A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Coolidge Unified School District No. 21

As of April 26, 2006

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Debra K. Davenport
Auditor General

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

August 17, 2006

Governing Board
Coolidge Unified School District No. 21
221 West Central Avenue
Coolidge, AZ 85228

Members of the Board:

In our October 28, 2005, compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2004. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of April 26, 2006. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2005, audit reports and USFR Compliance Questionnaire, as well as other internal control deficiencies we were aware of at the time of our review. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our status review, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Coolidge Unified School District No. 21 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 $25.8 million it received in fiscal year 2005 to provide this education.

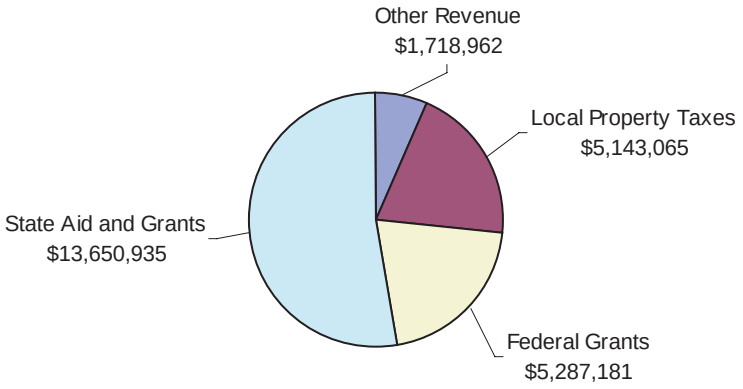
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (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 status review, 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.

District Facts
Fiscal Year 2005

County: Pinal
Number of Schools: 7

Number of Students: 3,270
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2004-2005* and *Coolidge Unified School District No. 21 Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2005*.

The District should maintain accurate accounting records

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 its accounting records are accurate and complete, and that transactions are properly authorized and recorded. However, the District did not fully accomplish this objective. Specifically, the District did not prepare reconciliations of its cash balances to the County Treasurer's cash balances in a timely manner since it had only prepared reconciliations through August 2005. Additionally, the District did not maintain documentation to indicate that an authorized employee approved journal entries and did not always properly classify expenditures of the Reading First subgrant in its accounting records. The District's student activities cash receipts were not supported, and finally, the District did not request reimbursement checks for vendor credits that were due to the E-rate Fund.

The District did not verify its cash on deposit with the County Treasurer on a timely basis, as the last reconciliation was completed August 2005.

Recommendations

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

- Reconcile the District's cash balances to the County Treasurer's cash balances at least monthly and at fiscal year-end. The District should investigate all reconciling items and make any necessary corrections in the following month.
- Establish and maintain adequate separation of duties for the initiating, approving, and recording of journal entries, and require a supervisor to review and approve journal entries prior to posting in the accounting records.
- Record all transactions in accordance with the USFR Chart of Accounts.
- Ensure that all cash collected at student activities events is properly supported by a log of prenumbered tickets issued, prenumbered cash receipts issued, a cash register tape, or a count of items on-hand before and after a sale, as applicable.
- Accept only refunds from vendors for E-rate expenditures, not credits, since credits obligate the District to make future purchases from a particular vendor in order to use them.

The forms on USFR pages X-H-5 through 8 may be used to record daily cash collections and reconcile sales to cash collected.

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on student membership and absences. In turn, the State requires school districts to maintain accurate attendance records to ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not report partial-day absences accurately to ADE since its computerized attendance system did not correctly calculate partial-day absences. In addition, full-day absences for kindergarten students were not always correctly reported to ADE. Also, the District did not ensure that withdrawal dates recorded on the withdrawal forms agreed with the District's attendance system and did not document the date student withdrawals were entered into the computerized attendance system.

