressly exclude district staff. For example, the Granite foundation is unique in that they have 35 unpaid board members, which excludes district administrators.

Some districts' financial reports explicitly recognize how closely they are affiliated with the district. For example, the Jordan School District's financial report states the district is financially accountable for the foundation, and the Logan City School District financial report states "the foundation receives support from the district and is fiscally accountable to the district for its operations." Districts generally identify foundations as a separate component unit of the district on their annual financial report. However, we were concerned to learn that at least one district removed the information about their foundation from its financial report before it was submitted to the State Auditor.

Finally, as Appendix B shows, over half of the foundations have established accounting systems that are separate from district systems, a concern discussed earlier in this chapter.

USOE Could Provide Guidance to Foundations

The Utah State Office of Education (USOE) could provide guidance to foundations which would assist them in strengthening their internal controls. The USOE was initially involved in promoting school district foundations through the Utah Foundation of Educational Excellence. However, that involvement was lost when the Legislature eliminated the program. In our opinion, state-level involvement could still be useful.

USOE could once again provide guidance to foundations.

Most school districts established foundations when legislation was passed in 1988 creating the *Incentives for Excellence* program, which provided matching state funds based on contributions from private businesses. The same legislation created a state foundation, the *Utah Foundation for Educational Excellence,* to manage the program. The incentives program was discontinued in 2002 (it now comes through a local block grant), but many small districts continue the use of foundations to manage donations even though donations could be made directly to the district or schools.

Advising school districts about foundation procedures could be beneficial. For example, Morgan is in the process of establishing a foundation and expects to have only one volunteer staff. They originally intended to use a separate accounting system. Citing the problems at Weber, we suggested they use their district accounting system. The business administrator agreed and stated that their liability insurance would likely cost less because of the reduced risk.

USOE management also favors some degree of oversight for foundations. For example, they suggested an analysis verifying that how much the foundation actually gives to districts corresponds with how much the foundation states they gave.

Without the state foundation, the USOE no longer provides guidance. The *Incentives for Excellence* program is no longer managed by the USOE, but there are other state programs that collect donations on behalf of school districts, such as specialty car license plates and the checkoff donation on state tax returns. Nevertheless, most donations are from individuals, businesses, and foundation fund-raising events.

In conclusion, the fraud by the Weber foundation secretary was possible because of poor controls and unclear responsibilities, partly as a consequence of establishing a separate accounting system and not implementing an adequate system of controls. A foundation's organizational structure must have clear definitions of authority and accountability that are in writing and apparent in practice for the board, audit committee, management and supervisory positions, and for key financial personnel. In addition, there was little oversight to monitor if the controls that were in place were being implemented or were effective. In our opinion, foundations would also benefit from additional oversight and guidance that could be provided by the USOE.

Recommendations

1. We recommend that the boards of all school district foundations that do not use their district's accounting system ensure that adequate written policies for accounting, purchasing, check issuance, and other associated activities are established and followed.

2. We recommend that the boards of all school district foundations review their accounting, purchasing, and check issuance policies to

ensure that there is an adequate separation of responsibilities or that compensating controls have been implemented.

3. We recommend that school district foundations provide schools with information detailing all transactions in their accounts and that either foundations or schools track the donations.

4. We recommend that the boards of all school district foundations ensure that procedures are in place to verify that payments issued agree with those they have approved.

5. We recommend that the Legislature consider providing additional statutory guidance to clarify the roles, responsibilities, and oversight of school district foundations.

6. We recommend that the Utah State Office of Education evaluate the feasibility of providing guidance to school district foundations.

This Page Left Blank Intentionally

Appendices

This Page Left Blank Intentionally

Appendix A
Davis School District Purchasing Changes

1. Limit access of those who are allowed to input new vendors into its computer system.

2. Strengthen the process for approving sole source vendors.

3. Continually review vendors to determine legitimacy and prior business relationships with other school districts.

4. Establish an internal procedure to identify multiple small purchases from any vendor.

5. Decentralize the budget control of the Title I program to individual Title I schools, thus providing additional oversight of all purchases from program budgets.

6. Establish periodic review of Title I materials by Curriculum Department representatives to ensure the materials are in-line with curriculum already established with the district.

7. Create an anonymous fraud abuse hotline through which tips can be left for internal auditors to look into and investigate.

8. Require all employees to sign a conflict of interest and ethics statement on an annual basis.

9. Continue training for employees regarding district purchasing procedures.

10. Quantify the amount of business that a department or program expects to do with a vendor before a contract is approved.

11 Ensure no employee can solely initiate, approve, accept shipment and acknowledge receipt of purchases from any vendor without involvement of another employee.

