

# UTAH STATE OFFICE OF EDUCATION

Leadership...Service...Accountability

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## Report 09-02

December 4, 2009

Grand County School Board  
264 South 400 East  
Moab, Utah 84532

Dear Board Members:

The Superintendent of the Grand County School Board contacted State Superintendent Larry Shumway and requested assistance and instruction from the Utah State Board of Education and Office of Education (USOE) to resolve budget issues, accounting discrepancies, and reporting problems. A team from the state office visited the Grand County District office (the District) on September 28, 2009. The District requested an assessment of its control environment and a limited review of accounting records to ascertain if there were any indications of impropriety. The purpose of this limited review is to enable the District to make an informed decision about whether to hire a CPA firm to perform a full forensic audit. This request was approved by the Board audit committee on October 2, 2009. The Board Internal Auditor visited the District office from October 14-16, 2009.

Based on the request, I performed the following procedures at the District for fiscal years 2008 and 2009, which covers the period July 1, 2007-June 30, 2009, unless otherwise indicated:

1. I reviewed certain aspects of the District's cash receipting, cash disbursing, recording, and reconciliation duties for adequacy of separation of duties for internal control purposes. See recommendations 1-3.
2. I scanned the check registers for unusual disbursements. I selected individually significant cash disbursements, journal entries, and payroll transactions to review for appropriateness. I selected a limited number of disbursements from the remaining population to review for appropriateness and approval. See recommendations 4 and 9.
3. From the range of check numbers issued throughout fiscal years 2007 and 2008 I compiled a list of check numbers from the "audit data file" out of the general ledger system which were missing. I traced a portion of these missing checks to bank statements to determine if the check had cleared the bank. I viewed the cancelled check and supporting documentation and compared to the general ledger detail files, or I viewed voided checks. For the checks I traced I did not note any that appeared to be issued outside the proper accounts payable process, none appeared to be altered, and none conflicted with the information in the general ledger.
4. I scanned purchase card statements and reconciliations and noted that statements and charges were being reviewed and approved monthly.
5. I scanned all bank statements, for the general checking account, payroll account, and all State Treasurer Public Treasurer's Investment Fund (PTIF) statements, for unusual transactions, transfers, and electronic transactions. See recommendations 2 and 8.
6. I selected a minimal control sample of receipts from the receipt register and traced them into the daily cash deposit records and the bank statement and evaluated each for properly functioning controls. See recommendation 5.

7. I reviewed the District's revenue recognition for some federal grant revenue, minimum school program distributions, property tax revenue and, miscellaneous electronic transfers. See recommendations 6 and 7.
8. I selected 25 employees to verify their existence. No exceptions were noted.
9. I reviewed audit engagement letters, management representation letters, the management letter from 2007, and audit reports. I reviewed the State legal compliance guide and associated state compliance guide audit reports for 2007 and 2008.

These 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. Furthermore, these procedures were more limited than would be necessary to provide absolute assurance that no errors or misappropriations occurred. Accordingly, I do not express such opinions. Alternatively, I have identified the procedures I performed and the findings resulting from those procedures. Had I performed additional procedures or had I made an audit of the effectiveness of the District's internal control, other matters might have come to my attention that would have been reported.

At this time, and for the time period reviewed, I did not come across any indications that any material amount of funds are missing from the accounting records. Furthermore, for fiscal year 2009 the consultant hired to assist the District, and the acting business administrator were able to reconcile all the bank accounts with very immaterial differences. This does not provide any assurance for potential revenues which were never recorded in the general ledger, nor potential disbursements that may have been issued for unauthorized purposes. However, it is an indication that it is unlikely that material amounts of missing revenue exist.

I did not note any transfers or electronic transactions in the bank accounts that appeared inappropriate, or non-business related. Based on the limited review of disbursements I did not note any disbursements that had been altered or that did not agree with the accounting in the general ledger.

My review of cash receipts and cash disbursements was too limited to give absolute assurance as to whether all funds were deposited and that no misappropriations occurred. If the District desires absolute assurance it could review 100% of cash disbursements and compare District records and the general ledger detail to cancelled checks from the bank. The District could do the same with all deposits. Again, I did not find any common fraud indicators that would indicate that this procedure is necessary. However, there is a substantial amount of cash disbursements for both fiscal years, and controls over issuing checks and reconciling the bank statement were not adequate during the fiscal years identified.