The District may not have received the proper amount of funding because the District did not report absences correctly.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should ensure that its computerized attendance system calculates partial-day absences in accordance with ADE's *Instructions for Required Reports*. The District should also ensure that full-day absences for kindergarten students are reported correctly to ADE. Also, the District should prepare student withdrawal forms accurately and indicate the date the forms are entered into the District's computerized attendance system. Student withdrawals should be posted to the attendance system within 5 days to help ensure that student membership is reported to ADE on a timely basis. The District should have a second district official verify that withdrawal dates recorded in the attendance system agree with the withdrawal forms.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

The District must follow competitive purchasing requirements

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 always follow the School District Procurement Rules or the USFR guidelines. For example, the District did not exercise due diligence for purchases it made through purchasing cooperatives to ensure that the cooperatives followed competitive purchasing

The District may not have received the best value for the public monies it spent.

requirements. In addition, in our October 28, 2005, compliance review report, the District was cited for not always issuing invitations for bids or requests for proposals for purchases requiring them and for not maintaining documentation to support that appropriate purchasing procedures were followed. However, because the District did not make any purchases subject to these requirements between the date of that report and the date of our status review, we could not determine whether the District had implemented procedures to follow competitive purchasing requirements.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should establish and adhere to the following policies and procedures:

- Perform and document due diligence procedures on at least a sample of the contracts that the District obtains from a purchasing cooperative to ensure that the contracts were bid in accordance with the School District Procurement Rules.

- 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.

- Before issuing requests for proposals, obtain written documentation from the Governing Board that issuing invitations for bids is either not practicable or not advantageous to the District.

- Include all information required by School District Procurement Rules in the invitations for bids and requests for proposals and retain all supporting documentation.

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.

The District should strengthen controls over payroll expenditures

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. However, the District did not have adequate controls over payroll processing. Specifically, the District paid employees from Classroom Site Fund performance pay monies that became available during the fiscal year without developing a performance plan to qualify for the additional monies. Also, the District paid a former

The District paid three employees a total of $2,500 without proper supporting documentation and Governing Board approval.

employee 3 days' unearned wages after the employee's resignation date, which is a gift of public monies. Further, the District paid three employees a total of $2,500 for additional responsibilities without Governing Board approval and supporting documentation.

Recommendation

To comply with Arizona Revised Statutes (A.R.S.) §15-977 and to help strengthen controls over payroll processing, the District must adopt a performance plan at a public hearing before it may expend monies from the Classroom Site Fund for performance pay. In addition, the Governing Board should ensure that expenditures do not violate the gift of public monies clause in the Arizona Constitution, Article IX, §7 and should attempt to recover the 3 days of wages it paid to the former employee. Also, the District should ensure that the Governing Board approves any extra-duty pay for employees prior to payment and that documentation supporting that approval is maintained. All agreements for performing additional responsibilities should be included in employee contracts.

USFR Memorandum No. 194 and A.R.S. §15-977 provide guidance on accounting for Classroom Site Fund monies.

The District's capital assets list should be complete and accurate

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have an accurate list of these assets and ensure that they are properly accounted for. However, the District did not have a complete and accurate capital assets list since the list excluded some vehicles, furniture, equipment, and the related depreciation, and did not have accurate descriptions for some assets. In addition, the District did not include some assets in the depreciation schedule or list capital acquisitions classified as function 4000—facilities acquisition and construction services under the function the asset serves. Further, the District did not always include all required information, such as tag numbers, purchase dates, or locations, for items on the capital assets list. Finally, the District did not update its capital assets list for current-year purchases and did not reconcile the current year's capital assets list to the prior year's list.

The District did not protect its investment in capital assets since it did not have a complete and accurate capital assets list.

Recommendations

The following procedures can help the District ensure that its capital assets are adequately controlled:

USFR pages VI-E-2 and 3 describe the information that should be recorded on the capital assets list.

- Prepare and maintain a detailed capital assets list with all required information, such as tag number, purchase date, description, and location for all equipment and vehicles with unit costs of $5,000 or more and useful lives of 1 year or more, and all land, buildings, and related improvements with costs of $5,000 or more.

- Record all assets, excluding land, land improvements, and construction in progress, with costs of $5,000 or more on the depreciation schedule and classify them to the functions that use the assets.

The forms on USFR pages VI-E-13 and 14 may be used to document the reconciliation of capital asset additions to capital expenditures and the current year's capital assets list to the previous year's list.

- Update the capital assets list at least annually for assets purchased during the year and reconcile the current year's capital assets list to the previous year's list to ensure that the lists have been accurately updated for additions.