

A REPORT  
TO THE  
ARIZONA LEGISLATURE

Accounting Services Division

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Compliance Review

# Ash Fork Joint Unified School District No. 31

Year Ended June 30, 2005

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STATE OF ARIZONA  
OFFICE OF THE  
**AUDITOR  
GENERAL**

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**Debra K. Davenport**  
Auditor General

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## Accounting Services Division Staff

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AUDITOR GENERAL

STATE OF ARIZONA  
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WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

December 12, 2006

Governing Board  
Ash Fork Joint Unified School District No. 31  
P.O. Box 247  
Ash Fork, AZ 86320-0247

Members of the Board:

We have reviewed the District's audit reports for the years ended June 30, 2004 and 2005, and the Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2005, prepared by Hafen, Buckner, Everett, & Graff, P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General

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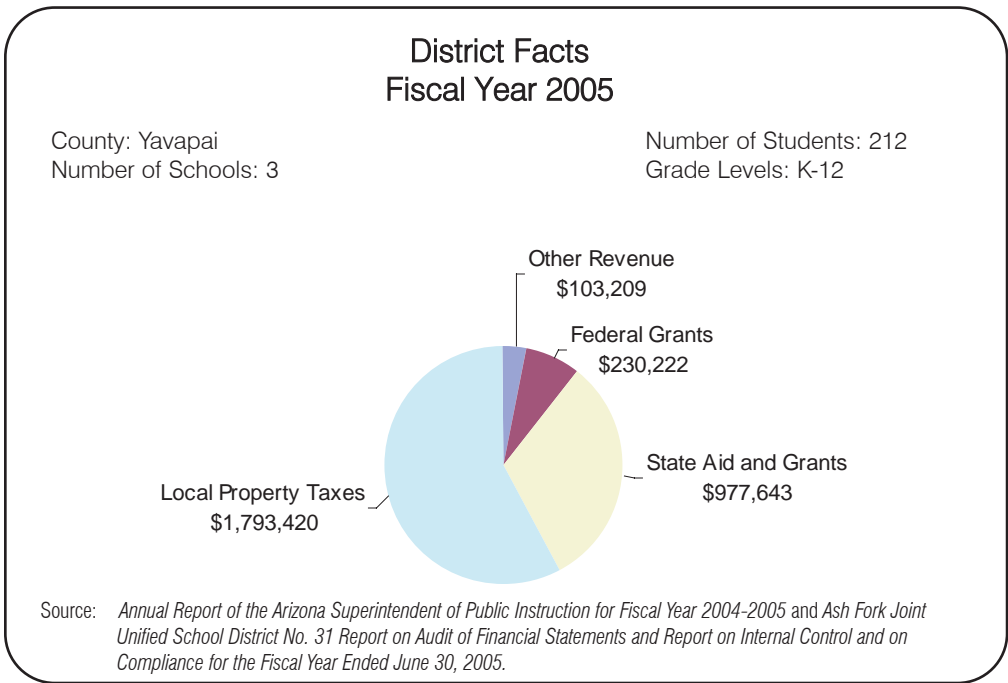


# INTRODUCTION

Ash Fork Joint Unified School District No. 31 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$3.1 million it received in fiscal year 2005 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2005, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# The District should strengthen controls over competitive purchasing and expenditures

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not follow the procurement rules and the USFR guidelines. For example, the District did not always issue invitations for bids or requests for proposals for purchases in excess of the sealed bid threshold. Additionally, the District did not maintain adequate documentation to support that appropriate procedures were followed when issuing requests for proposals. Further, the District did not analyze the known requirements for an item or collection of items that, in the aggregate, may have required competitive purchasing and did not always obtain oral or written price quotations when required. Finally, the District prepared purchase orders after receiving the goods or services and did not prepare and retain receiving documentation.