12. Require that materials received are to be shipped to the location where they are to be used.

Source: Davis School District Board Briefs (Feb 20, 2007)

This page Left Blank Intentionally

Appendix B
District Employees Assigned to Work for School District Foundations

District	2006 Enrollment	No. Paid Staff*	Staff Paid by District	Accounting
Alpine	56,124	2	Yes	District
Beaver	1,564	N/A	N/A	N/A
Box Elder	10,689	Shared Responsibility	Yes	District
Cache	13,726	1	**No**	District
Carbon	3,495	Shared Responsibility	Yes	Separate
Daggett	150	N/A	N/A	N/A
Davis	62,943	3	Yes	District
Duchesne	3,982	Shared Responsibility	Yes	District
Emery	2,320	Shared Responsibility	Yes	District
Garfield	938	Shared Responsibility	Yes	Separate
Grand	1,500	N/A	N/A	N/A
Granite	68,887	6	**Most**	Separate
Iron	8,533	Shared Responsibility	Yes	Separate
Jordan	78,773	2	Yes	Both
Juab	2,071	N/A	N/A	N/A
Kane	1,188	.5	Yes	Separate
Logan	5,820	1.3	Yes	Separate
Millard	2,897	Shared Responsibility	Yes	Separate
Morgan	2,083	N/A	N/A	N/A
Murray	6,352	.5	Yes	Separate
Nebo	25,734	Shared Responsibility	Yes	Separate
N Sanpete	2,334	N/A	N/A	N/A
N Summit	981	Shared Responsibility	Yes	Separate
Ogden	12,488	2	Yes	Separate
Park City	4,336	3.5	**No**	Separate
Piute	310	Shared Responsibility	Yes	District
Provo	13,351	Shared Responsibility	Yes	Separate
Rich	436	Shared Responsibility	Yes	Separate
Salt Lake	23,922	2.5	Yes	Separate
San Juan	2,879	Shared Responsibility	Yes	District
Sevier	4,382	Shared Responsibility	Yes	District
S Sanpete	2,884	N/A	N/A	N/A
S Summit	1,362	N/A	N/A	N/A
Tintic	260	Shared Responsibility	Yes	District
Tooele	12,507	NA	N/A	N/A
Uintah	5,787	Volunteers	**No**	Separate
Wasatch	4,398	Volunteers	**No**	Separate
Washington	24,352	2	Yes	District
Wayne	531	N/A	N/A	N/A
Weber	29,180	2	Yes	Separate

** Shared responsibilities means there are district employees whose responsibilities include some foundation activities but the number is not known. Numbers listed (except for Granite) count employees (generally not FTEs) who are district staff assigned only to work for their foundation but there likely are additional district staff that also share foundation responsibilities. The Granite Foundation has 4 ½ employees paid by the district and 1 ½ employees paid by the foundation.*

This Page Left Blank Intentionally

Agency Response

Davis School District

W. Bryan Bowles, Superintendent

Fostering Educational Excellence

October 11, 2007

John M. Schaff
Auditor General
W315 Utah State Capitol Complex
Salt Lake City, UT 84114

Re: Davis Response to the Performance Audit of School District Internal Controls

Dear Mr. Schaff:

I appreciated meeting with you and your staff to discuss the findings of your audit of school district internal controls prior to releasing the final draft. In that meeting we suggested minor changes to the report to clarify current practices in the Davis District and also requested information from the audit staff concerning how we might strengthen internal controls. We especially requested recommendations for monitoring vendors more effectively. No additional recommendations were made which validated the fact that the District had implemented or was in process of implementing effective additional internal controls prior to the audit being performed.

The following information is the District's response to the audit report. It was approximately three years ago when the Davis District learned through an internal audit that there was the possibility of fraud in purchases being made in the Title I Department. The District immediately turned the issue over to local law enforcement and since Title I is a federal program the FBI was brought in to investigate. Two points that are important to note are that the District discovered the issue and immediately turned it over to the appropriate authorities for outside investigation. Second, the District immediately notified our external independent auditors concerning the issue and requested that they perform a full audit of the Title I program and asked them to review our internal controls and make recommendation for changes.

Immediately, the District began to strengthen controls based on recommendations by the auditors and internal staff. As was noted in the report, these changes have strengthened internal controls in the areas identified in the report. Other than issues that have required computer programming they have generally been in place for over two years.

When we were told by federal investigators that we could disclose information concerning the issue, Superintendent Bowes and I made appointments for separate meetings with our local legislators, the Speaker of the House, Senate Leadership and the Audit Committee of the State Board of Education to brief them on the issue and discuss actions that we had implemented to minimize the probability of a fraud of this nature happening in the future.

Although internal controls are reviewed annually by our independent external auditor and we had strengthened controls following the Title I incident, we welcomed the legislative audit and continue to accept suggestions concerning additional controls that could be implemented. The audit findings seem to reinforce the validity of the changes that we have made to our internal controls.

