Utah STATE OFFICE of Education

Leadership...Service...Accountability

MEMORANDUM

TO: Members, Utah State Board of Education

FROM: Scott Jones
Deputy Superintendent of Operations

DATE: May 12-13, 2016

ACTION: Results of the Washington County School District Audit and Recommended Action(s)

Background:
The Utah State Auditor's Office performed the procedures described below to certain aspects of Washington County School District's (District) internal control and compliance over the use of credit cards for the period May 2014 through May 2015:

1. Analyzed District credit card use for the period and identified and tested a sample of transactions that we deemed to be high risk for noncompliance with policies.
2. Reviewed the internal control over credit card use, including the review and approval process.
3. Reviewed the activity on the Business Administrator's personal credit card account which he uses for District business and tested certain transactions to determine if they were reasonable.
4. Determined whether District Administration and Board Members had reimbursed the District for spouse and family member travel initially paid for by the District.

They reviewed both the District credit card account and an account held in the name of the Business Administrator that is used for District business and paid by the District. The purpose of these procedures is to assist the District in evaluating its internal control over credit card use.

Board Strategic Plan:
This item supports the following imperative(s) and strategies in the Board's Strategic Plan:

- System Values
  - Funding
  - Oversight

Anticipated Action:
The Finance Committee will review the audit findings and make a recommendation to the Utah State Board of Education on how the Utah State Board of Education should or should not respond to the findings.

Contact: Scott Jones, Deputy Superintendent of Operations, 801-538-7514

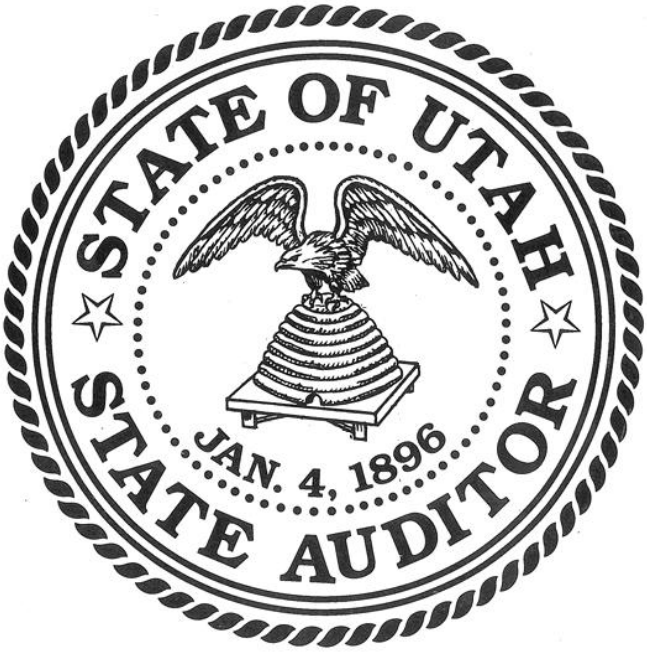
250 East 500 South P.O. Box 144200 Salt Lake City, UT 84114-4200 Voice: (801) 538-7500 Fax: (801) 538-7769
Sydnee Dickson, Interim State Superintendent of Public Instruction

WASHINGTON COUNTY SCHOOL DISTRICT

Report on Internal Control and Compliance Over Credit Card Use

Findings and Recommendations
For the Period May 2014 through May 2015

Report No. 15-WGSD-3L



OFFICE OF THE
UTAH STATE AUDITOR

WASHINGTON COUNTY SCHOOL DISTRICT

Report on Internal Control and Compliance Over Credit Card Use

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Findings and Recommendations
For the Period May 2014 through May 2015

Report No. 15-WGSD-3L

AUDIT LEADERSHIP:

John Dougall, State Auditor
Van Christensen, CPA, CFE, Audit Director
Julie Wrigley, CPA, CFE, Audit Supervisor

OFFICE OF THE
UTAH STATE AUDITOR

REPORT NO. 15-WGSD-3L

April 12, 2016

To the Washington County School Board
and
Superintendent Larry Bergeson
Washington County School District
121 West Tabernacle
Saint George, Utah 84770

Dear Board Members and Superintendent Bergeson:

We have performed the procedures described below to certain aspects of Washington County School District's (District) internal control and compliance over the use of credit cards for the period May 2014 through May 2015. We reviewed both the District credit card account and an account held in the name of the Business Administrator that is used for District business and paid by the District. The purpose of these procedures is to assist the District in evaluating its internal control over credit card use. We performed the following procedures at the District:

1. We analyzed District credit card use for the period and identified and tested a sample of transactions that we deemed to be high risk for noncompliance with policies.

2. We reviewed the internal control over credit card use, including the review and approval process.

3. We reviewed the activity on the Business Administrator's personal credit card account which he uses for District business and tested certain transactions to determine if they were reasonable.

4. We determined whether District Administration and Board Members had reimbursed the District for spouse and family member travel initially paid for by the District.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the District's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of the District's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report. We feel that all findings are key internal control weaknesses or important compliance issues to the District.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the District during the course of the engagement, and we look forward to a continuing professional relationship.

If you have any questions, please contact Van Christensen, Audit Director (vchristensen@utah.gov or 801-538-1394) or Julie Wrigley, Audit Supervisor (jwrigley@utah.gov or 801-538-1340).

Office of the Utah State Auditor

Office of the Utah State Auditor

cc: Brent Bills, Business Administrator, Washington County School District
Debbie Davis, Internal Audit Director, Utah State Board of Education

WASHINGTON COUNTY SCHOOL DISTRICT
Report on Internal Control and Compliance Over Credit Card Use

FOR THE PERIOD MAY 2014 THROUGH MAY 2015

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WASHINGTON COUNTY SCHOOL DISTRICT
Report on Internal Control and Compliance Over Credit Card Use

FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD MAY 2014 THROUGH MAY 2015

1. NONCOMPLIANCE WITH DISTRICT CREDIT CARD POLICIES

The Washington County School District (District) has established policies over credit card purchases; however, we noted noncompliance with these policies for 16 out of 40 transactions tested. We selected 40 transactions that we deemed to be at a high risk for noncompliance and noted that some transactions violated more than one policy. Instances of noncompliance are as follows:

a. For 12 transactions, each exceeding $1,000, the card user failed to obtain the required written pre-approval. The District's *Purchasing Handbook, page 14* and *Purchasing Policy 6000.3.1.6* restrict credit card transactions to $1,000 unless pre-approval is obtained from a District purchasing officer.

b. Five of the transactions noted in a. above, appear to have been artificially divided to avoid having to obtain the required written bids. The card holder made the five purchases from the same store on the same day for the same amount. These purchases would have exceeded $5,000 as a single purchase. *District Admin Letter #42* requires three written price quotes for purchases costing between $5,000 and $10,000. Additionally, *Utah Code §63G-6A-408-8* prohibits intentionally dividing a purchase into smaller amounts in order to avoid obtaining bids.

c. One of the transactions exceeding $1,000, noted in a. above, did not have evidence of verbal bids prior to making the purchase. *District Administrative Letter #42* requires two verbal price quotes for purchases between $1,000 and $5,000. Interestingly, District personnel indicated to us that for *credit card* purchases over the $1,000 threshold, *three written* quotes are required; however, this is not documented in policy. Regardless, the documentation submitted to us indicated that only one price quote was obtained, and it was obtained only after we requested documentation for the transaction.

d. For one meal reimbursement, there was no documentation indicating the number of people present; therefore, it was not possible to determine whether the amount spent was appropriate. *Purchasing Policy 6000.3.1.2* requires documentation sufficient to verify that all laws and policies are being followed.

e. Four transactions exceeded the allowable per diem amount for meals or in-state lodging established by *District Administrative Letter #25.*

We identified the following conditions that contributed to these errors:

- The District review process may not be sufficient to detect all compliance violations.

- The District has not enforced removal of credit cards or other accountability for those who have habitually violated policies in the past. This may contribute to an

environment where employees feel they can disregard policies and results in a higher risk of misuse of public funds. Therefore, the District should hold employees accountable for following established policies.

- District policies over purchasing and credit card use are found in various places, including handbooks, agreements, Administrative Letters, and policies. Due to the varied sources, employees may encounter difficulty in identifying all relevant policies and procedures over credit card use. This may result in unintentional policy violations, increasing the risk of the misuse of public funds. The District should consider consolidating the policies related to credit card use.

- Authorized credit card holders have allowed other employees to use their card. These other individuals may not have received training on credit card use; therefore, violations are more likely to occur. The District should discourage the use of credit cards by users other than the authorized card holder; however, if the District allows the practice to continue, there is even more reason for them to take the steps necessary to ensure their review and approval procedures are more robust to identify violations of policy. For individuals who make infrequent purchases, the District should also consider having employees use their personal credit cards for purchases and obtain reimbursement from the District.

The violations noted above and the conditions that allowed the violations to occur represent an increased risk that public funds may be spent improperly.

Recommendation:

We recommend that the District strengthen their internal controls as follows:

- **Improve supervisory reviews and approval of credit card transactions to ensure that transactions are reasonable and that policies are followed.**

- **Enforce accountability for any employees who violate the credit card policies.**

- **Consider consolidating the policies related to purchasing and credit card use and clearly communicate all policies and controls to any credit card users.**

- **Discourage the use of credit cards by anyone other than the authorized card holder.**

- **Consider having individuals who make infrequent purchases use their personal credit cards for purchases and obtain reimbursement from the District.**

District's Response:

Credit card training was conducted with school principals on January 20, 2016. The training included requirements for prior approval before making purchases over $1,000 on a district credit card, when two oral bids and three written bids are required, and ensuring that bids are attached to credit card statements. Principals were informed that violations of these purchasing policies will result in a suspension of credit card privileges and disciplinary action as necessary. The same credit card training was also held for all secondary school finance secretaries on March 23, 2016.

Principals and secondary finance secretaries were also trained on proper documentation for meal purchases and the requirement for superintendent approval for any exception to the allowable per diem amount. If proper documentation is not attached to credit card statements, the statement will be returned to the card holder for correction. If appropriate documentation becomes a habitual problem, credit card privileges will be suspended. If per diem amounts are violated, appropriate disciplinary action will be taken.

Principals and secondary finance secretaries have been reminded that credit cards are for the use of the individual to whom the credit card was issued. Principals may allow their secretary that has been properly trained to use the district credit card. The principals should not allow anyone else to use the district credit card.

Training is scheduled with elementary secretaries on April 15, 2016 to address these issues.

As hotel prices have increased in the State of Utah, District Administrative Letter #25 has not been changed to reflect the higher costs. The letter is being reissued with changes that allow for higher cost of hotel rooms when necessary, while directing employees to keep hotel costs lower in areas of the state where it is practical. The new administrative letter will be enforced, with violators subject to appropriate disciplinary action.

2. UNUSUAL COMPENSATION ARRANGEMENT INCREASES DISTRICT RISK

The Washington County School District Board (School Board) allows the Business Administrator to use a personal credit card for a substantial amount of both District travel expenditures and other items purchased for the District. The School Board also allows the Business Administrator to use the credit card rewards earned on District purchases for personal benefit, which amounts to a form of compensation. This arrangement increases risk for the District and may not comply with District policies. We noted the following problems and potential noncompliance with the arrangement:

a. Personal Obligation is Treated as a District Obligation. The Business Administrator's credit card bill is addressed to the District and the District pays it in full as if it were

a District obligation. The Business Administrator or other parties (see Finding No. 3 below) reimburse the District for any personal purchases made using the card. This arrangement improperly puts the burden on the District to obtain repayment for personal purchases and contradicts other District policies which prohibit personal purchases using a District card. Therefore, this practice increases the risk of responsibility for non-District purchases, and may be in conflict with District policies. To reduce risk, the Business Administrator's personal credit card should be addressed to him, he should be responsible for paying the bill, and then he should seek reimbursement for District expenses made using his personal card.

b. Credit Card Benefits are Unreported Compensation. The District steers numerous District purchases through the Business Administrator's personal credit card to enhance his rewards. As such, the credit card rewards earned by the Business Administrator appear to meet the definition of "Gross Compensation" found in *Utah Code* 63G-2, which outlines provisions for the Government Records Access and Management Act or GRAMA. In particular, *Utah Code* 63G-2-103(12) defines gross compensation as "…every form of remuneration payable for a given period to an individual…including…payments in kind, and any similar benefit received from the individual's employer." It follows that any form of compensation provided to a public employee should be publicly disclosed. At the time of our field work, the compensation of credit card rewards was not disclosed in the Business Administrator's contract nor was it disclosed on the Utah Public Finance Website as required by *Utah Code* 63A-3-402. Excluding this information from gross compensation impairs transparency.

We highly question the practice of steering District purchases for anything other than those related to the given employee through that employee's credit card.

Recommendation:

We recommend that the District:

a. Discontinue directly paying any employee's personal credit card bills and instead have employees submit reimbursement requests only for District purchases which have been approved and properly documented.

b. Properly document all forms of compensation and ensure it is reported in compliance with Utah Public Finance Website reporting requirements.

District's Response:

The District will no longer directly pay for non-district credit cards. The Business Administrator will request reimbursement for any district purchases made as per your recommendations in finding #1. This will minimize risk to the District, ensuring that all purchases are appropriate.

3. DISTRICT FUNDS USED TO PAY FOR PERSONAL TRAVEL EXPENSES

The Business Administrator used his personal credit card to charge travel expenses for some family members of the School Board and District administration to attend a District conference. As described in Finding 2.a. above, the District paid the bill in full with the expectation that the District would be reimbursed. However, 4 of the 7 District personnel did not reimburse the District for their family member's travel costs until 5 months after the initial expenditure was made. We noted that the timing of the reimbursement coincided with the District's fiscal year end and was shortly after the Office of the State Board of Education internal auditors began an audit of the District. This situation demonstrates the increased risk of using District funds to pay for non-District obligations. The District should not pay for personal expenses with public funds.