The District did not follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

## Recommendations

To strengthen controls over competitive purchasing and expenditures and to comply with the School District Procurement Rules and USFR guidelines, the District should:

- Determine whether to request oral or written price quotations or issue invitations for bids or requests for proposals by analyzing the known requirements for an item or a collection of items that, in the aggregate, may result in purchases above the applicable thresholds.
- Issue invitations for bids or requests for proposals, as appropriate, for purchases of construction, materials, or services that individually or in the aggregate exceed \$33,689.
- Obtain written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689, and oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

- Prepare and approve purchase orders for all purchases of goods and services other than those exempted in the USFR, such as salaries, utilities, and in-state travel, before ordering them.
- Prepare receiving reports for all goods and services received except exempted items. The date of receipt, quantity received, and signature of the recipient should be noted on the receiving report.

## The District should improve controls over cash

The District receives monies from various sources, including auxiliary operations, student activities, and food service sales. Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash. Additionally, the Governing Board is responsible for establishing oversight for student activities monies to ensure that proper procedures are followed for collecting and spending them. However, proper controls and oversight were not established for cash receipts and payments. Specifically, the District did not issue prenumbered and numerically controlled cash receipt forms for all monies received and did not always deposit cash receipts in a timely manner. Also, auxiliary operations and student activities checks were not signed by two authorized check signers. Further, the District did not always ensure that transfers between student activities club accounts were approved.

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

## Recommendations

To strengthen controls over district and student activities monies, the District should:

- Prepare prenumbered and numerically controlled cash receipt forms for all monies received.
- Deposit all cash received intact daily, if significant, or at least weekly.
- Require that all auxiliary operations checks be signed by two employees appointed by the Governing Board.
- Require that all student activities checks be signed by the student activities treasurer or assistant student activities treasurer and one other person appointed by the Governing Board.
- Require that the applicable student clubs and the student activities treasurer approve and document cash transfers between student club accounts. If a

The forms on USFR pages X-G-17 and 21, and X-H-19 and 21 may be used to record daily cash collections and reconcile sales to cash collections for auxiliary operations and student activities.

student club is no longer active, the student activities treasurer and the student council should authorize the transfer of the club's remaining cash balance to the student council.

## The District's controls over payroll processing should be strengthened

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid accurately, that required deductions are withheld, and that adequate records are maintained to support payroll expenditures. However, the District did not have adequate controls over payroll processing. Specifically, the District did not prepare individual time sheets, clock cards, or other work attendance records for summer school employees. Additionally, supervisors did not always approve employee timecards used during the regular school year. Further, employee personnel files did not include all required documentation.

Supervisors did not always approve hourly employees' timecards.

### Recommendations

To strengthen controls over payroll processing, the District should require each employee subject to the Fair Labor Standards Act to prepare attendance records, such as individual time sheets or clock cards, for each pay period. Additionally, the District should ensure that the time sheets or clock cards are signed by the employees, approved and signed by the appropriate supervisors, and retained to support payroll expenditures. Further, the District should ensure that all employee files contain the required documents, such as signed contracts or pay authorizations, federal and state tax withholding forms, and voluntary deduction authorizations.

## The District should prepare and retain documentation to support transportation and attendance reports

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that it prepares and retains documentation to support its transportation and student attendance reports. However, the District did not maintain documentation that supported the amounts entered on its Transportation Route Report submitted to ADE. Also, the District did not always prepare withdrawal forms

The District's personnel files should include the documents listed on USFR pages VI-H-2 through 4.

for student withdrawals, and did not always require an administrator to sign withdrawal forms.

## Recommendations

The following policies and procedures can help the District report accurate information:

- Prepare and retain documentation to support the number of routes, route miles traveled, and the number of eligible students transported reported on its Transportation Route Report.
- Prepare an Official Notice of Pupil Withdrawal form for every student withdrawal. In addition, withdrawal forms should be signed by the superintendent, principal, or other district administrator and retained to support membership and absences reported to ADE.