The findings resulting from the above procedures are included in the attached findings and recommendations section of this report.

This report is intended solely for the information and use of the District and is not intended to be and should not be used by anyone other than this specified party. However, the report is a matter of public record and its distribution is not limited.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. If you have any questions, please call Natalie Grange, Internal Auditor, at (801) 538-7813.

Sincerely,



Natalie Grange, CPA, CFE  
Internal Auditor, Utah State Office of Education

Grand County School District  
Forensic Procedures  
For the Period July 1, 2007-June 30, 2009

TABLE OF CONTENTS

	<u>Page</u>
<b>FINDINGS AND RECOMMENDATIONS:</b>	
1. Segregation of Duties Weaknesses and Lack of Compensating Controls	1
2. Inadequate Controls Over Bank Accounts	2
3. Unclear Business Administrator Duties	2
4. Awards and Bonuses Paid Outside the Payroll System	3
5. Inadequate Controls Over Cash Receipting	3
6. Taxes Booked in the FISCAL System Incorrectly	4
7. Revenues and Expenses Should Be Booked By Program	4
8. Schedule of Federal Awards for 2008 May Be Incomplete	4
9. Inadequate Controls Over General Journal Entries	5

1. **SEGREGATION OF DUTIES WEAKNESSES AND LACK OF COMPENSATING CONTROLS**

Cash Receipts

More than one individual has access to assets or has the ability to perform all of the following tasks: access to cash receipts, prepares the deposit, the ability to initiate and approve disbursements, and make adjustments to the general ledger system. These individuals have custody over assets, reconciliation and review responsibilities, and the ability to record transactions in the general ledger. These overlapping duties could result in funds never getting receipting for deposit, or altering receipted funds and adjusting the general ledger to keep the customer from complaining. Misappropriated cash receipts could also be concealed through an unauthorized disbursement. Cash could be removed from the deposit while in transit to the bank. The most common compensating control for these weaknesses is an independent bank reconciliation. The District has not had a consistent bank reconciliation performed for at least the past two years. Monthly budget reviews would also detect missing funds, or errors in coding.

Cash Disbursements/Payroll

More than one individual has the ability to initiate and approve disbursements without an independent review. Purchase orders and proper documentation are required, and should be approved, above a certain level, by the Superintendent. However there is no independent review to ensure that all checks being issued are being recorded in the general ledger, or that payee information is not being altered. Currently there is no independent review of payroll after time cards/reports are submitted to the District. There are no controls to ensure that all individuals being paid are legitimate or that coding or keying errors have not occurred. The monthly bank reconciliation would serve as a control over unrecorded checks, and a monthly budget review would compensate for errors and unauthorized expenditures.

Inadequate separation of duties exists when the same individual has access to assets, access to the accounting records, and the ability to adjust the general ledger. Inadequate separation of duties could allow errors and misappropriations to occur without detection. Separation of duties weaknesses often occur in entities where there are few employees who must perform multiple duties. In situations where it is impractical to separate duties due to the small number of employees, additional controls should be implemented. In this case, adequate compensating controls would include the following reviews/reconciliations performed by someone who does not handle cash and checks received nor make cash disbursements:

- A monthly bank reconciliation would provide a review of all revenue deposited, checks issued, and adjustments made to revenues and expenses in the general ledger and would compensate for the weaknesses identified above. If the bank reconciliation cannot be performed by a District employee without cash receipting and cash disbursement duties, then someone independent should review the bank reconciliation in detail, including all adjusting journal entries.
- The District uses a pre-numbered receipt book to record all cash receipts; however, no one is ensuring that all of the receipts issued are being deposited. Someone independent of cash receipting duties should reconcile the receipts sequentially into the daily deposits to ensure that all cash receipts received are deposited.
- There should be a frequent review of program budgets, with enough detail provided to review the revenues deposited and the expenditures made. This

review should occur at the program level, or by someone with detail knowledge of the actual activities of the area. This would ensure that expenditures are being coded to the correct activities and that expected revenues are being accounted for properly.