Recommendation:

We recommend that the District not expend public funds for personal expenditures.

District's Response:

When the District is sending an employee on a work related trip, all reasonable travel related expenditures will be paid by the District. If the employee is electing to take their spouse (companion) with them on the trip, the District has authorized the employee to purchase both of the plane tickets together so that side-by-side seats can be guaranteed. The purchase should be made on the employee's personal card. The District will reimburse the cost of the employee's flight. Under no circumstances should nonemployee flights be charged to the District.

Audit Brief 15-14
Enterprise High School

USBE Internal Audit Department

Objective:

The Internal Audit Department (IA) received some concerns from a citizen in southern Utah that individuals at Enterprise High School (EHS) were engaged in some questionable financial and compliance practices. The purpose of this audit was to address the identified concerns and verify compliance with school, district, and state policies and procedures and consider potential noncompliance, fraud, waste, or abuse of those guidelines. IA addressed these concerns through examination of financial records, review of state and local policies and procedures, as well as through inquiry and observation.

Scope:

The scope of our audit encompassed the time period from July 2008 through September 2015 and focused on the following areas:

- Overall Control Environment
- Disbursements
- Vehicle Use

Findings and observations for the above areas are summarized below with recommendations for corrective action. Per auditor judgment, findings are considered more severe than observations and findings are prioritized by significance. While performing the audit IA identified several district level concerns, which were referred to the Office of the Utah State Auditor for further consideration in their audit of the district. Additionally, any concerns with educator practices were referred, as appropriate, to the Utah Professional Practices Advisory Commission.

Background:

Enterprise High School (EHS) is located in the small rural city of Enterprise in southern Utah. The school is one of nine high schools in the Washington County School District (WCSD). The school provides education to approximately 400 students in the 7th through 12th grade levels. A new principal was hired and started at EHS for the 2015-2016 school year.

Findings and Observations:

Control Environment

- Lack of school level policies and procedures
- Purchases made without prior approval
- Lack of separation of duties
- Lack of internal controls over cash boxes
- Cash receipts not deposited directly after an event
- Receipts not given for purchases
- Checks issued to "cash"
- School fund accounts have negative balances at the start/end of the school year
- Personal use of school property and equipment
- Lack of internal controls over fixed assets and inventory
- Lack of internal controls over petty cash
- 1099s not issued
- Teacher dues collected and disbursed from a school account
- Checks disbursed without appropriate signatures
- Charge accounts used at local retailers
- Unauthorized system users and insufficient authorized system users
- Credit card control sheet not signed off by principal and/or preparer
- Credit card control sheets not in agreement with credit card statements
- Principal not signing off on monthly bank reconciliation
- Errors on bank reconciliations
- Principal not signing off on the check registers
- Events not consistently tracked on school calendar
- Credit card control sheet submitted late

Disbursements

- Insufficient documentation of purchases
- Unauthorized users of school credit cards
- Lodging paid for nonemployees/family members
- Transactions potentially split to circumvent controls
- Fundraising conducted without sufficient policy and procedures
- Out-of-state travel without prior approval from the district and board
- Unreasonable purchases
- Credit card purchases over the $1,000 limit

- Disbursement issued over $1,000 without documentation of proper quotes (oral/written)
- Checks written to employees from the school checking account
- Apparent conflict of interest between private interest and public duties
- School funds used for non-curricular clubs
- Lodging rates in excess of the allowed amount
- Meals purchased in excess of allowed per-diem rates
- Conferences not preapproved
- Tax exempt number not used consistently
- Gifts purchased using public funds
- Gifts purchased for employees greater than $50
- Expenditures not properly coded into correct accounts
- Lodging paid for employees/students less than 50 miles from the school

Vehicle Use

- Inadequate documentation for vehicle use
- Non-sequential odometer readings entered
- Multiple types of fuel purchased and multiple same-day fuel purchases for a single vehicle

Internal Audit Recommendations for EHS:

- Follow established district policies.
- Design and implement school policies if district policies are not available.
- Train all staff members on district/school policies and amendments as they arise.
- Ensure internal controls are operating effectively, including appropriate separation of duties among EHS staff.
- Ensure all expenditures receive proper authorization and have appropriate documentation prior to disbursements being made.

Utah State Board of Education

2015–14

ENTERPRISE HIGH SCHOOL

USBE Internal Audit Department

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Audit Report 2015-14

February 18, 2016

Laura Hesson, President
Washington County School Board
167 South 1210 West
St. George, Utah 84770

Dear President Hesson,

The Utah State Board of Education (the Board) Administrative Rule 277-116-3 authorizes the Board's Internal Audit Department (IA) to perform audits as outlined in the audit plan approved by the Board. IA performed an audit of Enterprise High School (EHS) with the purpose of addressing concerns raised regarding potentially questionable financial and compliance practices. IA obtained relevant documentation from the financial secretary at EHS as well as personnel at the Washington County School District (WCSD) and performed the following procedures:

- Gained an understanding, through inquiry and observations, of the overall control environment at the school and evaluated the adequacy of the control environment.
- Verified internal controls over the credit card statements process, at the school level, for the months of March 2009 – May 2015 for operating effectiveness.
- Verified internal controls over the bank reconciliation process for the months of July 2011 - May 2015 for operating effectiveness.
- Obtained and examined all credit card disbursement transactions from July 2008 - May 2015 for compliance with policy and procedures at the school, district, and state level.
- Obtained and judgmentally selected 1,000 check disbursement transactions between July 2008 - May 2015 for compliance with policy and procedures at the school, district, and state level.
- Reviewed the "voided" check disbursement process for voided transactions from January 2011 - May 2015 for reasonableness.
- Obtained and reviewed all checks made out to "cash" from July 2014 - May 2015 for reasonableness and appropriate safeguarding of assets. In conjunction with this testing, we also examined the change fund (i.e. cash boxes) process used during school events where cash receipting took place.
- Compared hotel disbursement transactions with the schools event calendar from March 2009 - May 2015 to determine if transactions were for school-related purposes only.
- Obtained and examined all fuel purchases made by the school with the state issued fuel card (administered through Washington County School District), from January 2014 - September 2015 to consider if there were proper safeguards in place to minimize fraud, waste, or abuse of the fuel cards.

Audits are conducted in conformance with *International Standards for the Professional Practice of Internal Auditing* and IA is in process of implementing the peer review quality assurance standards required by those standards.

The Office of the Utah State Auditor is currently in process of auditing the WCSD; therefore, any district-related issues identified during our review were referred to them for follow-up.

These procedures were limited to financial transactions and processes and the control environment at EHS between July 2008 and September 2015. We have identified the procedures IA performed above and the findings and recommendations from those procedures are included in this report; for expediency, specific auditee responses and specific auditor concluding remarks have been included after each recommendation though there is a general auditee response included in Appendix A and auditor concluding remarks in Appendix B. These procedures were more limited than would be necessary to express an audit opinion on compliance or the effectiveness of internal control or any part thereof. Accordingly, we do not express such opinions.

This report is intended solely for the information and use of the Washington County School Board and management of the WCSD and the Utah State Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the courtesy and assistance extended to us by the personnel at Enterprise High School and Washington County School District during the course of the audit.

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

Sincerely,

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

cc. Debbra Zollock, Vice President, Washington County School Board
Barbara Beckstrom, Washington County School Board Member
Kelly Blake, Washington County School Board Member
Larene Cox, Washington County School Board Member
Craig Seegmiller, Washington County School Board Member
David Stirland, Washington County School Board Member
Larry Bergeson, M.Ed., Superintendent, Washington County School District
Brent Bills, Business Administrator, Washington County School District
Rick Palmer, Principal, Enterprise High School

Findings and Observations

I. Control Environment - Findings

A. Lack of school level policies and procedures

Criteria: Utah Administrative Code R277-113-4(A) requires:
Local education agencies (LEAs) develop and implement written fiscal policies.
Condition: Enterprise High School (EHS) does not have policies and procedures at the school level to ensure compliance with LEA, state, and federal regulations.
Cause: This is a small entity with staff that have a limited fiscal skill set that have not received sufficient training on fiscal policy and an appropriate internal control environment.
Effect: Unallowable, inconsistent, or questionable practices may occur, which increase the risk of fraud, waste, abuse, or non-compliance with district, state, and federal regulations.
Recommendation: IA recommends that the school design and implement policies, procedures and internal controls that are consistent with district, state, and federal regulations. Employees should have access to policies and procedures and be trained on them. Additionally, the school policies and procedures should be reviewed and updated routinely to ensure they are operating effectively.

Response: As the LEA the Washington County School District has fiscal policies and procedures. We do not want individual schools to develop their own policies and procedures. We want them to use those established by the District. If school-level administrators discover a deficiency in existing finance policies and procedures, or conclude new finance guidelines are necessary to address an existing concern, we recommend the school officials consult with the District Business Department, rather than creating and implementing new rules on their own. School administrators may lack the expertise necessary to develop comprehensive financial procedures. Additionally, any problem or question necessitating the creation of a new policy or procedure is likely to be found in schools throughout the district, and we would prefer to maintain a level of consistency district-wide.
Since January 2014, the WCSD has been working on improving District fiscal procedures. This process has been slowed due to limited personnel, and time being diverted to dealing with record requests and audits over the last year and a half. These processes are available on a District Google drive for all school administrators and secretaries. They can also be found on our web site at business.washk12.org

Concluding Remark:
We commend the WCSD for their improvements to district fiscal procedures. As noted in the recommendation above, any school designed policies and procedures should be consistent with district, state, and federal regulations. The school itself has a significant budget and expends millions of dollars each year. This necessitates financial internal control activities, such as policies and procedures, at the school level, to ensure appropriate compliance with district, state, and federal requirements, and safeguarding of assets, including taxpayer funds received in fiduciary trust for public education.

B. Purchases made without prior approval

Criteria: WCSD Policy 6000 3.1.3. School Purchase Orders states:
No school purchases are to be made without a school purchase order that has been properly approved, prior to the purchase.

Condition: For 468 out of 1,000 check disbursement transactions tested (46.8%) the expenditure occurred before approval was received by the school administration.

Cause: School administration did not enforce policy that written approval must occur prior to any purchase being made.

Effect: Unallowable or inappropriate items maybe be procured, which increases the risk of fraud, waste, or abuse of public funds.

Recommendation: IA recommends the school enforce policies and procedures to ensure compliance with district policy requiring prior approval before a purchase is made, as evidenced by the completed prior approval form.

> **Response:** District procedures require all school purchases to have prior approval. Purchases over $1,000 must have a school P.O. Due to time restraints we were not able to review all transaction included in this finding. We did review 153 of the transactions. Of these transactions 101 were reimbursements to employees and other individuals. Reimbursement requests are not a liability to the school until the principal agrees to pay. Therefore a signature on the check is adequate authorization. 19 transactions were per diem checks. Per diem is a type of reimbursement request and therefore a signature on the check is adequate authorization. 8 transactions reviewed had prior approval through a purchase order or check signature before services were rendered or product delivered. 5 transactions were checks written in expectation of services to be rendered, and were delivered at the time the service was provided. 20 transactions did not appear to have prior approval before the product or service was purchased.
>
> District finance staff has conducted trainings with all secretaries, athletic directors, and principals concerning proper purchasing procedures. Trainings will continue with emphasis on prior approval. EHS office staff will be retrained, during the next month, by District finance staff to ensure understanding of district purchasing procedures. Internal audits will look for compliance with these procedures.

Concluding Remark:
As noted above, current policy requires **all** school purchases to have prior approval. If there are exceptions allowed as indicated in the response above, those items should be incorporated into the policy to ensure appropriate authorization of all purchases.

C. Lack of separation of duties

Criteria: WCSD Finance Procedures Manual, #8 states:
Is there proper separation of duties among the office staff? Ideally, office responsibilities should be arranged so that the following functions are performed by separate individuals: authorizing, recording, and maintaining custody of the asset.

Condition: The same individual at the school authorizes transactions, records transactions, and performs the bank reconciliation, which constitutes insufficient separation of duties absent appropriate alternative controls.

Cause: Lack of understanding and training about what constitutes appropriate separation of duties and appropriate alternative internal controls.

Effect: Misappropriation of public funds can occur and go undetected.

Recommendation: IA recommends that the school separate the duties of authorizing transactions, recording transactions and preparing the bank

reconciliation. To the extent that duties cannot be appropriately separated, the school should implement alternative or compensating controls.

Response: Enterprise High School has had a finance secretary receiving and receipting funds, counting funds and then giving the funds to another secretary to prepare the bank deposit. A third secretary takes the deposit to the bank and returns the receipt to the first secretary. The first secretary also reconciles the bank account. For disbursements the first secretary enters invoices, prints checks, and cosigns checks with an administrator. The mail is opened by a separate secretary. We have discussed the control issues with the principal and school secretary, stressing the importance of internal controls and separation of duties. A different secretary will be trained and assigned to complete the bank reconciliation.

