



OFFICE OF THE
STATE AUDITOR

March 9, 2020

Sydnee Dickson, State Superintendent of Public Instruction
Utah State Board of Education
250 East 500 South
Salt Lake City, Utah 84111-3204

RE: ProStart

Dear Superintendent Dickson:

The Office of the State Auditor (Office) has concluded a limited review of expenditures related to ProStart, a program designed to prepare high school students for a career in the restaurant and food service industries. The Utah State Board of Education (USBE) contracted with the Utah Restaurant Association Foundation (URA) to administer the program under the terms of Contract # USBE190024MA. Under the contract, URA must submit monthly invoices and supporting documentation for all work performed.

Our Office operates a hotline through which we receive reports of suspected fraud, waste, abuse, and financial non-compliance. We received a report that URA misrepresented the nature of the expenditures made for at least two teachers to travel to a training event. The report noted USBE had detected this issue. Based on information provided, we initiated a limited review designed to accomplish the following objectives:

1. Determine whether the reimbursement request for the transaction in question was legitimate and properly supported by appropriate documentation that reflected the true nature of the expenditure;
2. Determine whether there was an increased risk for misappropriation of public funds through error or misrepresentation for other reimbursement requests by reviewing a sample of reimbursement requests; and
3. Determine whether the USBE review and approval process for reimbursement requests is reasonable.

To accomplish our objectives, we performed the following procedures:

- We determined whether the 113 check copies that were included in URA's reimbursement requests for May through July 2019 had been processed through URA's bank accounts.
- We reviewed the May through July 2019 URA reimbursement requests for other high-risk transactions and tested as considered necessary.
- We inquired with USBE personnel regarding the review and approval process over URA reimbursement requests.
- We reviewed USBE's reimbursements for the May through July 2019 URA requests to determine whether the review and approval process was reasonable.
- We interviewed the URA director, USBE personnel, and certain ProStart teachers.
- We reviewed the contract between URA and USBE for the ProStart program.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of USBE's internal control or any part thereof. Accordingly, we do not express

such opinions. Alternatively, we have identified the procedures we performed and our observations resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of USBE's internal control, other matters might have come to our attention that would have been reported to you.

RESULTS OF LIMITED REVIEW

Objective 1: Determine whether the reimbursement request for the transaction in question was legitimate and properly supported by appropriate documentation that reflected the true nature of the expenditure.

Finding: URA incurred travel expenditures for teacher training; however, the supporting documentation provided to USBE misrepresented the nature of the travel.

The URA sent a group of teachers to Flagstaff, Arizona for a training event in June 2019. In its reimbursement requests to USBE, URA requested reimbursement for registration fees, lodging, meals, and mileage for the teachers to drive to Flagstaff from their homes. URA represented that they had reimbursed the teachers for their mileage and meal expenses by including a calculation of the miles driven, restaurant receipts, and a copy of the URA check payable to each teacher. Our review of receipts for two of the teacher's expenses revealed several anomalies with the reimbursement request:

- The checks purported to be payable to the teachers for reimbursement of mileage and meals were "dummy" checks that were never given to the teachers and never processed through a bank.
- The teachers had flown to the training event in Flagstaff via the Phoenix airport (as evidenced by meal receipts in Phoenix). Thus, the mileage reimbursement request was not representative of the true nature of the expense.
- URA reimbursed the teachers solely for their meal expenses by a different check.
- We confirmed that the airfare cost almost \$600 per ticket by reviewing copies of the booking confirmations and performing internet searches for current pricing. It is possible URA purchased the airfare using a credit card or some other method; however, they have not provided any documentation of the payment.

The URA director explained that she requested reimbursement for mileage for these teachers because it was less than the cost of airfare. She also explained that she created and submitted the "dummy" checks to serve as an "invoice" to USBE (we discuss this practice in detail below). While we have determined that the costs submitted for reimbursement for this trip likely did not exceed the costs actually incurred, and we noted that USBE had detected an anomaly and has not reimbursed the questioned travel costs, the submission of falsified supporting documentation is deeply concerning and represents an increased risk that public funds may be misused.

Objective 2: Determine whether there was an increased risk for misappropriation of public funds through error or misrepresentation for other reimbursement requests by reviewing a sample of reimbursement requests.

Finding: Increased risk of misappropriation of funds due to contractor invoicing practices.

