



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Globe Unified School District No.1

Year Ended June 30, 2008



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 15, 2009

Governing Board
Globe Unified School District No. 1
455 North Willow Street
Globe, AZ 85501

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2008, prepared by Cronstrom, Osuch & Company, 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. This report is not all-inclusive and does not include less serious deficiencies. 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 Jerry Strom, Accounting Services Manager, or Roger Walter, Accounting Services Senior.

A member of my staff will call the Director of Business Operations 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

TABLE OF CONTENTS



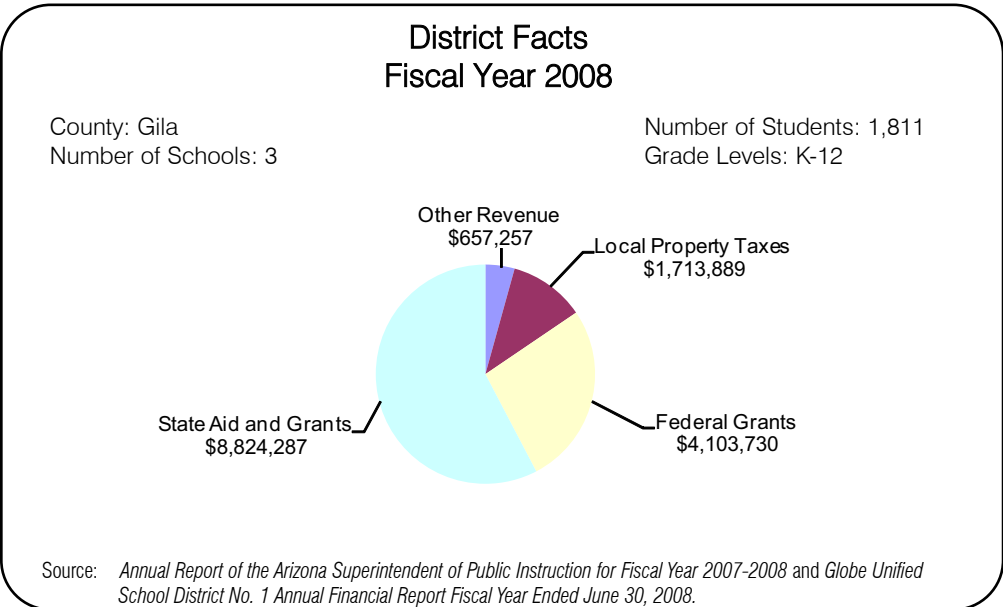
Introduction	1
Finding 1: The District should strengthen controls over competitive purchasing and expenditures	2
Finding 2: The District's student attendance records should be accurate	4
Finding 3: The District should ensure the accuracy of its accounting records and financial reporting	5

INTRODUCTION

Globe Unified School District No. 1 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 \$15.2 million it received in fiscal year 2008 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, 2008, 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.



FINDING 1

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 always follow the procurement rules. Specifically, the District did not follow proper procurement procedures for purchases requiring competitive sealed bidding. In

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

addition, the District did not maintain a list of prospective bidders for its requests for proposals (RFPs), and the District did not maintain documentation of when invitations for bids (IFBs) and RFPs were received. Also, the District did not obtain

Governing Board approval for sole source purchases and did not perform due-diligence procedures for purchases made through a purchasing cooperative. Further, the District did not document an analysis of the known requirements for an item or a collection of items that, in the aggregate, would require purchases from one vendor using competitive sealed bids or proposals, or written and oral quotations. Finally, the District did not obtain oral or written price quotations when required, and did not always maintain credit card receipts to support purchases.

Recommendations

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

- Follow the School District Procurement Rules for purchases of construction, materials, or services that individually or in the aggregate exceed the competitive sealed bid threshold, \$33,689.
- Maintain a list of prospective bidders for RFPs.
- Maintain documentation of when IFBs and RFPs are received.
- For sole source purchases, the Governing Board must determine in writing, before the purchases are made, that there is only one source for the required material, service, or construction item and that other vendors were not able to provide an equivalent service. The District should retain the written determination in the procurement file. Sole source purchases should be avoided, except when no reasonable alternative source exists.

School District Procurement Rules provide the requirements for competitive sealed bids and proposals for goods and services in excess of \$33,689.

- Perform and document due-diligence procedures on at least a sample of the contracts from a purchasing cooperative that the District wishes to use to ensure that cooperative contracts were bid according to the School District Procurement Rules. The District should document the process used and results of due-diligence procedures performed.
- Determine whether to request oral or written price quotations, or competitive sealed bids or 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.
- Obtain oral price quotations from three or more vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from three or more vendors for purchases estimated to cost between \$15,000 and \$33,689. If three quotations cannot be obtained, the District should document the vendors contacted and their reasons for not providing quotations.
- Retain documentation to support all credit card expenditures and require employees using district credit cards to promptly submit receipts to the business office. Receipts should indicate the employee making the purchase and the specific district purpose for the expenditure.

FINDING 2

The District's student attendance records should be accurate

The District may not have received the appropriate amount of funding because membership and absences were not always reported correctly.

The State of Arizona provides funding to school districts based on 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 accomplish this objective as membership and absences reported to the Arizona Department of Education (ADE) did not always agree with the District's computerized attendance system. In addition, the District did not properly calculate absences for kindergarten, elementary, and junior high students.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Review ADE's reports for any differences from the computerized attendance system and resolve any discrepancies promptly.
- Record kindergarten students, with total instructional time between 356 and 692 hours per year, as absent if in attendance for less than three-quarters of the day. If the instructional time for the year is 692 hours or more, students not in attendance for at least one-half of the day should be counted as being absent.
- Record attendance for students enrolled in first through eighth grades, if attendance is based on quarter days, as follows:
 - Attendance for more than three-quarters of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for less than three-quarters of the instructional time scheduled for the day should be counted as an absence for each quarter of the day not in attendance.

ADE provides guidance for attendance reporting requirements in its *School Finance Procedures Manual*.

FINDING 3

The District should ensure the accuracy of its accounting records and financial reporting

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 and annual financial report (AFR) are accurate and complete. However, the District did not fully accomplish this objective. The District did not record debt service expenditures for the fiscal year in its accounting records. In addition, the District's records of cash balances, revenues, and expenditures were not reconciled to the County School Superintendent's (CSS) records in a timely manner. Also, neither the District nor the CSS reconciled the District's cash balances to the County Treasurer's records in a timely manner. Further, budgeted expenditures reported on the District's AFR did not agree with its most recently revised expenditure budget. Finally, actual expenditures reported on the District's AFR did not agree with its accounting records, and prior year actual expenditures were not reported on the AFR.

Recommendations

To ensure the accuracy of its accounting records and financial reporting, the District should:

- Record all expenditures in the appropriate accounts.
- Reconcile its records of cash balances by fund monthly, and revenues, expenditures, and cash balances by fund, program, function, and object code, at least at fiscal year-end, to the CSS' records.
- Verify that its records of cash balances are reconciled by fund to those of the County Treasurer's records at least monthly by the CSS' office. However, the District is ultimately responsible for reconciling those records. Reconciliations should be in writing, and necessary corrections should be made.
- Assign a second employee to review the District's AFR to help ensure that the budgeted and actual revenues and expenditures, including prior year's actual expenditures reported on the AFR, agree with the District's final revised expenditure budget and accounting records.

USFR §III provides guidance for classifying financial transactions.