D. Lack of internal controls over cash boxes

Criteria: Utah Administrative Code R277-113-5(C)(3)(b) states:
The LEA fundraising policy shall establish procedures for LEA and public fundraising in general … and shall include (b) Establishment of internal controls and procedures over the approval of fundraising and school sponsored activities and compliance with associated cash handling and expenditure policies.
Further, Utah Administrative Code R277-113-5(C)(1) states:
The LEA cash handling policy shall address cash receipts collected at the LEA and individual public schools through school sponsored activities and shall include: (a) establishment of internal controls and procedures over the collection, deposit, and reconciliation of cash receipts received.
Condition: The cash box for school events is in the custody of several different people throughout the course of a day without adequate controls to account for the funds as the custodian of the cash box changes. In particular this lack of accounting for funds occurs when taking the cash box from the school to an event.
Cause: Lack of understanding and training on what constitutes appropriate and adequate controls over cash handling.
Effect: Misappropriation of public funds may occur and go undetected.
Recommendation: IA recommends that the school design and implement policies, procedures and internal controls to ensure public funds are accounted for appropriately and in accordance with district policies which should be in accordance with the state regulations noted above. In implementing a policy, the school should consider including requirements for:

- Appropriate separation of duties
- Appropriate documentation, such as a form that is signed by two individuals indicating they both accounted for all funds any time the cash box changes hands
- Training school employees and volunteers on the district/school cash handling policy

Response: Enterprise High School gives the cash box to the ticket taker leader and then allows them to set up the ticket area unsupervised until the other ticket taker arrives. The WCSD has established a new procedure for cash box control. District Procedure "Cash Receipts" includes a section that ensures a proper chain of custody for cash box funds. Enterprise High School finance secretary and principal have been trained on this new policy.

E. Cash receipts not deposited directly after an event

Criteria: Utah Administrative Code R277-113-5(C)(1) states:
The LEA cash handling policy shall address cash receipts collected at the LEA and individual public schools through school sponsored activities and shall include: (a) establishment of internal controls and procedures over the collection, deposit, and reconciliation of cash receipts received.

Condition: After a school event takes place where money is received, money is counted by two individuals who fill out a deposit slip and lock the funds in a bag bank; the individuals then deliver it to the bank's night deposit. The following day a school employee retrieves the bank bag from the bank, takes it to the school to be recounted and the funds are then deposited at the bank with all other daily cash receipts at the school.

Cause: Lack of understanding that the current additional cash verification step in the cash handling process may expose the school to additional risk of misappropriation of cash.

Effect: Allows more individuals to have access to cash, which increases the risk of misappropriation. This also compounds the separation of duties issues because the school has a limited amount of personnel who could be part of the control structure.

Recommendation: IA recommends that the school design and implement policies, procedures and controls to ensure appropriate cash handling. In this specific circumstance, the school should consider depositing funds directly in the bank following an event, which would limit access to actual cash receipts but still provide documentation for an appropriate reconciliation by the financial secretary.

Response: WCSD policy and Utah Code 51-4-2 (2) requires deposits to be made to the bank within 72 hours. District procedure "Cash Receipts" requires two people to count cash boxes to verify funds. Enterprise High School does not have a safe to hold cash over night. Therefore they lock gate proceeds in a bank bag and drop in the night drop box for security. The next day the bank bag is opened, counted, and a bank deposit slip is filled out and the deposit is made. We will hold training with EHS administration and staff to ensure they understand that two people are required when opening the bank bag the next day and counting the cash. This will ensure a documented chain of custody for funds, and is in compliance with acceptable internal control standards.

Concluding Remark:
Through further discussion with the WCSD Business Administrator the cash receipts from events will be secured by the Assistant Principal. The nightly drop will only be utilized in the circumstances where a period longer than 72 hours would elapse prior to a deposit being made. This is consistent with state cash handling and depositing guidelines.

F. Receipts not given for purchases

Criteria: WCSD Finance Procedures Manual, #5 states:
As a general rule, any time the school receives payment from a student, parent or vendor, a receipt should be issued.

Condition: A receipt is not given to the customer when making a purchase at a school event. Therefore, a reconciliation to ensure that the total funds received are reasonable for the tickets, product, etc., actually sold cannot be completed.

Cause: Lack of knowledge of the district's finance procedure regarding issuing receipts when receiving payment.
Effect: Misappropriation of public funds could occur and go undetected.
Recommendation: IA recommends that the school design and implement policies, procedures and internal controls to ensure public funds are accounted for appropriately and in accordance with district finance policy. This could include giving some form of a pre-numbered receipt when a purchase takes place and reconciling the value of the receipts given with the cash received. An alternative control could be tracking the number of tickets sold and analyzing if the amount sold matches or is reasonable for the cash received.

> **Response:** To be in compliance with R277-113 WCSD Finance Procedures Manual was developed and placed on the District web site, as more in depth procedures were developed. #5 in the manual states that as a general rule receipts should be issued, but that there are exceptions. Through training we have informed school personnel that when collecting gate receipts and concessions, the school is not required to issue receipts as long as they have two people collecting the admission fees together. This has been included in the District procedure "Cash Receipts". District finance staff has just completed a review of our ticket taking practices and have trained secondary finance secretaries and school principals.

G. Checks issued to "cash"

Criteria: Cash receipting model procedures, which constitute best practice, issued by the Office of the Utah State Board of Education's School Finance Division under item G. 5 states:
Checks may not be made payable to "Cash" or bearer" and cashed by school employees to create change funds or petty cash funds.
Condition: EHS issues checks to "cash" in order to fund their cash boxes. These types of checks range from 75 to 800 dollars per occurrence and were issued 89 times between July 2014 and May 2015. The school has the ability, with the assistance of the district, to establish a funding amount and retain that set amount without breaking state law (Utah Administrative Code 51-4-2(2)). Any funds outside this established amount should still be deposited directly to the bank to comply with state law.
Cause: EHS does not currently have the ability to withdraw cash from their bank account for cash boxes.
Effect: Increased risk of misappropriation of public funds by the individual cashing the check.
Recommendation: IA recommends that the school discontinue the practice of issuing checks to "cash" to fund cash boxes for events and design and implement policies and procedures and internal controls to appropriately maintain a cashbox. Some potential options the school could consider with the district are listed below.

- Utilizing a safe to maintain an on-going cash box at a certain threshold and depositing only the excess funds. This would be dependent on the number of cash boxes needed, how often they are needed, and additional controls to account for funds may also be necessary.
- Using the schools locked bank bag for the initial cash box funds only (note that the individual that obtained the bank bag from the bank, cannot have access to the key to that bank bag).

- Allow schools to have a bank account that the school can access to withdraw funds for events. The district, in addition to the school, could have signature power on the account. If controls are designed and implemented appropriately at both the school and district level, such as the bank reconciliation and deposit documentation, the risk associated with the school having access to the account could be mitigated.

Response: As the criteria cited for this Finding is a recommended best practices that LEA's are not required to follow we believe that listing this as a Finding is inappropriate.
WCSD district procedures "Cash Receipts" and "Disbursements" state that checks will not be made out to Cash. This is a new procedure and was not in place for the period audited. We are training all secretaries on this change.

Concluding Remark:
We concur that the criteria for this finding is best practice; in the absence of specific applicable regulations it is acceptable to consider best practice as a measure for current practice. Writing checks to "Cash" represents a high risk of misappropriation of public funds; therefore, we are pleased WCSD has incorporated new procedures to ensure this practice does not continue.

H. School fund accounts have negative balances at the start/end of the school year

Criteria: Utah Administrative Code R277-113-4(C)(4) requires:
LEAs develop a process to review LEA management's financial reporting practices, financial statements, LEA financial position, and LEA and individual school records on a regular basis.

Condition: The school regularly overspent fund/budget accounts during school years 2008 – 2015. Additionally, several fund accounts began the school year with a negative balance.

Cause: Lack of understanding and training about a proper budget accounting process.

Effect: Overall budget deficits could occur and improper decisions may be made regarding activities, or procurement of goods, or services. There may also be school or district liability associated with deficits.

Recommendation: IA recommends that the school design and implement policies, procedures and internal controls, in accordance with district and state regulations, to ensure appropriate budget management. The school should consider inclusion of policies that:

- Ensure fund/budget accounts are not overdrawn.
- Require a regular review of these fund/budget accounts, preferably monthly, to ensure those responsible for budgets are aware of the balance in their account(s).

Response: In compliance with R277-113 school bank reconciliations are required to be submitted to the District monthly. The District finance staff reviews the bank statements to ensure solvency. The District budget approved by the School Board is in aggregate for the school checking accounts. Individual account breakdown and balances are for school use only, with object code reporting being the only requirement.

Concluding Remark:
As noted in the response, it is important that the WCSD have an aggregate picture of the financial position of the district; however, as noted in the finding and recommendation, it is also critical to efficient, effective, and transparent school operations for the school to appropriately budget, account for, and use public monies in the various funds at the school, such as those for different clubs and activities. Therefore, we refer you to the recommendation above for consideration at the school level.

I. Personal use of school property and equipment

Criteria: Utah Administrative Code R277-515-3(D)(3)(g) asserts:
A professional educator shall not use school property, facilities, or equipment for personal enrichment, commercial gain, or for personal uses without express supervisor permission.
WCSD Policy 6100. 2.4 Inventory Management and Maintenance states:
that inventory is not to be loaned or rented without appropriate Principal or District office approval.
Per Utah Administrative code 51-7-3(33) defines "public funds" as any money, funds, and accounts, regardless of the source from which it is derived, that are owned, held, or administered by the state or any of its boards, commissions, institutions, departments, divisions, agencies, bureaus, etc.
Condition: Per discussion with the WCSD Superintendent and Business Administrator it is the district practice to allow school personnel and community members to use school property or equipment for personal use, as long as it has been properly approved by the principal and/or the district office. School property has been used for personal enrichment without prior approval and the property was stored at an employee's home for indefinite time periods. This issue compounds the concern noted in finding 1.J below regarding lack of controls over fixed assets.
Cause: Lack of understanding at the district and school level that school property and equipment was purchased with public funds; therefore, the property is public property and personal use should be carefully scrutinized to ensure appropriate safeguarding of assets.
Effect: Personal use of school assets may result in an increase in wear and tear on the equipment and property leading to a reduction of the useful life of the item and increased cost for replacement items. Additionally, the district and/or school may potentially be held liable if an accident incurred while school property and equipment were used for non-school related purposes. By not carefully scrutinizing personal use of school property and equipment and recognizing that it must be safeguarded since it was purchased with public funds, waste and abuse of items purchased with public funds can occur.
Recommendation: IA recommends that the school cease the practice of allowing employees to use school property and equipment for personal reasons until the recommendation in 1.J has been implemented. Once assets and inventory are properly being tracked, appropriate measures to mitigate liability have been

considered and implemented, the school may, in accordance with local and state regulations which require express permission, allow for personal use of school assets.

Response (revised by USBE Internal Audit to redact protected information): In 2014 the District received information that school equipment was being stored off-site by an employee. The claim was substantiated and the school equipment was returned to school property. The investigation also looked into what school equipment was being used by school employees. It was found that equipment was used from time to time by an employee and that employee frequently loaned personal equipment for school use. The district found that the school equipment use was not excessive, but has taken action given the conclusions from the investigation.

Concluding Remark:
We are encouraged that the District took action upon identifying this non-compliance. Justification of the non-compliance because personal equipment was used at the school should not be considered in determining the extent of misuse of public assets. To ensure this circumstance is not repeated, we refer you to the recommendation above.

J. Lack of internal controls over fixed assets and inventory

Criteria: WCSD policy 6100.1 Inventory Management and Maintenance states: Inventory personnel and school principals are responsible for tracking, monitoring, and safeguarding all inventory within the District. Tracking of all inventory will increase accountability and avoid potential loss, replacement, and displacement.
Condition: The school does not have a current asset/inventory list and does not perform a regular inventory of fixed assets.
Cause: Lack of training on district policies and knowledge of the requirements for safeguarding assets at the school level.
Effect: Misappropriation of school property may occur. Additionally, this information is critical for budgeting and financial reporting; for example, a current inventory list will help assist the school in knowing what the school owns, what needs maintenance and repair, what is obsolete or impaired, and what is needed in the future. It should also help dictate if personal use, as discussed in finding 1.I is appropriate.
Recommendation: IA recommends that the school design and implement internal controls over fixed assets and inventory to ensure compliance with district policy, which should include keeping a current asset/inventory list that is regularly reviewed and updated.

Response: The District tracks fixed assets through the SunGard accounting system. All principals and secretaries have access to the fixed assets in their schools through the system. Principals are required to print off the fixed asset list and complete a fixed asset inventory at the end of each school year. They sign an acknowledgement form stating that they have completed the inventory and made any changes to the fixed asset list. Any deletions from the fixed asset inventory must be submitted to the District Office to be removed from the list. Enterprise High School has been in complied with District policy. District finance staff will be training the EHS secretaries to ensure that all school purchases, that are required by district policy, are placed on the fixed asset inventory list.

Concluding Remark:
During the audit we questioned the EHS principal, vice principal, financial secretary and individual over fixed assets/inventory regarding the fixed asset system. Email

documentation from these individuals indicated they were not aware of a fixed asset/inventory system such as that noted in the response above. We are encouraged that the district finance staff will be training the school secretaries on fixed assets and further recommend training for the principal to ensure appropriate access to the system and understanding of his responsibilities related to fixed assets/inventory as noted in the response.

K. Lack of internal controls over petty cash

Criteria: Utah Administrative Code R277-113-5 (C)(1) states:
The LEA cash handling policy should address cash receipts (cash, checks, credit cards, and other items) collected at the LEA and individual public schools through school sponsored activities and shall include establishment of internal controls and procedures over the collection, deposit, and reconciliation of cash receipts received.
Condition: Per observation in the finance office, there is an unlocked cash drawer at the school used for miscellaneous/small purchases. These purchases were not entered into the accounting system since they were for vending/small type transactions.
Cause: Lack of knowledge and training on appropriate cash handling.
Effect: Misappropriation of public funds could occur and go undetected. Additionally, there is a lack of record keeping for these unexpected receipts that could impact good decision making.
Recommendation: IA recommends that the school design and implement policies, procedures, and controls for petty cash and the associated transactions. The policies should consider appropriate separation of duties and include provision for the cash drawer to be locked at all times. Additionally, transactions/funds should be properly entered into the accounting system and reconciled with the bank statement.