One point that was not included in the audit report is the fact that nearly any internal control implemented includes review and approval of the transaction by a person of trust who must make judgment calls as to whether purchases are appropriate. In the Title I issue the Director was that individual. Prior to identifying the potential fraud, there was never any prior issue which caused the District to question purchases made by this department or approvals made by its director. This individual circumvented the control process by forwarding her approvals in the computer system to her assistant. Then based on apparent collusion with her assistant, they implemented the alleged fraud. If the director had not forwarded her approvals and abdicated her responsibility of trust and worked in collusion with her assistant the fraud would not be possible. Although we have strengthened controls in the area of forwarding approvals and separation of duties, if collusion exists including a person in a position of trust, it is possible to circumvent nearly any control imposed by the District.

The recommendation that Davis District continue to establish appropriate dollar thresholds for monitoring current vendors is appreciated. We are currently reviewing our current vendors starting with those who pose the most potential risk based on the dollar volume purchased annually by the District. This monitoring will be performed by the purchasing department and will happen on an ongoing basis.

We have also implemented a fraud and abuse hotline that goes directly to the internal auditor. Recently we trained all of the administrative staff concerning ethics and conflicts of interest in purchasing decisions. Within the next month we will require all employees to sign an annual statement concerning not using their position for personal gain and a statement concerning any conflicts of interest that they may have. I am not aware of another school district that has implemented either of these internal control measures. Davis District internal controls are now as strong or stronger than any other school district in the state.

On behalf of the Davis District, we appreciate your staff performing an audit of our internal controls. Although we regret that the Title I incident happened, we have taken very seriously the need to review and strengthen internal controls. We are of the opinion that adequate additional controls have been implemented but we remain open to additional suggestions concerning how we can ensure that public funds are protected and used appropriately.

Sincerely,

Bruce D. Williams

Bruce D. Williams
Asst. Supt./Business Administrator

5320 S. Adams Ave.
Ogden, UT 84405
801.476.7827
Fax 801.476.8139

John M. Schaff, CPA
Auditor General, State of Utah
Office of Legislative Auditor General
State Capitol
Salt Lake City, UT. 84114

October 10, 2007

Mr. Schaff;

On behalf of the Weber School District Foundation, I would like to express my gratitude for the professional manner in which the members of your office performed the audit of our foundation. In addition, I appreciate the opportunity to respond to your draft report.

I have, along with members of our Executive Committee, reviewed the report, *"A Performance Audit of School District Internal Controls"*, and agree with the three weaknesses identified in the report concerning the Weber School District Foundation. The purpose of this letter is to provide information on our responses to the weaknesses identified.

In reference to the problem identified concerning the foundations separate accounting system without adequate policies, we agree that this was certainly a problem during the time period in which the embezzlement was occurring. However, since problem arose, the Foundation Board and the Executive Director, have remedied this situation by contracting with J.D. Clark, a national accounting and auditing firm located in Ogden, Utah. J.D. Clark serves thousands of clients worldwide and their company is held to the highest accounting principles and standards. J.D. Clark employees prepare our foundation checks, as well as performing monthly reconciliation. In addition, with the assistance of J.D. Clark, we are ready to implement our new accounting policies concerning asset control, responsibilities, and expectations.

We also agree with the weakness identified concerning inadequate separation of duties during the time period of the embezzlement. However, once again, this issue has been resolved with our contract with J.D. Clark. While the Foundation secretary continues to receive the donations and enters them into our financial tracking software, check preparation is handled by employees of J.D. Clark. A check is prepared only after a "request for check" is issued by the Foundation Secretary, and the Executive Board of the Foundation approves the issuance of the check. Once the check is issued, a signature from the Executive Director, along with a signature from the Board of Trustees President

Weber School District Foundation

*Gifts from the Heart
Opening Minds*

is obtained. In addition, a monthly reconciliation of all checks written and cleared is accomplished using copies of the cleared checks.

The final weakness identified deals with inadequate notification to schools of their account balances. We also agree with this finding, and have taken steps to remedy this issue by contacting each principal in the district and providing them with their account balances as of July 1, 2007. Each school principal will now receive quarterly reconciliations of their accounts beginning September 30, 2007. These reports will give the Foundation an additional level of security and reconciliation with each account.

We agree with each of the six recommendations listed in the report and have already taken steps to ensure that the Weber School District Foundation will adhere to each of the recommendations identified. In addition, as the Executive Director of the Weber School Foundation, I will work with other Executive Directors throughout the state to assist each of them with any changes that they need to make to ensure they are also following the recommendations.

Please feel free to contact me if you have any additional concerns or questions. I look forward to working with you in an effort to resolve any further issues with school district foundations.