For May, June, and July 2019, we compared all 113 URA check copies provided in the URA reimbursement request documentation to URA bank account records to determine whether the costs had occurred as represented. The comparison revealed that URA creates "dummy" checks to serve as "invoices" to USBE for various costs and does not always provide any other documentation to support the expenditure. For the "dummy" checks, the check copy submitted in the reimbursement request was created by URA specifically for the reimbursement request and was never actually

issued to anyone for payment. However, the URA director showed us other checks she disbursed from other URA bank accounts that may have paid for the expenditure represented by the “dummy” check. The director indicated that she felt creating “dummy” checks was necessary to represent actual expenditures because she did not have copies of original checks when submitting for reimbursement. We find this explanation lacking since a copy of an original check is not required by the contract nor does it provide particularly convincing support for an expenditure. Adequate supporting documentation would include actual receipts, invoices, and/or cancelled check copies.

Of the 113 check copies reviewed, 51 had not been processed through URA’s bank account as of December 2019 and therefore were determined to be “dummy” checks. We determined that many of the “dummy” checks were accompanied by other reasonable supporting documentation and, therefore, we did not deem those transactions to be a high risk for misappropriation. However, we considered other transactions to be high risk that need further investigation to determine whether they are legitimate ProStart transactions.

- Five “dummy” checks for \$1,000 each represented payments to schools for “ProStart School Needs.” However, we were unable to find a corresponding “actual” check that cleared any URA bank accounts for the period May 2019 through December 2019. Given that the payees were schools, we find it unlikely that these payments were by credit card or some other method. We noted there were 29 checks payable to other schools for the same purpose on the same day that did clear the bank. Therefore, for these five checks, there is a risk that USBE reimbursed URA for expenditures they did not incur for the program. See Objective 3 below for discussion of appropriate supporting documentation.
- Six “dummy” checks totaling \$14,800 represented administrative costs for URA employee time and no other supporting documentation was provided. Administrative costs are allowed by the contract and included in the approved budget. However, a reasonable interpretation of contract language indicates that payment should be based on actual costs. We found no indication of how the reimbursement amount for URA administrative time was calculated and USBE personnel had no knowledge of a prior agreement establishing the reimbursement amounts. Therefore, there is a risk that USBE paid too much for URA employee time.

In addition, URA holds several bank accounts that appear intended for specific purposes, one of which is the ProStart program. We believe URA also has a separate account for another program funded through another State agency. The URA director explained that due to cash flow problems, she often paid for ProStart expenditures using one of these other accounts. It is reasonable to assume that she also used the ProStart account to pay for other programs. Upon reimbursement of expenditures from USBE, the Director indicated she paid the accounts back. While URA is a private non-profit and can structure their operations according to their needs, we are concerned that this practice, along with using “dummy” checks increases the risk for errors or misappropriation to occur without detection. One such risk is that URA could potentially submit the same expenditure for reimbursement to multiple State offices or agencies. While this practice would be difficult for USBE to detect in the best of circumstances, it is impossible to detect given that URA is using “dummy” checks that conceal the true method of payment of the expenditure.

Objective 3: Determine whether the USBE review and approval process for reimbursement requests is reasonable.

Finding: For the three months we reviewed, the USBE review and approval process appeared reasonable. USBE could improve the process by requiring better supporting documentation.

We observed evidence that USBE personnel performed a reasonable review of documentation provided, often requested additional documentation prior to approval, and often disallowed items that did not meet their requirements. We noted one error where USBE did not detect a receipt for \$99.44

that was listed twice. This appeared to be an oversight by both URA and USBE and did not appear to be a high-risk indicator in general. As illustrated by the high-risk transactions noted above, USBE could have improved their process by:

- Not accepting copies of non-cancelled checks as supporting documentation. We note, however, a cancelled check could be considered adequate supporting documentation in certain cases.
- Requiring either detailed payroll records or establishing and documenting a reasonable pre-determined amount for routine administrative salary payments discussed above.
- Requiring URA to provide evidence, such as a contract with participating school, invoices from the school, and/or cancelled checks as evidence of a pre-determined, routine payment as appropriate for the circumstances for the “ProStart School Needs” expenditures discussed above.
- Performing a more thorough review of documentation to detect duplicate receipts.

OVERALL RECOMMENDATION

USBE should evaluate the risk factors noted in this letter and consider further analysis of the contract with URA. Also, USBE should require URA to provide evidence that the five \$1,000 payments for “ProStart School Needs” discussed in Objective 2 above, were legitimate or require URA to reimburse USBE. We also recommend that USBE implement the suggestions for improved review procedures discussed in Objective 3, above.

We appreciate the courtesy and assistance extended to us by USBE personnel during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please contact Julie Wrigley, Special Projects Manager, at 801-538-1340 or jwrigley@utah.gov.

Office of the State Auditor

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Cc: Mark Huntsman, USBE Chair
Debbie Davis, USBE Internal Audit Director
Thalea Longhurst, USBE Educational Director