Response: WCSD has added petty cash procedures to District procedure "Cash Receipts". These new procedures will ensure proper controls for petty cash funds. We will be training all school secretaries on this new procedure during the next month.

L. 1099s not issued

Criteria: WCSD Finance Procedures Manual, #4 states:
A 1099 must be issued to any individual or partnership paid $600 or more during any given calendar year. For applicable individuals and vendors issued checks from the school checking account, the school's administration is responsible for making sure 1099s are issued. If you think that you may end up paying any given individual or partnership a total of at least $600 over the course of the year, it is strongly recommended that you set them up as a vendor to be paid by the WCSD business department.
Condition: The school's checking account is used to pay individuals and vendors who receive more than $600 in a year. The school does not issue 1099s.
Cause: Lack of training on tax regulations.
Effect: It is possible that vendors are receiving more than the $600 cap without a 1099 being issued. Also, vendors are being paid at both the school and district levels, which makes it difficult to track total expenditures to individuals.

Recommendation: IA recommends that the school set up any individual or partnership as a vendor to be paid by the WCSD business department rather than paying them through the school checking account. Doing so will clarify that it is the District's responsibility to prepare, issue, and send the 1099 form.

Response: Finance Procedures Manual #4 is being replaced with WCSD procedure "Disbursements" to address this issue. The procedure precludes schools from cutting checks, for services, to anyone other than a corporation or LLC that is taxed as a corporation. These checks must be run through the District Office. Principals and Secondary finance secretaries have been trained on this. Additional training for elementary secretaries is scheduled for this next month.

M. Teacher dues collected and disbursed from a school account

Criteria: Utah Administrative Code 51-7-3(26) defines "public funds" as:
money, funds, and accounts, regardless of the source from which the funds are derived, that are owned, held, or administered by the state or any of its political subdivisions including LEAs or other public bodies.

Condition: The school is collecting money for what is known as teacher dues. These dues go to pay for birthday meals, staff parties, gifts for individuals, etc. IA noted seven instances during our check disbursement testwork where funds were disbursed from these teacher dues. Any funds collected by the school are considered public funds in accordance with state law and therefore should be used for school related business only. Funds collected for non-school related purposes, such as teacher dues, should not be included in a school account.

Cause: Lack of knowledge and training on fiscal policy and state regulations regarding public funds.

Effect: Misappropriation of public funds, incorrect financial reporting, non-compliance and negative public perception could occur. Additionally, school funds may be mistakenly used for non-school related activities.

Recommendation: IA recommends that the school design and implement policies and procedures regarding non-school related dues, such as teacher dues. The policy should ensure that the funds are held, accounted for and reported separately from public school funds.

Response: Enterprise High School staff contribute money to pay for various staff functions. The money has been run through the school checking account, and tracked as a separate fund at the school. WCSD procedure "Bank Accounts" has been changed to prohibit staff money from being run through the school checking account. It also prohibits the school principal or finance secretary from being a signor on the checking account used for the funds. Training will be held over the next month for all principals and school secretaries.

N. Checks disbursed without appropriate signatures

Criteria: WCSD Finance Procedures Manual, #2 states:
All checks need to have two signatures. All school checks require that two signatures be present, and at least one of those needs to be an administrator's signature. This control helps/reduces the risk of disbursements taking place that aren't for school related business.

Condition: IA noted nine checks over a five month period where a school check was signed, issued, and accepted by the bank, with only one signature.

Cause: Lack of oversight to ensure policy was followed and all checks had two signatures.
Effect: Unauthorized disbursements can occur and go undetected.
Recommendation: IA recommends that the school follow district policy and ensure that all checks include two required signatures before being processed.

> **Response:** District staff has held training with the Enterprise High School finance secretary and principal. This training included; the importance of having two signatures on each check, ensuring that one of the signatures is from a school administrator, and ensuring that neither check signor has a conflict of interest regarding the payment. Internal audits will check for compliance.

O. Charge accounts used at local retailers

Criteria: WCSD Finance Procedures Manual, #7, identifies using a charge account with a local businesses or suppliers as unallowable.
Condition: The school allows teachers, parents, and others to purchase items on open charge accounts from at least two local stores without any prior approval.
Cause: Lack of training on procurement policy.
Effect: The school may be held liable for unauthorized/unwanted purchases. Additionally misappropriation of funds can occur and go undetected.
Recommendation: IA recommends that the school design and implement internal controls to ensure compliance with district and state procurement policies. The policy should include a provision to ensure that charge accounts are not used and that purchases are appropriately approved.

> **Response:** This Finding was discovered and addressed during a District internal audit in the spring of 2015. The school had charge accounts at local stores. Those charge accounts have been closed, and employees are required to take a P.O. or a check to the store if they wish to make a purchase. We will be checking for compliance with this during our internal audits this year. Finance Procedures Manual #7 had been replaced by WCSD procedure "Bank Accounts".

Concluding Remark:
Review of documents subsequent to the timeframe of the District's internal review indicate this practice may not have been completely stopped as documentation continues to include monthly bills without purchase orders attached; therefore, continued District review of this area is appropriate.

P. Unauthorized system users and insufficient authorized system users

Criteria: WCSD Finance Procedures Manual, #8 states:
Is there proper separation of duties among the office staff? Ideally, office responsibilities should be arranged so that the following functions are performed by separate individuals: Authorizing, Recording, and maintaining custody of the asset. Best practice should also include appropriate controls to end system access when an employee resigns, quits, retires, or is terminated and there should be appropriate backups to ensure continuity of service/succession planning should something happen to the individual with the primary responsibility.
Condition: IA noted the school's accounting system had an inactive user (a prior

user who is no longer employed by the district) that still had access. IA witnessed the financial secretary remove the access for this inactive user. However, the financial secretary is the only individual at the school that can access, or even view the accounting system.

Cause: This is a small entity with individuals that have a limited fiscal skill set and that have not received sufficient training on an appropriate internal control environment, which would include appropriate system controls.

Effect: This leaves the school in a vulnerable situation should that individual leave or end employment with the school. It also increases the risk of an employee being able to manipulate the system to cover a misappropriation of funds, and error, or grant inappropriate access to another employee.

Recommendation: IA recommends that the school design and implement policies, procedures and internal controls to ensure appropriate access, use, and monitoring of the accounting system. The accounting software has various access levels (i.e. managers that can add and delete users, secretaries, receipt helpers, etc.) and the school should have more than one individual that can access the system to ensure continuity of service and appropriate financial reporting.

> **Response**: The school accounting software used by WCSD secondary schools is a PC based system that resides on one machine in the school. The system can have multiple user logins with different access. Unfortunately the system would not allow the new secretary access to information from years prior to her start date. She was required to use the previous secretary's login to access that information. To limit access to the financial system from the prior user, the computer is locked in the finance secretary's office, inside the schools offices inside the school. To fix the issues we have with our current system, we have been in the process of trying to locate and purchase a replacement system that will allow district level access to the school accounting system. We Issued an RFP last year, but received only one response. We are currently evaluating the system to determine if it will meet our needs.

Q. Credit card control sheet not signed off by principal and/or preparer

Criteria: WCSD Finance Procedures #8 states:

Ideally, office responsibilities should be arranged so that the following functions are performed by separate individuals:

- Authorizing a transaction
- Recording the transaction
- Maintaining custody of the asset resulting from the transaction

...bank reconciliations should be reviewed by someone other than the preparer...there should be documentation showing that more than one person was involved.

Condition: IA noted that 21 of the 75 (28%) credit card statement summary sheet tested did not include the signature of both the preparer and the principal.

Cause: Lack of training on fiscal policy, including appropriate credit card use and reporting.

Effect: Personal, unallowable, or otherwise prohibited purchases may go undetected. Also, transactions may be intentionally or accidentally misreported.

Recommendation: IA recommends that the school design and implement a policy and procedure to ensure credit card purchases are adequately reviewed. This could include that two individuals be involved in the credit card statement summary sheet process; one individual as a preparer and the principal as the reviewer.

Response: The credit card control sheet was developed by school secretaries to help them report the accounts that the credit card charges should be billed against. The control sheet is not required by the District. The card holder is responsible for all charges on their credit card. District office review of all credit card statements occurs to look for questionable purchases. District finance staff will train principals during the next month on the importance of signing off on the credit card statement.

Concluding Remark:
While the practice of using a credit card control sheet is a school practice not a district policy, it helps ensure the school is in compliance with district requirements and is accounting for funds appropriately. See the Concluding Remark to 1.A above for further clarification of the importance of school level financial control activities consistent with district, state, and federal regulations and 1.H above for clarification of the importance of effective school level tracking of funds. Also, if in fact principals signing off on credit card statements is a control as noted in the response, then based on our testwork the school has not complied with this control for the entire period tested for our audit, March 2009-May 2015. This concluding remark also applies to finding 1.R below.

R. Credit card control sheets not in agreement with credit card statements

Criteria: WCSD Purchasing Handbook, Section 4C, Credit Card Documentation states:
The financial institution sends monthly statements to each card holder. It is the card holder's responsibility to verify the correctness of the statement and to reconcile payment with the Business Department.
Condition: IA noted that six of the 75 months reviewed had a credit card log activity summary sheet that did not agree with the credit card statement. The summary activity did not agree per transaction, in total, and/or the total was manually altered in order to agree with the credit card statement(s).
Cause: Not properly utilizing the district credit card activity sheet when verifying transaction amounts and the total.
Effect: Improper verification and under/over reporting of expenditures may occur. Additionally, misappropriation of public funds may occur and go undetected.
Recommendation: IA recommends that the school design and implement policies and procedures to ensure compliance with district credit card policies and use of forms. Specifically the school should ensure the credit card log is verified and agreed to the credit card statement per transaction and in total and that the district summary sheet is not manually altered.

Response: The credit card control sheet is not required. Attached receipts are used for verification of purchases.

Concluding Remark:
See concluding remark I.Q above.

S. Principal not signing off on monthly bank reconciliation

Criteria: WCSD Finance Procedures Manual, #1 states: Are principals signing monthly bank reconciliations?

Condition: While performing testwork IA noted eight of the 47 bank reconciliations tested where the principal did not sign the monthly bank reconciliation.

Cause: Lack of understanding at the school level that the principal must sign each bank reconciliation as evidence that it has been reviewed.

Effect: Unauthorized or inappropriate expenditures could occur and go undetected. Additionally, reconciling items may not be appropriately resolved.

Recommendation: IA recommends that the school ensure the principal reviews and approves the monthly bank reconciliation, indicating that he/she agrees with the monthly transactions, in accordance with district policy. If there are circumstances when the principal may not be able to review the bank reconciliation, the school could work with the district to amend their policy to reflect that a designee could, in that circumstance, review the reconciliation.

Response: Copies of bank reconciliations are kept at the school and submitted to the District Office. Not all copies have signatures. Several bank reconciliations were signed by the assistant principal and one had no signature. We have had numerous trainings with principals and secretaries instructing them that the principal must review and sign every bank reconciliation. We will continue to audit and train on this issue.

T. Errors on bank reconciliations

Criteria: WCSD Policy 6000.3.1.3 Purchasing and Advertising states:
All school and District files must be properly documented and maintained so that auditors from grant and contract agencies, or state and district auditors can verify that all laws and policies are being properly followed.

Condition: IA noted three months, March 2014 - May of 2014, where posted transactions on the bank statement were marked as cleared, regardless of the fact that the details of the transaction, such as total and check number did not agree with what was posted in the accounting system.

Cause: Lack of understanding of the bank reconciliation purpose and process.

Effect: Misappropriation of public funds or other financial concerns may occur/persist and go undetected because internal controls aren't operating effectively.

Recommendation: IA recommends that the school ensure the bank reconciliation internal control is operating effectively so errors in the accounting system can be identified and corrected immediately.

Response: Check numbers in the school accounting software were off by one number compared to the actual check number. The school finance secretary adjusted for the difference when balancing the bank statement and was able to successfully balance. The problem with the check number was fixed, and now check numbers on the reconciliation report match the bank statement. Based upon our evaluation of the problem, the school finance secretary adjusted to the shift in check numbers in order to compensate for the discrepancy. Her ability to adjust shows she understood the bank reconciliation process and school assets were never in jeopardy. District finance staff will continue to monitor the bank statements to ensure problems are addressed and corrected in a timely manner.

U. Principal not signing off on the check registers

Criteria: WCSD Finance Procedures Manual, #2 states:
The principal needs to either (a) sign each and every check, or (b) sign the monthly check register indicating he/she authorized all payments for that month.
Condition: IA noted one monthly bank register, out of the 27 reviewed, that was not properly signed by the principal.
Cause: Oversight by the principal.
Effect: Unauthorized disbursements of public funds may occur and go undetected and the school is not in compliance with policy.
Recommendation: IA recommends that the school follow district policies by having the principal sign all checks and/or sign the monthly check register each month.

Response: This is audited yearly during Internal Audits. Training is conducted yearly on this with principals and secretaries. District finance staff will continue to train and audit this for compliance.

II. Control Environment - Observations

A. Events not consistently tracked on school calendar

IA noted that 75 of the 366 hotel room charges reviewed did not coincide with events on the school's calendar. We were unable to determine validity of the items not on the calendar, as they were not properly approved and also lacked proper documentation (see findings III.A-C and F for findings in these areas).