Thank You,

Chris M. Zimmerman
Executive Director
Weber School District Foundation

WEBER SCHOOL DISTRICT

DR. ROBERT PETERSEN
BUSINESS ADMINISTRATOR

October 9, 2007

John M. Schaff
Susan Verhoef
Office of the Legislative Auditor General
W315 State Capitol Complex
Salt Lake City, Utah 84114-0151

Mr. Schaff and Ms. Verhoef,

Thanks for the opportunity to review and respond to the final "Exposure Draft" of **A Performance Audit of School District Internal Controls**. We look forward to our meeting on October 10, to discuss your findings. We felt that the Legislative Audit of the Weber School Foundation was handled and carried out in a professional and timely manner.

I agree with your recommendation that "boards of all school district foundations review their accounting, purchasing, and check issuance policies to ensure that there is adequate separation of responsibilities or that compensating controls have been implemented."

Once again, thanks for allowing the opportunity to respond and give input. If you have any questions, please call me.

Sincerely,

Robert D. Petersen

Dr. Robert D. Petersen
Business Administrator
Weber School District

5320 SOUTH ADAMS AVE. PARKWAY
OGDEN, UTAH 84405-6913
PHONE (801) 476-7841
FAX (801) 476-7959
E-mail • rpetersen@weber.k12.ut.us

UTAH STATE OFFICE OF EDUCATION
Leadership. . . Service. . . Accountability Patti Harrington, Ed.D., State Superintendent of Public Instruction
Voice: (801) 538-7500 Fax: (801) 538-7521 TDD: (801) 538-7876
250 East Cesar E. Chavez Blvd. (500 South) P.O. Box 144200 Salt Lake City, UT 84114-4200

October 10, 2007

John M. Schaff, Auditor General
Office of the Legislative Auditor General
W315 Utah State Capitol Complex
Salt Lake City, UT 84114-5315

Dear Mr. Schaff:

Thank you for allowing us to study a draft of the report, *A Performance Audit of School District Internal Controls*. The Utah State Office of Education (USOE) has reviewed it carefully and concurs with its recommendations. Safeguarding education funding, regardless of its source, is of utmost importance to USOE and the State Board of Education.

The Utah State Office of Education has implemented greater oversight and monitoring of Title I expenditures.

USOE will request from local boards of education and charter school governing boards assurances that the audit recommendations have been implemented. Specifically, USOE will ask for a letter of assurance that the boards of all school foundations:

1) have written policies for accounting, purchasing, check issuance, and other associated activities and that such policies are being followed;

2) review their accounting, purchasing, and check issuance policies to ensure an adequate separation of responsibilities or that other compensating controls have been implemented;

3) provide schools with information detailing all transactions in their accounts and that either the foundations or schools track the donations;

4) ensure that procedures are in place to verify that payments issued agree with those they have approved.

Beyond assurances, USOE is willing to provide further guidance to school foundations as resources and statutory authority might allow.

Thank you again for examining this matter and for the early review of the report.

Sincerely,

Patti Harrington

Patti Harrington, Ed.D.
State Superintendent of Public Instruction

DAVIS Education FOUNDATION

45 EAST STATE ST. • PO BOX 588 • FARMINGTON, UTAH 84025-0588 • (801) 402-5182 • FAX (801) 402-5218

October 8, 2007

John M. Schaff, CPA
Auditor General, State of Utah
Office of Legislative Auditor General
W315 State Capitol Complex
Salt Lake City UT 84114

Dear Mr. Schaff:

On behalf of the Davis Education Foundation and other school district foundations in Utah, we appreciate the opportunity to respond to *A Performance Audit of School District Internal Controls, Chapter III, Other Foundations Have Internal Control Weaknesses Similar to Weber.*

We agree with the six recommendations listed in this chapter. School district foundations that do not use district's accounting systems need to improve policies and practices to ensure that adequate written policies and external controls for accounting, purchasing, funds (cash/checks) received, expenditures including the issuance of checks, and other associated activities are established and followed.

We support the recommendation that boards of all school district foundations review the accounting, purchasing, and check issuance of foundation policies to properly ensure that an adequate separation of responsibilities exists or that compensating controls have been properly implemented and followed.

We will work to improve financial reporting to schools with more information detailing transactions in their school accounts from donations.

Public education foundations in Utah will work with our boards to ensure that adequate procedures and controls are established to verify and assure payments issued agree with approved amounts.

The public education foundations will work with the Legislature to provide additional statutory guidance to clarify the roles, responsibilities, and oversight of school district foundations. Although the *Utah Foundation of Educational Excellence* is no longer in existence, public education foundations are willing to work with the Utah State Office of Education to evaluate the feasibility of providing guidance to school district foundations.

School district foundations are nonprofit entities created to raise and/or manage funds donated to schools and school districts. Our goals are to improve community support and increase resources to schools to enhance the quality of education. We are willing to evaluate and change our procedures and controls to enhance our joint objective of a quality education for Utah students.

Respectfully,

Sheryl Allen

Sheryl Allen
Executive Director
Davis Education Foundation