- Payroll reports should be reviewed by someone with knowledge of employees' hours and work schedules. This would ensure that ghost employees do not exist, and that coding or keying errors have not occurred, and that hours have not been altered.
- General journal entries should be properly documented and approved by the Business Administrator prior to posting to the FISCAL system. Business Administrator journal entries should be reviewed by someone independent. All journal entries should be documented, including the reason for adjustment and maintained, with supporting documentation, as an audit trail.

**Recommendation:**

**I recommend that the District separate the duties outlined above. If separation is not possible, due to the limited number of employees at the District, I recommend that the compensating controls mentioned above be implemented.**

2. **INADEQUATE CONTROLS OVER BANK ACCOUNTS**

Based on discussion with the consultant, acting business administrator, and review of the District's records I noted that it does not appear that a formal bank reconciliation was performed for any of the bank accounts from July 2007 through June 2009. The bank reconciliation is an essential control over all segregation duties weaknesses related to cash disbursements and cash receipting. I also noted that numerous cash receipts received by electronic transfer were not recorded in the general ledger when received. For fiscal year 2009, the individuals reconciling the bank statement to the general ledger had to record all electronic payments, interest revenue, and bank fees at the end of the year in order to prepare the books for the annual audit. Based on my limited scanning, it appears that the same type of recording methodology was applied in previous fiscal years. The lack of a timely bank reconciliation could result in errors and misappropriations as well as misstatements in the general ledger and is, overall, an essential business practice which should be performed.

**Recommendation:**

**I recommend that the District establish a policy to reconcile all its bank and investment accounts monthly, and that these reconciliations should be reviewed by an independent third party.**

3. **UNCLEAR BUSINESS ADMINSTRATOR DUTIES**

There are four employees in the business office who deal with day to day transactions. The accounts payable clerk, human resources clerk, and the receptionist perform day to day cash receipting, cash disbursements, and accounting functions. For the most part duties as assigned appear reasonable. However, as I currently understand the duties of the business administrator (BA) position, the BA has the ability to perform all of the duties listed in item one above, in addition to reviewing and reconciling accounts in the general ledger. Performing all duties at the District is clearly a segregation of duties conflict. The business administrator performs all of these duties without adequate oversight or review.

It is important to clearly define duties for each position, to implement segregation of duties where possible, and implement compensating controls.

**Recommendation:**

**I recommend that District consider the following types of duties for BA:**

- 1) The BA should not have access to cash/checks or the daily deposit. Instead I recommend the BA reconcile the deposit documentation, as approved and reviewed by the other employees, to the validated bank slip.**
- 2) The BA should not have the ability to issue checks. Instead I recommend that the BA approve transactions and prepare the bank reconciliation.**
- 3) The BA should review and approve all general journal entries. Someone else should review the BA's journal entries, with documentation.**
- 4) Prepare frequent budget reports to be reviewed with program level individuals.**
- 5) Prepare a timely bank reconciliation for all bank and investment accounts.**
- 6) Review bank transactions and post EFT receipts and payments frequently.**

**4. AWARDS AND BONUSES PAID OUTSIDE THE PAYROLL SYSTEM**

Based on my scanning and testing of cash disbursements I noted numerous payments to employees from the accounts payable system. Some of these payments should have been paid through the payroll system so they can be reported as taxable income. The majority of these payments were for travel and expense reimbursement, which are appropriately paid from accounts payable. However, I did note payments to employees, namely "teacher of the year" and other such awards, which should have been paid through payroll. Circumventing the payroll system results in these payments not being subject to payroll taxes and most likely are not properly reported as taxable income. These payments were relatively few in number, less than ten, and I did not note any that were greater than \$500.

**Recommendation:**

**All compensation payments should be paid through the payroll system and subject to appropriate payroll taxes and IRS reporting regulations.**

**5. INADEQUATE CONTROLS OVER CASH RECEIPTING**

In my review of 25 haphazardly selected daily deposits from July 2007 through June 2009 I noted two deposits prepared by the District that had to be corrected by the bank. In order to assess the magnitude of this problem I reviewed the bank statements from July 2007 through June 2009. In my scanning I noted nine instances (including the two noted above) where the deposit made by the District had to be corrected by the bank. It was evenly split between the deposit slip indicating more cash than was deposited, and less cash than was deposited. The largest of these discrepancies was \$450 more deposited than listed. I was unable to tell whether these differences are District deposits or school lunch deposits. I reviewed the controls over cash receipting and noted that there appears to be an adequately designed control over review of deposits. However it appears that control is not functioning as intended.