Response: The school calendar is not intended to show all travel that has occurred at a school. Travel requests are to be submitted for all student travel, and all out of state employee travel. In state employee travel has been inconsistently tracked. Please see response to Finding III O.

B. Credit card control sheet submitted late

IA noted that of the 75 credit card control sheet statements with applicable supporting documentation that were reviewed, six (8%) were not submitted to the district in a timely manner; the six instances noted were between June 2009 – June 2012. The district provided deadlines are set based on turnaround times for records to be reviewed and payments to be sent out to the bank. It appears that this condition has already been mitigated as there were no deficiencies noted after June 2012. Therefore, IA recommends that the school continue to follow policy to ensure submission of the credit card control sheet and applicable documentation to the district in accordance with district provided deadlines.

Response: Credit card control sheets are not required by District policy. However credit card statements with attached documentation are required to be submitted within 10 days of receipt. The principals and secondary finance secretaries have been trained on this practice and informed that failure to submit credit card statements with attached documentation on time will result in immediate suspension of the credit card.

III. Disbursements - Findings

A. Insufficient documentation of purchases

Criteria: WCSD Policy 6000.3.1.2 Purchasing and Advertising states:
Records: All school and District files must be properly documented and maintained so that auditors from grant and contract agencies, or state and district auditors can verify that all laws and policies are being properly followed.
Condition: IA noted 1,327 out of 2,677 transactions tested (50%) from July 2008 – May 2015, where required supporting documentation (example: credit card transaction support), was insufficient or not included; therefore, we could not determine if expenditures were for school related items or if they were appropriate. Of the 1,327 instances, 990 were credit card transactions and 337 were check transactions. Additionally, the district-provided documentation forms are not being submitted with documentation (example: the gift certificate form must include the name of the recipient, date, amount, and reason).
Cause: This is a small entity with individuals that have a limited fiscal skill set that have not received sufficient training on fiscal policy and an appropriate internal control environment, including appropriate and adequate documentation.
Effect: It is difficult to determine if the expenditure was for appropriate and allowable school related business. Additionally, misappropriation of public funds may occur and go undetected.
Recommendation: IA recommends that the school design and implement policies and procedures to ensure appropriate and adequate documentation be included and maintained for all transactions and to ensure compliance with local, state, and federal regulations.

Response: Due to time constraints we have not reviewed all the transactions noted in this Finding. We agree that insufficient documentation is a problem at Enterprise High School. We do not agree with the standards that were used by IA as to what constitutes adequate documentation. The response to Findings below show what transactions we have reviewed and what we have found. We have included spreadsheets of the transactions we have reviewed with notation showing agreement or disagreement with IA's conclusions.
It is not our view that this policy requires every transaction to have attached documentation that would satisfy any and all concerns. It is our view that an individual with accounting experience and an understanding of school operations should be able to review the documentation and reasonably conclude that a transaction is legitimate. It is reasonable to expect an individual looking to validate a transaction may have to look in more than one place to do so.

Concluding Remark:
WCSD indicates that they do not agree with the standards used by IA to determine adequate documentation; however, the criteria noted above states that "All school and District files must be properly documented and maintained so that…state and district auditors can verify that all laws and policies are being properly followed." Therefore, the policy gives auditors discretion to determine what adequate documentation may include for them to complete their objectives.

WCSD's response is also inconsistent in stating that they don't believe every transaction is required to have attached documentation but then saying an individual

with accounting experience and an understanding of school operations should be able to review the documentation and make a reasonable conclusion.

We also disagree with the response that "It is reasonable to expect an individual looking to validate a transaction may have to look in more than one place to do so." It is generally not efficient or effective accounting practice to have to maintain documentation for one transaction in more than one place; inefficient and ineffective practices may lead to waste of taxpayer funds and resources.

The response also mentions a list of transactions with additional responses. Due to concerns about privacy of personally protected information of students being publically released with this report we have not included the transaction list in the audit. Please contact Washington County School District or USBE Internal Audit for more information if needed.

B. Unauthorized users of school credit cards

Criteria: WCSD Policy 6000.3.1.6 Small Purchases states:
No other person has the right to purchase in the name of the District except by explicit authorization of the Superintendent, Business Administrator, or Purchasing Coordinator.
The WCSD Credit Cardholder's Agreement indicates:
The cardholder must comply with the terms and conditions of the agreement and with the provisions of the WCSD Purchasing Policy.
Condition: IA identified five purchases that were made on the school credit card by individuals not employed by the high school. In discussion with the financial secretary, it was stated that the card number is known by certain individuals who use it often. The non-card holder users are not trained on the policies and procedures regarding the use of the card.
Cause: Lack of training on fiscal policy and an appropriate internal control environment, which should include appropriate use of credit cards only by authorized individuals included on cardholder agreements.
Effect: The school and/or district may be held liable for charges made on the card, whether school related or not. Additionally, there is an increased risk of fraud, waste, and abuse of public funds.
Recommendation: IA recommends that the school follow district and cardholder policies and procedures, which indicate that only authorized individuals (cardholders) have the right to use the school credit card. Additionally cardholders certify that they have received training on use of the card. IA also recommends that the school consider disciplinary actions for employees that allow any non-authorized individuals to use the credit card.

Response (revised by USBE Internal Audit to redact protected information): This issue was discovered through an internal audit in 2014. The District took action at that time as considered necessary. Training has been held with all principals explaining the importance of controlling their District credit cards.

Concluding Remark:
This also highlights the importance of school level internal control activities to ensure compliance with District and cardholder policies. (See Concluding Remark to finding I.A above).

C. Lodging paid for nonemployees/family members

Criteria: District Administrative Letter #25, Lodging, states:
Actual room costs will be covered for employee only.
Condition: IA noted 7 out of 368 lodging transactions where schools funds were used to pay for the lodging of non-employees. Four of the instances were in fiscal year 2015. Request for travel forms submitted showed that the non-employees were to pay for their own rooms upon arrival; however, the rooms were charged to the school credit card, with no record of reimbursements paid back to the school.
Cause: Lack of consistent enforcement of established district lodging guidelines for non-employees.
Effect: The school may be obligated to pay for hotel stays for unauthorized individuals, which would indicate waste and abuse of public funds.
Recommendation: IA recommends the school ensure compliance with lodging guidelines and only make disbursements for authorized employees. IA also recommends that if an employee does not comply with these guidelines (i.e. using the school card to pay for a non-employee's travel), he/she should be required to reimburse the district and/or school and disciplinary action should be considered.

Response (revised by the auditor's to redact protected information): Enterprise High School regularly makes reservations for school employees and parents who are traveling to watch school extracurricular events. Although the reservations are made by the school, the bill is usually paid by the employee. For 5 of the transactions, the school credit card was charged for the extra rooms. One of the rooms paid for by the school was reimbursed to the school. We have been unable to verify receipt of funds for four of the rooms, as the individuals are out of the area on vacation and will not be back before our response is due. However, one of those rooms was for a parent volunteer and would not have been an inappropriate expense if it was not reimbursed. Two of the hotel stays were for a school employee. His wife made the reservation, so her name was on the invoice. Two invoices were for one visit from June 8, 2009 to June 13, 2009. We have confirmed that the employee was attending a UHSSA meeting in Provo on June 9th, and a UASSP summer conference from June 10th through June 12th in Park City. We have held training with the finance secretary about the importance of ensuring receipt of funds if rooms are charged to the school that is not authorized.

Concluding Remark:
We are encouraged by the additional training that will be provided to the financial secretary. However, the practice of allowing schools to book hotels for non-

employees should be considered in light of the liability it constitutes to the school and district and given the current financial circumstances and priorities of public education. Additionally hotels should be booked in proximity to conferences to ensure efficient usage of school funds and be in accordance with District policy regarding the allowable rates.

D. Transactions potentially split to circumvent controls

Criteria: Utah Administrative Code 63G-6A-407-8 (a) states:
(a) It is unlawful for a person to intentionally or knowingly divide a procurement into one or more smaller procurements with the intent to make a procurement
(i) qualify as a small purchase, if, before dividing the procurement, it would not have qualified as a small purchase; or
(ii) meet a threshold established by rule made by the applicable rulemaking authority, if, before dividing the procurement, it would not have met the threshold.
District Administrative Letter #42 states:
Purchases of $1,000 - $5,000 require two oral price quotes and purchases of $5000 - $10,000 require three written price quotes and district approval.
Condition: IA noted 86 credit card transactions and 23 check transactions (109 transactions in total) made on the same day to the same vendor as another transaction. Each transaction in question is under $1000, but in aggregate by day and vendor exceeded the $1000 amount established in district policy that would require the transaction to obtain two oral bids and district approval before purchase. These transactions have the appearance of potentially being split to circumvent controls.
Cause: Disregard or oversight of established procurement guidelines.
Effect: Public funds may be expended without appropriate bids/quotes, appropriate approvals, and the employee and school may be liable for the purchases.
Recommendation: IA recommends that the school follow Utah Administrative Code, which prohibits the practice of splitting transactions to circumvent controls. IA also recommends that disciplinary actions be considered for an individual that is knowingly found to be splitting transactions to circumvent controls.

Response: All 86 of the credit card transactions identified were for hotels or conference registrations. Hotels bill credit cards individually for each room and conferences bill credit cards individually for each attendee. There is no evidence that these transactions were artificially split. Of the hotel charges, all but one was purchased using the state government rate and was below the nightly rate set in Admin. Letter #74, therefore they would not require bids. One of the hotel stays should have had bids. The conference registrations are for specific conferences and therefore do not require bids.

Of the 23 check transactions, four were to sole source providers, two were to the FFA for annual dues and a conference registration, and two were to UHSAA for catastrophic insurance and arbitrating fees. As sole source purchases these do not require bids, and as payments for different services, they needed to be processed on separate checks. Of the remaining 19 purchases, 17 of the purchases were for substantially different goods or services that would not usually be purchased together, and therefore would not require bids. Two of the purchases look like an artificially split purchase to avoid obtaining bids. Please see attached sheets for transaction details.

The District has held ongoing training with all secretaries, principals, and athletic directors concerning what purchases require bids and what is an artificially split purchase. We will address this again with secondary finance secretaries during the next month and with the principals during our summer training.

Concluding Remark:

We are pleased that the district has held trainings concerning purchases that require bids. We emphasize that a proper safeguard against a purchase appearing to be split (i.e. sole source or multiple payments to the same vendor for separate purchases as noted above) could include appropriate documentation to address any potential concerns.

E. Fundraising conducted without sufficient policy and procedures

Criteria: Utah Administrative Code R277-113-4(D) states:

All transactions pertaining to non-school sponsored events shall be conducted at arm's length; revenues and expenditures shall not be commingled with public funds.

Utah Administrative Code R277-113-5(3) states:

The LEA fundraising policy shall establish procedures for LEA and public school fundraising in general and other specific provisions outlined in the Rule.

Condition: IA noted that the school does not have a policy regarding fundraising events. We also noted $10,852 of expenditure transactions related to fundraisers (e.g., sub-for-santa), but were unable to offset those expenditures with any corresponding revenue. The school utilizes the same cash receipting process for school and non-school sponsored events and, as such, we could not determine if only non-school related funds were utilized for these fundraisers.

Cause: Lack of knowledge and training about policy requirements for fundraisers.

Effect: There is the potential that non-public funds may be mixed with public funds. Additionally, public funds may be misappropriated or funds may not be used or provided to appropriate entities as disclosed in the event material.

Recommendation: IA recommends that the school design and implement policies and procedures in accordance with district and state regulations to ensure funds raised during fundraisers are handled appropriately. The policies should indicate if

the fundraiser is school sponsored or not and identify the accounting implications associated with that determination.

Response: The sub-for-santa, and miracle minute fundraisers were conducted by the student executive council. The fundraisers are school sponsored and part of civics education. The student executive council determines the projects they wish to raise money, design and execute the fundraisers, and determine distribution of the funds. This type of program is also conducted by the National Honor Society students at many schools. R277-113 was established in April of 2013. We are unaware of any issues dealing with non-school sponsored fundraiser money being commingled at Enterprise High School after the implementation of this rule.

The district does currently have policies which address fundraisers, but it has been brought to our attention that the current policies do not meet all of the requirements laid out in R277-113. The district is in the process of drafting a new fundraiser policy in order to meet the R277-113 requirements. The new policy will establish procedures for fundraising in general, establish an approval process for fundraising activities, and provide for compliance with school fee and fee waiver provisions. The new policy will also establish an approval process for fundraising activities, include directives regarding the appropriate use of the district's tax exempt status number, and provide other instructions to ensure compliance with the internal controls under the district's cash receipting and accounting procedures.

F. Out-of-state travel without prior approval from the district and board

Criteria: WCSD Policy 7040 Out-of-State Travel for Activities and Field Trips states:
1. The purpose of the trip needs to be curriculum related, educationally sound, and improve student achievement. No reward trips will be allowed.
2. Travel requests for field trips and activity trips must certify that students will be involved in verified and documented educational experiences based on objectives that cannot be met within the State of Utah. (A detailed itinerary must be approved by the District Administrator and followed by the advisor.)
3.2 Advisors must not make plans, introduce idea to students, or make financial commitments prior to receiving Board approval.
Condition: IA noted 34 credit card transactions and 1 check transaction, totaling $8,370, which included out-of-state lodging disbursements made without prior district and board approval.
Cause: Lack of consistent enforcement of established district lodging guidelines.
Effect: The school may potentially be utilizing public funds for unauthorized trips that expose the school and district to legal liability.
Recommendation: IA recommends that the school get appropriate prior approval for any out of state travel. IA also recommends that if an employee is discovered to have broken these guidelines, he/she should be required to reimburse the district and or school and/or possibly receive disciplinary action.

Response: WCSD Policy 7040 included a note when approved in 1985 that is still followed today. This note states that "Because of geographic proximity to Washington County, areas within the radius of Panaca, Nevada; Las Vegas, Nevada; and Page, Arizona will be considered as "in state" for the purposes of this policy. In accordance with Policy 7020 3.13. For traveling purposes, the following locations will be considered region schools: Beaver, Canyon View, Cedar City, Dixie, Enterprise, Hurricane, Kanab, Lincoln County, Moapa Valley, Parowan, Pine View, Snow Canyon, Valley, Delta, and Virgin Valley. Of the 35 transaction noted in the Finding; 12 were for athletic trips to Las Vegas and Mesquite, Nevada; 2 were for athletic trips within the state of Utah that have an out of state billing address; 10 were for teacher conferences approved by the Board as part of the schools Trust Land Plan. 3 were for rotation conferences approved by the assistant superintendent. We have not had time to review the travel request for 8 of the transactions. Due to a change in our travel request software, it is difficult to locate travel requests before 2011.
Travel requests are required to be submitted for all out of state travel. An e-mail will be sent out to all principals and secretaries to remind them to submit travel requests. Training will be held with all school secretaries and principals before the end of the school year.

Concluding Remark:
Training principals and secretaries on travel policies and procedures will help ensure schools obtain appropriate approval for travel. WCSD Policy 7040, as available on the Internet, did not include the note discussed in the response above defining which areas are considered in-state. Therefore, to ensure appropriate application of the policy, we further recommend that note be incorporated into the formal policy and procedure manual available to employees and the public on the Internet.

G. Unreasonable purchases

Criteria: WCSD Policy 6000 Purpose states:
To enhance the education mission of the WCSD by the procurement of all goods and services at the lowest cost consistent with quality, quantity and delivery requirements.
The District Credit Card Application Form prohibits purchases which could be considered inappropriate if made public.
Condition: IA noted 84 transactions totaling $20,758 where the purchases made do not appear reasonable. These purchases were not academic in nature, purchased at a higher than normal rate, or in a way that did not allow for the lowest cost to be paid. Purchase request forms are not being used regularly, and are not approved prior to disbursements being made. Public funds should be spent in a way that maximizes efficiency, effectiveness, and transparency.
Cause: Lack of consistent enforcement of procurement policies.
Effect: Purchasing items that are not of the best economical value may occur, which may constitute waste or abuse of public funds. Additionally, misappropriation of funds may occur and go undetected. If items are purchased with federal funds, they may also potentially be unallowable and require repayment.
Recommendation: IA recommends that the school utilize purchase request forms, with the details of the purchase provided, prior to the payment being made. This would allow the principal the opportunity to review purchases for academic value, cost effectiveness, and availability of funds, prior to the card being charged.

Response: In reviewing these transactions we have concerns with the standard used by the auditors to determine unreasonable purchases. For the majority of the transactions included in this Finding, we disagree with the auditor's assertion that the purchases were unreasonable. We do believe, however, that the school should have maintained better documentation, and we will continue to conduct trainings to instruct secretaries and administrators on how to ensure transactions have proper documentation.

Of the eighty-four purchases in this Finding, sixty-five were credit card purchases. Thirty-two credit card purchases, totaling $8,476 were Sub-for-Santa purchases. Sub-For-Santa is a fundraiser which the Enterprise High Exec Council uses every year to assist in providing food, clothing and holiday presents to needy families in the community. The Sub-For-Santa purchases identified appear to be reasonable, and in line with how the donors would have expected their donated funds to be used. Per discussion with the auditors, it appears the main problem with these purchases was a lack of documentation. The district is in the process of drafting a new fundraiser policy which will ensure there is a high level of documentation (see finding III.E for additional information on this new policy).

Thirteen credit card purchases totaling $1,409 were for senior graduation week activities. These types of purchases are allowable under WCSD policy, and we disagree that these purchases were unreasonable. Student incentives, rewards and recognitions are part of the educational process. The senior activities are rite of passage activities to celebrate the completion of their K-12 educational experience.

Twenty credit card purchases, totaling $8,092 were miscellaneous purchases including computers for sports programs, printers, etc. All of these purchases appear to be legitimate purchases that a high school would make.

The remaining purchases included in this finding were nineteen purchases totaling $2,782 paid by check. The majority of these appear to be reasonable. These purchases include student incentives, school athletic expenses, reimbursements (with attached receipts) paid to individuals, payments where the school was acting as a flow-through agency to facilitate transactions between students and a college, fundraiser proceeds donated to the family of a student who was killed in an accident.

One $30 check was for entry fees to an unrequired social event associated with a conference registration. District policy has allowed for these types of networking activities to be paid for administrative staff attending conferences. However, this practice is currently being reviewed.

A $481 check in 2008 was issued to the school's PTSA to pay for dues for all teachers. At the time this check was written, district policy did not prohibit a school from paying the annual PTA membership dues for its teachers. The District is in the process of implementing a new policy which will clarify that this is not an acceptable use of school funds.

One purchase for $60.68, was for a birthday lunch. We agree with the auditors that this was an inappropriate purchase. This is a violation of Admin Letters #74 &85, and was not appropriate. We have held numerous trainings with all secretaries and principals concerning Admin. Letters #74 & 85. We have met with the principal and Enterprise High School finance secretary concerning gifts.

Concluding Remark:

We concur that determining reasonableness includes some degree of subjectivity and that there is local discretion in determining how to use public education funds. However, we also caution that there is a fiduciary responsibility to the taxpayers when expending public education funds. Additionally, given the current financial circumstances and priorities of public education we urge consideration of policy decisions that maximize funds being allocated to classrooms. Public funds used outside priority areas should be monitored closely and used sparingly.

H. Credit card purchases over the $1,000 limit

Criteria: WCSD Purchasing Handbook Section IV, Item B states:
Purchasing limits per transaction are $1,000.
The WCSD Credit Card Application Form states:
The credit card is intended for small dollar purchases not to exceed $1,000.

Condition: IA noted 47 credit card purchases over the $1,000 transaction limit. Using the credit card for large purchases could circumvent the policies in place for disbursements with a check, which require additional approval and possibly bids and quotes.

Cause: Lack of understanding that credit cards are not to be used for purchases above $1000.

Effect: The school is not compliant with district policy and purchases may occur without appropriate review, documentation, and approval.

Recommendation: IA recommends that the school follow district purchasing guidelines. Specifically the school should ensure they do not pay for transactions above $1,000 with a credit card. Additionally, the district may ensure appropriate spending levels by setting spending limits with the financial institution that issued the card. If the school needs to make a purchase over the $1000 transaction limit, they should pay with a school check, which will require a district purchase order if it involves district accounts.

Response: Credit card purchases over $1000 require preapproval from the purchasing manager or Business Administrator. Due to the large amount of information required in responding to the Findings, we have not been able to verify if preapproval was received for the purchases in question. However through the process of reviewing other Findings we have validated several purchases were made without preapproval.
District finance staff has held trainings with the secondary finance secretaries and all principals on credit card rules. They have been informed that purchases over $1,000 without prior approval will result in immediate suspension of their credit card.

I. Disbursement issued over $1,000 without documentation of proper quotes (oral/written)

Criteria: District Administrative Letter #42 states:
Purchases of $1,000 - $5,000 require two oral price quotes and purchases of $5000 - $10,000 require three written price quotes and district approval. The district policy was established for the schools to obtain items at the best economical price available, which is consistent with WCSD Policy 6000 which indicates procurement of goods and services should be at the lowest cost consistent with quality, quantity and delivery requirements.

Condition: We noted 86 disbursement transactions, totaling $200,490, where the school made a purchase that did not include two oral price quotes or three written price quotes and district approval as required by district policy.

Cause: Lack of enforcement of district procurement policy related to high dollar purchases.

Effect: Expenditures may occur that are not of the best economical value, which increases the risk of fraud, waste, and abuse of public funds. There is also non-compliance with district policy and a lack of appropriate documentation to justify the purchase.

Recommendation: IA recommends that the school follow district policies for

purchases of $1,000-$5,000 and obtain two oral price quotes using District Form 406. The form should be kept on file with the purchase documentation. Additionally, for purchases of $5000-$10,000, the school should obtain three written price quotes using District Form 407, which should then be submitted to the district purchasing office for approval.

Response: We did not have the time to review all the transaction included in this Finding. We did review sixty-five of the check disbursements totaling $141,910.

Of those sixty-five checks, eighteen checks totaling $47,151 were sole source procurements. These were payments to vendors for goods or services that are entirely unique, and would not duplicatable by any other vendor (for example, tickets to disneyland, payments to the Utah High School Activities Association, payments to the FCCLA, registration costs for drill team camps and wrestling camps, etc.). Per discussion with the auditors, the primary concern with these transactions was that the school did not include documentation explicitly stating that these were sole source payments. We will address this concern by providing training to the school secretary on ways to provide clearer documentation for sole source procurements.

Four checks totaling $11,500 were checks issued from the school to the Washington County School District. Schools occasionally issue checks to the District in order to use school-level funds to pay for expenses that are required to be paid at the district-level. These are inter-agency transfers of funds, and are not instances where competitive bids would have been required. Per discussion with the auditors, it appears the primary concern here is that, although the check written to the vendor from the District would have had accompanying bids, the bids were not attached to the check issued to the District from the school. We will instruct the school finance secretary to either attach duplicate bids to these types of inter-agency payments, or explicitly reference the applicable purchase order number in the documentation for the check written to the District.

Fifteen of the checks totaling $29,808 included in this finding were instances where the school did obtain competetive price quotes, but there were problems with the bids which caused the bid to not be in full compliance with purchasing policy. For example, in some instances the bids did not compare the same quantities of items, or the same clothing sizes for uniforms. In other cases, the bids were for items which were not true apples-to-apples comparisons (e.g. premium duffle bags from one vendor compared with basic duffle bags from another vendor). In some cases, the purchase included a long list of items, and the school obtained bids for most, but not all, of the items.

Twenty-one checks we reviewed were instances where the school failed to obtain any bids. District Finance staff has met with the old principal, the new assistant principal and the finance secretary at EHS and trained them on proper bidding and documentation procedures. District finance staff will be training the new principal at EHS during the next two weeks.

J. Checks written to employees from the school checking account

Criteria: WCSD Finance Procedures Manual, #3 states:
All payments made to District employees should be issued by the WCSD payroll department to ensure applicable payroll taxes and benefits are included. This includes payments for things such as stipends, per diem rate reimbursements, etc.
Condition: IA noted 146 instances where the school issued checks to individuals that should have been issued by the district office.
Cause: Lack of understanding that certain payments/reimbursements may have tax implications; therefore, they should only be handled at the district office.
Effect: Payments may occur that have not been properly considered for tax purposes, which may have serious repercussions or liability for the district, school, or employee with the IRS or state/local taxing entities.
Recommendation: IA recommends that the school ensure compliance with WCSD policy so that any payment to district employees is paid through the district office to

ensure tax implications will be considered and taxes withheld or reported appropriately.

Response: Due to time constraints we did not review the transaction identified in this Finding. WCSD Finance Procedures Manual #3 was in error requiring all payments to district employees to go through the payroll department. This procedure has been replaced with WCSD procedure "Disbursements" which states: Payments to employees: Employees must always be paid through the District payroll department; employees should never be paid with a school check for services rendered. The school is allowed, however, to issue checks directly to employees for per diem and mileage, and to reimburse the employee for school-related expenses paid out-of-pocket. District finance staff has completed training on this new procedure with secondary school finance secretaries. All school secretaries and principals will be trained by the end of the school year.

Concluding Remark:
While pleased with the update to the policy we recommend regular reviews of this area to ensure employees do not receive payments from both the district and the school.

K. Apparent conflict of interest between private interest and public duties

Criteria: Utah Administrative Code 67-16-9 states:
No public officer or public employee shall have personal investments in any business entity which will create a substantial conflict between his private interest and his public duties.
Condition: IA noted 52 check disbursement transactions where there was the appearance of a conflict of interest. A conflict of interest may indicate to the public that the school employee and/or relative is receiving a direct benefit from public funds. Although the school is located in a small community where conflicts of interest are more predominant, certain safeguards should be put in place.
Cause: Lack of policies and procedures to address potential conflicts of interest.
Effect: The school may not be procuring items of the best economical value in accordance with WCSD Policy 6000 which indicates procurement of goods and services should be at the lowest cost consistent with quality, quantity and delivery requirements. Additionally there may be a negative public perception of the school if it is perceived to be wasting or abusing public funds.
Recommendation: IA recommends that the school design and implement policies and procedures to ensure compliance with state and district policies so they do not engage in transactions where a conflict of interest exists or appears to exist without appropriate disclosure, documentation, and approval. The policy could also include a provision for employees to recuse themselves from any part of the decision-making or approval process where a potential conflict of interest exists. IA also recommends that the school obtain and routinely update a conflict of interest form for all employees.

Response: Of the fifty-two checks, thirteen checks totaling $6,769 were issued to a company which was purchased by a school employee in April, 2015. All Finding purchases were made before the company was purchased by the employee. Per discssion with the auditors, it appears that the employee may have had ties to the business prior to April, 2015, based on a review of the company's Facebook page history. The exact nature of the relationship between the school employee and the business prior to the purchase of the business is uncertain.

Eight checks totaling $441 were reimbursements to school employees or relatives of school employees.