**Recommendation:**

**I recommend that the District review its cash receipting controls and ensure that reconciliation procedures are functioning as indicated.**

**6. TAXES BOOKED IN THE FISCAL SYSTEM INCORRECTLY**

I reviewed the reconciliation prepared by the consultant and the new CPA firm and noted that property taxes received in fiscal year 2009 were not always recorded in the correct fund, or that the allocation by fund was not always in accordance with Utah code 53A-19-105. Property tax proceeds received from the County should be recorded in the general ledger system in the proper fund, according to the established tax rates multiplied by the base. Because these taxes were not allocated correctly some associated expenditures were recorded in different funds, or had to be transferred. Based on my limited scanning and limited time to perform this work, it appears that this may have been the case for fiscal year 2008. However, because the financial audit has occurred and journal entries were posted to reconcile all accounts, I cannot be certain at this time as to how the funds were initially recorded in the general ledger. Further review and tracing of all journal entries would have to be conducted to reach an accurate conclusion.

**Recommendation:**

**I recommend that the District set up a procedure to book tax receipts to the correct fund, based on a funding allocation, when taxes are received. I also recommend that special care be taken to ensure that revenues and associated expenditures be booked to the correct fund and that is conducted in a manner consistent from year to year.**

**7. REVENUES AND EXPENSES SHOULD BE BOOKED BY PROGRAM**

It appears that for quite some time various program revenues and associated expenditures have not been booked to the same program codes or in a way that matching revenue and expenditures could be accomplished without great effort. It was represented to me that for at least the past two fiscal years, programs and individual schools have been unable to obtain monthly budget and financial information. This is most likely due to the way that revenues and expenditures were recorded in the FISCAL system.

**Recommendation:**

**I recommend that the District review and revise its chart of accounts and procedures to record revenues and expenditures to ensure that revenues and associated expenses are matched.**

**8. SCHEDULE OF FEDERAL AWARDS FOR 2008 MAY BE INCOMPLETE**

I reviewed various payments received by the District through the Education GAPS system. This system is used by the District to request funds directly from the Federal Government. Currently the District also receives federal funds, as a pass through entity, from the USOE. I reviewed the Schedule of Expenditures of Federal Awards (SEFA) for fiscal year 2008 and noted that the only programs listed on the SEFA were those passed through the State. The programs for which the District was drawing funds directly from the Federal Government did not appear to be listed on the SEFA. This could result in programs not being subject to the A-

133 audit, as required by the Federal Government. The amount of these payments for fiscal year 2008 was below the major program threshold of \$300,000. However, regardless of the amount of funding, all programs for which the District receives funds should be reported on the SEFA and be subject to the A-133 audit procedures.

**Recommendation:**

**I recommend that the District review its federal awards, consult with federal contacts and ensure that its SEFA is complete for fiscal year 2009. I further recommend that the District review controls over federal awards and ensure that all programs are complying with grant financial and performance requirements.**

**9. INADEQUATE CONTROLS OVER GENERAL JOURNAL ENTRIES**

I reviewed individually significant journal entries for fiscal year 2008 and fiscal year 2009. I noted a significant number of journal entries. At the current time those journal entries posted by the business administrator are not required to be reviewed or approved by anyone. The business administrator would approve some journal entries by other District staff. Supporting documentation varied from non-existent to sufficient. Inadequate controls over general journal entries could result in errors or misappropriations going undetected. Journal entries are used to post transactions which occur outside the normal cash receipting or cash disbursement functions, to correct posting errors, or make transfers, and to make audit adjustments. I did not note any journal entries that appeared inappropriate, however; some rather large entries had nothing more than a journal form, and a brief narrative explanation. For these items no detail information, supporting documentation, nor proper approval were present.

**Recommendation:**

**I recommend the District establish a standard policy implementing proper review, approval, and adequate documentation.**