Eleven checks totaling $7,200 were to the rodeo club, this is discussed in the Finding III L.

Two checks totaling $132 were payments made to a welding business owned by a school employee. The people who made these purchase decisions were unrelated to the business owner, and worked in separate school departments from the business owner.

One check for $1,500 was for a purchase made from a company owned by a school employee. The employee was not involved in the purchasing process and the school obtained competitive bids for the purchase.

Sixteen checks totaling $4,420 were for food purchased from relatives of school employees. In most of these instances the food was resold at a profit for the school as concessions at athletic events or dinners held as fundraisers. There were two instances where the food purchased was given as a gifts to graduating seniors. The purchase decisions were not made by the school employees who were related to the people paid for providing the food.

One purchase was a $450 scholarship awarded to the child of a school employee. Per discussion with the school employees who oversaw the scholarship selection criteria, the parent of the child who received the award was not involved in the scholarship selection process, and was unaware that the award would be given to any student at all until after the selection had been made.

We understand the conflict of interest risk inherent at any school, and we agree that the documentation for some of these purchases should have been more detailed in order to avoid the appearance of conflicts of interest. This risk is even greater at a school in a small community. The benefit of a small community is that family relationships and conflicts are more readily known. District finance staff will be conducting training with all Enterprise High School office staff to ensure understanding of what constitutes a conflict of interest, and how to document properly when a conflict of interest exists.

Concluding Remark:
While we appreciate that there were no conflicts of interest in fact; conflicts of interest in appearance, as noted in the finding above, are also a concern. Adequate documentation will help identify apparent conflicts and disclose that they were handled appropriately.

L. School funds used for non-curricular clubs

Criteria: Utah Code 53A-11-1202 defines "Noncurricular club" as:
A student initiated group that may be authorized and allowed school facilities use during non-instructional time in secondary schools by a school and school governing board in accordance with the provisions of this part. A noncurricular club's meetings, ideas, and activities are not sponsored or endorsed in any way by a school governing board, the school, or by school or school district employees." Additionally, "curricular clubs" is defined as "a club that is school sponsored and that may receive leadership, direction, and support from the school or school district beyond providing a meeting

place during non-instructional time.
Utah Code 53A-11-1208-3 Use of school facilities by clubs indicates:
The following rules apply to noncurricular clubs: (a) A preference or priority may not be given among noncurricular clubs; (b) (ii) a school may not spend public funds for noncurricular clubs, except as required to implement the provisions of this part, including providing space and faculty oversight for noncurricular clubs;"
Condition: IA noted 12 expenditures for the rodeo club totaling $7,245 and 1 expenditure for the service club totaling $450, where it appears public funds were spent on noncurricular clubs in direct violation of Utah Code. Additionally, all noncurricular clubs did not have equal access to the funds.
Cause: Disregard for compliance with Utah Administrative Code.
Effect: Less money is available for approved school related activities, including classroom instruction and/or curricular activities and the school is not in compliance with state regulations.
Recommendation: IA recommends that the school design and implement policies and procedures to ensure compliance with Utah Administrative Code regarding noncurricular clubs and refrain from making distributions to non-curricular clubs except as may be provided for in regulation.

Response: The Washington County School District contributed to the school rodeo clubs every year, under direction of the School Board until 2014. Many schools followed this practice and made contributions to their school rodeo clubs. In November 2014 we discovered this was not a legal practice. A meeting was immediately held with all principals, and Utah Code 53A-11-1208-3 was explained. This meeting was immediately followed up with training on what constitutes a curricular vs. non-curricular club. Principals were then required to send a list of all curricular and non-curricular clubs at their school to the District Office for review.

Concluding Remark:
We are encouraged that the district has taken the necessary step to help mitigate this issue. The main concern with this finding was the magnitude of donations to one particular club tied closely to a financial decision maker at the school.

M. Lodging rates in excess of the allowed amount

Criteria: District Administrative Letter #25 lodging states:
Lodging should not exceed $90.00 per night in-state." Lodging rate guidelines have been established to prevent an excessive amount being obligated to the school for hotel stays.
Condition: IA noted 41 credit card transactions and 2 check transactions where the lodging per night included charges for rooms that exceeded the allowable $90.00 amount.
Cause: Lack of understanding of guidelines that outline that hotel rates cannot exceed the established $90 per night.
Effect: The school may be obligated to pay for hotel stays that are unauthorized, not in compliance with policy, or excessive in nature, which may constitute waste or abuse of public funds.
Recommendation: IA recommends that the school provide training to ensure district policy is understood. Additionally, we recommend that the school ensure

compliance with the district lodging policy that employees not exceed the established $90 per night lodging rate. If an employee wants a room that costs more than $90 they should pay the difference in excess of what is allowed.

Response: We have not had time to review the transactions from this Finding. Admin. Letter #25 sets the not to exceed in-state lodging rate at $90. This was set to try to make employees mindful of how much a motel room costs. Even though hotel room prices have increased in many parts of the state making the $90 unreasonable, we have not increased the rate due to it still being valid in other parts of the state. District administration will be reviewing this Administrative letter with executive staff. We want to make it possible for schools to book lodging throughout the state while still requiring them to be price conscious. Principals and secretaries will then be trained on the new requirements.

N. Meals purchased in excess of allowed per-diem rates

Criteria: District Administrative Letter #25 states:
In-state food per diem is $9.00 for breakfast, $11.00 for lunch, and $16.00 for dinner."
These rates are per individual and transactions should be accompanied by the district provided meal documentation form. In-state per diem rates have been established to prevent the district and schools from being obligated to pay excessive amounts for purchases of food by an employee.
Condition: IA noted 14 transactions where the meal purchased exceeded the maximum in-state per diem amount allowed by policy.
Cause: Lack of understanding at the school level that meals cannot exceed the established per diem guidelines. Additionally, lack of understanding that meals are treated, per individual, and not in aggregate.
Effect: The district and schools may be obligated to pay for meals that are unauthorized, not in compliance with policy, or excessive in nature, which may constitute waste or abuse of public funds.
Recommendation: IA recommends that the school provide training to ensure district policy is understood and design and implement policies and procedures to ensure district documentation forms are completed for all meals purchased with public funds. Additionally, if meal per diems are exceeded the individual should be required to reimburse the district or school for the excess cost.

Response: District per-diem rates must be followed unless prior approval is given by the superintendent. The current superintendent has been in his position since 2013 and has not authorized any deviations from the established per-diem rates for EHS. The prior superintendent was not available to determine if he made any exceptions. We have not looked at the actual Findings, however we are aware of several violations to the per-diem amount. In each of these cases the principal and assistant principal met with the offending individual and outlined the rates and how violation of the rates were not appropriate. We will be monitoring meal purchases at EHS through internal audits to ensure compliance with establish per-diem rates.

O. Conferences not preapproved

Criteria: WCSD District Policy 1330.3.1.1.2 states:
The District Superintendent, or designee, shall authorize all trips involving out-of-District travel (on school days) by school employees or official school groups. WCSD District Policy 1330.3.1.1.3 states:
Any employee or group expecting reimbursement of travel expense must have approval of District office prior to incurring of said expenses. Therefore, a proper approval structure would require a supervisor (at the district) to approve the

conference and related travel, based on submitted itineraries, prior to the payment being disbursed."

Condition: IA noted 62 instances where conferences were paid for without prior approval from the district.

Cause: Weak internal control environment at the school and district level that led to inconsistent enforcement of policies for all employees and activities.

Effect: Unreasonable, unnecessary, or inappropriate expenditures may occur and funds could be misappropriated and go undetected.

Recommendation: IA recommends that school employees be trained on district policy and follow a proper approval structure that allows the district time to review submitted itineraries and travel request forms prior to payment being made for travel and conferences.

> **Response:** All out of state travel and all student travel require the submission of a District travel request. The superintendent's secretary sent out a letter in 2006 stating that school employees did not need to submit a travel request if they used a District car located at their school. This has created confusion amongst school employees, and a breakdown in District policy. Executive staff members have met with the District administrative assistants who have directed the travel request process. The executive staff will meet next week to establish proper procedures to ensure compliance with District policy.

P. Tax exempt number not used consistently

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

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

Utah Administrative Code R277-113-5(C)(2)(b) requires:

LEA fiscal policies to include "directives regarding the appropriate use of the LEA tax exempt status number.

Condition: We noted 15 out of 25 transactions reviewed where tax was charged when the transaction should have been exempt.

Cause: Lack of policy and training provided to financial secretaries and other employees who make purchases using public funds.

Effect: The school is spending more public funds than necessary when procuring goods and services.

Recommendation: IA recommends that the school ensure that all employees who make purchases using public funds be trained on how to use the tax exemption certificate to make tax exempt purchases. If a district policy does not exist the school consider either notifying the district to request a policy be developed or could consider writing a school policy.

> **Response:** We have not had time to review the transactions associated with this finding. WCSD procedure "Utah Sales Tax" outlines the proper steps to be taken to ensure proper use of tax exempt status. Training will be held with all school secretaries and principals, by district office staff, before the end of the school year.

Q. Gifts purchased using public funds

Criteria: District Administrative Letter #74 states:

No gifts such as Christmas presents, birthday presents, secretaries day presents, etc. may be given using public funds.
Condition: IA noted two gifts were purchased for secretaries' day using public funds.
Cause: Lack of knowledge of the district guidelines for rewards and recognitions.
Effect: Public funds may be used for inappropriate items which reduces the amount of funds for appropriate school related activities.
Recommendation: IA recommends that the school follow district purchasing guidelines and refrain from using public funds to purchase gifts.

> **Response (revised by the auditor's to redact protected information):** This Finding was discovered during an internal audit in the summer of 2014. The district took action accordingly. Continued training has been conducted with all principals, concerning Admin. Letter #74, and the inappropriateness of gifts.

Concluding Remark:
We reviewed internal audit documentation and documentation of other action taken by the District; however, we did not note any discussion of this item. Continued training on this item will help ensure compliance.

R. Gifts purchased for employees greater than $50

Criteria: District Administrative Letter #74 states:
Rewards must be non-monetary and less than $50.00 in value.
Utah Administrative Code 67-16-5 Accepting gift, compensation, or loan – When prohibited states:
(2) it is an offense for a public officer or public employee to knowingly receive, accept, take, seek, or solicit, directly or indirectly for himself or another a gift of substantial value or a substantial economic benefit tantamount to a gift
(3) (a) an occasional nonpecuniary gift, having a value of not in excess of $50;
WCSD Finance Procedures Manual, item 3 states:
All payments made to District employees should be issued by the WCSD payroll department to ensure applicable payroll taxes and benefits are included. This includes payments for things such as stipends, per diem rate reimbursements, etc.
Condition: We noted three instances where a check was issued to an employee as a reward/gift for an amount greater than $50.
Cause: Disregard for complying with district and state policy related to monetary rewards greater than $50 in value.
Effect: The school may be giving awards/recognitions that could be considered excessive and unreasonable, which reduces funds for appropriate school-related activities. Awards/recognitions that are considered as excessive may also be viewed by the public as an improper use of public funds. Also, there may be tax implications if the item is no processed through payroll (see III.J)
Recommendation: IA recommends that the school design and implement policies and procedures to ensure compliance with state and district regulations for rewards and recognitions.

Response: 67-16-5 (3) Subsection (2) does not apply to: (b) an award publicly presented in recognition of public services. Administrative Letter #74 states: These guidelines do not apply to awards publicly presented in recognition of public service.
Two of the checks to employees were checks presented to retiring employees, at a farewell party held in their honor, in recognition of their long time service to the school. These checks fall within State Statute and District Policy.
The third check was to Costco for the purchase of a Camp Chef stove. The stove belongs to the school and has been visually verified that it is located on school property. The stove is used for cooking meals for students at after school activities in lieu of purchasing meals.

Concluding Remark:
We appreciate the clarification regarding these transactions and emphasize the importance of adequate documentation, as the documentation we reviewed for these items did not disclose that they were for retirements or school programs. As noted previously, we recommend the district closely monitor use of public education funds outside of priority areas.

S. Expenditures not properly coded into correct accounts

Criteria: WCSD Policy 6000.3.1.2 Records states:
All school and district files must be properly documented and maintained so that auditors from grant and contract agencies, or state and district auditors can verify that all laws and policies are being properly followed. The accounting codes have been established to help separate funds into particular groups for tracking and expenditure purposes (i.e. drama funds, restricted or unrestricted, federal or state, etc.).
Condition: IA noted 69 instances where the wrong accounting code was used when completing a check disbursement transaction.
Cause: Oversight as expenditure transactions were processed.
Effect: Decision making may be based on inaccurate information, financial statements may be compiled inaccurately, or funds may be used inappropriately.
Recommendation: IA recommends that the school verify controls are operating effectively to ensure that proper accounting codes are used for all transactions.

Response: All restricted state and federal grant money is run through District level accounts. School level accounts are unrestricted funds that can be spent on any legitimate school purchase. School level accounts, other than object codes, are for internal school use only, and are not required by state law or district policy. District finance staff holds regular trainings for finance secretaries throughout the year to train them on the use of school accounts. This training will continue, with an emphasis on accuracy in categorizing expenses.

Concluding Remark:
We are encouraged that the district is holding regular trainings for financial secretaries on the use of school accounts; however, to properly safeguard school funds school level accounts should be accurately reported. Also see finding I.H above.

IV. Disbursements - Observations

A. Lodging paid for employees/students less than 50 miles from the school

We noted seven credit card transactions and three check transactions where the lodging was being paid for employees and/or students at a hotel that was less than 50 miles away from the school. Utah administrative code r25-7-8(3) reimbursement for lodging states: state employees traveling less than 50 miles from their home base are not entitled to lodging reimbursement.

Response: This rule does not apply to LEA's. The actions for Finding III O will ensure proper controls on travel.

Concluding Remark:
We agree that Utah Administrative Code R25-7-8(3) is not applicable to the LEA. Because the administrative rule represents good business practice in use of taxpayer funds we have included this item here as an observation rather than a finding. Further discussion with the District indicated that they are aware that this is still a concern and they are adjusting their procedures to mitigate this concern.

V. Vehicle Use - Findings

A. Inadequate documentation for vehicle use

Criteria: WCSD Policy 6000.3.1.2 Purchasing and Advertising states:
All school and District files must be properly documented and maintained so that auditors from grant and contract agencies, or state and district auditors can verify that all laws and policies are being properly followed.
Documentation should include who the driver was, beginning and ending miles on odometer, destination, purpose of trip, passengers in the car, and dates/times of departure/ arrival.
Condition: IA noted that all 54 fuel transactions reviewed for school vehicles did not have adequate documentation.
Cause: Lack of documentation and procedures to ensure that vehicles are used in accordance with district and state policies.
Effect: Misuse of vehicles, unaccounted miles, ineligible drivers, or waste may occur. This may also increase liability to the school and district.
Recommendation: IA recommends that all employees who drive vehicles assigned to the school complete a trip record detailing who the driver was, beginning and ending miles on odometer, destination, purpose of trip, passengers in the car, and dates/times of departure/ arrival. Trip records should have beginning trip information filled in based on the ending data of the last trip. This allows verification of fuel purchases and accuracy in data analysis. The trip records could then be reconciled with the vehicle use log and fuel purchases to ensure both are appropriate.

Response: All vehicle use Findings are addressed in one response below.

B. Non-sequential odometer readings entered

Criteria: Utah Administrative Code R27-6-9-1 states:
Drivers of state vehicles are required to enter the correct mileage, excluding tenths of miles, when using the fuel card assigned to the vehicle.

Condition: IA noted that 131 of the 511 (26%) fuel purchase transactions reviewed had odometer information entered that was inconsistent with the sequence of readings entered before and/or after that entry.
Cause: Lack of understanding and training with regards to accurate reporting of vehicle mileage.
Effect: Difficultly for the state, district, and school in accurately tracking and assessing mileage accumulation and fuel efficiency of vehicles. This would then likely have a negative impact on decision-making and use of public funds.
Recommendation: IA recommends that the school train employees on how to accurately enter required information at the pump when purchasing fuel.

Response: All vehicle use Findings are addressed in one response below.

C. Multiple types of fuel purchased and multiple same-day fuel purchases for a single vehicle

Criteria: Utah Administrative Code R27-6-7-3 states:
Agency requests for a fuel card… for use with small miscellaneous equipment shall be approved, provided the agency: (a) Represents that they have a reconciliation or fuel transaction auditing process in place for the review of miscellaneous transactions in order to prevent theft, abuse and fraud relating to the use of the card; and(b) Cooperates with DFO (Division of Fleet Operations) to insure all fuel dispensed using fuel cards not assigned to specific vehicles is properly documented in the fleet information system through the use of a manual fuel ticket.
Condition A: IA noted that 68 of the 511 (13%) fuel transactions reviewed, were for the purchase of a type of fuel other than that which is generally used in the vehicle the fuel card is assigned to. Historically fuel cards have been used to purchase fuel other than for the vehicle it is assigned to. The fuel cards are left in the vehicles, with known pins, and school administration is not required to verify the charges made to the fuel cards.
Condition B: IA noted that 101 of the 511 (20%) fuel purchase transactions tested occurred on the same day as other fuel purchases for the same vehicle. Administration is not aware of the charges to the fuel cards as they do not receive a statement to verify charges.
Cause: Lack of oversight of the use of fuel cards at the school. Additionally, fuel cards assigned to vehicles are also used for purchasing fuel for small equipment at the school.
Effect: Opportunity for misuse of fuel cards to go undetected. Fuel may be purchased for personal vehicles, personal use of school vehicles, or in other unauthorized ways, all of which may be considered fraud, waste, or abuse of public assets. The district may also be liable if something happened to someone using the equipment who was not a district employee or was using the equipment for personal reasons.
Recommendation A: IA recommends that the school request copies of their fuel statements to verify charges. IA also recommends that the principal verify the fuel statement with trip records filled out by drivers.

Recommendation B: IA recommends that the school request a fuel card that is assigned for small equipment fuel purchases, if that is the reason fuel is being purchased multiple times on the same fuel card, on the same day.

> **Response:** R27-6-9 does not apply to school districts. WCSD vehicles have had log books that show name of driver, date of use and odometer reading. Vehicles that were used for regular routes such as student transportation or staff rotation between schools have not been required to fill out the log book. Credit card receipts have been left in the car and collected by the transportation department when vehicles are serviced. Non licensed district equipment has been fueled using a fuel card from a district vehicle, entering 00000 as the odometer reading when fueling so that transportation can differentiate the fuel purchase.
> WCSD is implementing a new vehicle procedure. This new procedure requires all drivers of district vehicles to sign an agreement form stating they understand the procedures involved in using a District vehicle. The new procedures require a separate fuel card for non vehicle fueling at each location. A new log book is being printed which requires name, purpose of trip, date, destination, beginning and ending odometer reading, and any fuel purchases made with odometer reading. Log book pages will be reviewed and signed monthly by the supervisor in charge of the vehicle. The log book will then be scanned and sent to the transportation department along will all fueling receipts. Trainings will begin on the new procedures as soon as the new log books are received and distributed to schools.

Concluding Remark:

We are pleased that WCSD is implementing a new vehicle procedure. We verified with the Fuel Dispensing Manager at the State Division of Fleet Operations that the fuel cards containing "26010" issued to WCSD for their vehicles are state issued fuel cards and should be treated as such, including complying with R27-6. We spoke with many individuals at the school and district regarding vehicle policies and procedures and it was evident there was a lack of knowledge about this area; therefore, the new policies and procedures as well as trainings on those policies and procedures will be critical to the operational effectiveness of the vehicle program.

Appendix A

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SUPERINTENDENT LARRY G. BERGESON, M.ED.

January 29, 2016

David L. Thomas
Audit Committee Chair
Utah State Board of Education

Dear Mr. Thomas,

The Washington County School Board appreciates the opportunity to address the findings of the Utah State Office of Education Enterprise High School audit. Our written responses to each audit Finding are included in this report. We take the control of District assets very seriously and want to make corrections that will provide proper internal controls.

We are concerned with several aspects of the audit that we would like to make known to the audit committee. Reviewing the audit Findings and the transactions used to support those Findings have prompted the following concerns.

1. The audit Findings recommend over and over that the school design and implement policies, procedures, and internal controls, in addition to those policies that are already in place at the District. As you know, school administrators lack the expertise necessary to develop comprehensive financial procedures. State law and Board of Education rules require LEAs, not individual schools, to develop and implement written fiscal policies. Washington County School District will design and implement financial policies and will train administrators and finance secretaries on the policies, procedures, and internal controls, but we do not want our schools creating fiscal policies separate and apart from the District's.
2. The audit repeatedly cites to R277-113, which was approved by the State Board of Education and implemented in April 2013. Most of the transactions listed as support for the Findings occurred prior to the implementation of this rule.
3. The audit cites USOE Model Policy and state rules that do not apply to LEAs as controlling criteria. Specifically, the audit cites administrative rules applicable only to state employees. (See Section III.P, Section IV. B, and Section IV.C.) Basing a Finding on a model policy and on rules to which LEAs are not accountable is not reasonable.
4. The audit makes two Findings and one Observation concerning improper use of "credit card control sheets" which are forms created for the school's convenience in categorizing credit card charges in the proper school account. They are not required under district policy or procedures, nor under any law or board rule, and yet the audit holds the school accountable for improper use of these sheets
5. After reviewing many of the transactions listed as violations of district policy, we could not determine what was wrong with the transaction or the attached documentation. The audit references transactions that "do not appear reasonable" because "they were not academic in nature," but does not cite any standard by which a reasonableness determination was made. Many of the purchases the auditors deemed inappropriate were in fact legitimate school-related purchases. It is our view that an individual with an understanding of school operations would reasonably conclude that many of the transactions were legitimate. It is also

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reasonable to expect an individual looking to validate a transaction may have to look in more than one place to do so.

6. The only purchases which we agree were definitely not allowable uses of school funds had already been identified by the District in previous internal audits, and dealt with appropriately. This information was shared with the internal auditors at the onset of their test work, but was still identified as Findings in this audit.
7. We reviewed many of the transactions that were cited as not having bids and found appropriate bids attached. Further, the audit contains Findings about the lack of certain systems despite that those systems are already in fact in place. For example, section 1.J states, "The school does not have a current asset/inventory list and does not perform a regular inventory of fixed assets," when in fact the District DOES have an asset/inventory list and tracks fixed assets through the SunGard accounting system. No one at the school or District was asked about whether and how the District inventories its fixed assets.

Due to the large amount of transaction cited by the auditors, and the short time allocated for our response, we have not been able to review every transaction. However with the number of transactions that we have reviewed we feel that the scope of the problems have been overstated. Overall, we believe that a more thorough investigation of the documentation and a greater understanding of school operations would have resulted in fewer Findings and Observations. As you review the individual responses and the attached sheets showing our review of the transactions, you will see that we reached a different conclusion on a large number of them.

Despite our disagreement over many of the Findings and the scope of others, we are dedicated to improving our internal controls, not just at Enterprise High School, but also across the District. We appreciate the opportunity this has given us to see how we look to outside eyes.

Sincerely,

Laura J. Hesson

Laura Hesson
Board President

Appendix B

USBE Internal Audit Concluding Remarks

The following are general concluding remarks to the responses issued by the Washington County School Board found in Appendix A. Note that specific concluding remarks have also been included, as considered necessary, in the audit report following each finding response. Additionally, the issues discovered and reported on in this audit report were discussed with school personal when visiting the school in September 2015 and subsequently via the phone and email.

1. Audit Scope

We acknowledge the extensive scope of this audit and appreciate the extensive amount of work Washington County School District (WCSD) completed in preparing their responses to the findings. According to Utah Administrative Code R277-116-7 Audit Procedure, the general audit response time is fourteen days; however, as requested by Washington County School District, the official response timeframe was extended eleven additional days. Unofficially many discussions occurred between WCSD and the USBE Internal Audit Department after the official response was obtained and further edits to both the report and response were made.

2. School Level Focus

It is impossible to completely isolate school level functions from district level functions; however, to the extent possible, this audit report is focused at the school level. Enterprise High School has a significant budget, which necessitates financial internal control activities, such as policies and procedures, at the school level to ensure appropriate compliance with district, state, and federal regulations and safeguarding of assets, including taxpayer funds received in fiduciary trust for public education. A close reading of the audit report identifies that recommendations regarding school policies and procedures include qualifying language that they should be consistent with and/or in compliance with District policies as we concur that schools should not be creating fiscal policies apart from WCSD.

3. Utah Administrative Code and USOE Model Policy

We acknowledge that Utah Administrative Code R277-113 was not implemented until April 2013. The rule was implemented in response to the identification of the absence of adequate LEA fiscal policies and procedures to ensure appropriate safeguarding of public funds. Therefore, establishment of this rule made it a requirement that LEAs implement certain policies and procedures, such as those related to Cash Receipting and Fundraisers.

Additionally, other Utah Administrative Code rules and model policies were quoted in the findings that may not directly apply to LEAs but constitute best practice. In the absence of

specific applicable regulations, it is acceptable to consider best practice as a measure of current practice and strength of the internal control environment.

At the conclusion of our audit testwork, the school still did not have sufficient guidance from the district regarding proper handling of cash receipts, fundraising practices, and vehicle usage that necessitated the continued need to reference Utah Administrative Code and other model policies in the audit. However, since WCSD has responded to the audit, they have taken corrective action to ensure policies and procedures have been updated and employees have been trained.

4. **Credit Card Control Sheets**

While the practice of using a credit card control sheet is a school practice not a district policy, it helps ensure the school is in compliance with district requirements. By not utilizing this practice, the school would not have complied with proper internal controls surrounding the approval of credit card transactions. Also see 2 above.

5. **Unreasonable Transactions (i.e. violations of District policy)**

In accordance with WCSD policy "all school and district files must be properly documented and maintained so that… state and district auditors can verify that all laws and policies are being properly followed." Therefore, the policy seems to give auditors discretion to determine what adequate documentation may include.

Proper documentation requires that transactions have attached documentation in order to verify that the transaction is reasonable and proper. It isn't reasonable to expect an individual to look in more than one place to validate a transaction. Maintaining documentation for one transaction in more than one place, is inefficient and ineffective and may lead to waste of taxpayer funds. Additionally, funding for education is limited and should be used in an efficient way to maximize education and particularly student outcomes. Public funds used outside of the classroom should be monitored closely and used sparingly.

6. **Proper bids**

In accordance with district policy, transaction that exceed a certain dollar threshold must have proper bid information from two or three vendors depending upon the dollar amount. Appropriate bids must include items that are comparable in all aspects (i.e. sizes, quantities, specialty items, customization, etc.). Any deviations where items cannot be compared or where a vendor is selected that isn't the lowest, must have proper documentation explaining deviations.

7. **Fixed Assets/Inventory List**

As part of the school audit, inquiries were made at the school regarding the fixed asset system as it relates to fixed assets/inventory. School personnel were not aware of the fixed

asset/inventory system. Administrative staff not having and understanding of the fixed asset system and inventory, raises concerns that information in that system is not being properly verified and updated.