

A REPORT  
TO THE  
ARIZONA LEGISLATURE

Accounting Services Division

---

Compliance Review

# Higley Unified School District No. 60

Year Ended June 30, 2008

---



**Debra K. Davenport**  
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

## Accounting Services Division Staff

---

**Jerry Strom**, Manager and Contact Person  
jstrom@azauditor.gov

**Valerie Deaton**

Copies of the Auditor General's reports are free.  
You may request them by contacting us at:

**Office of the Auditor General**  
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

[www.azauditor.gov](http://www.azauditor.gov)



**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

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

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

November 12, 2009

Governing Board  
Higley Unified School District No. 60  
2935 South Recker Road  
Gilbert, AZ 85295

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 Heinfeld, Meech & Co., 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 Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Chief Financial Officer 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 must accurately record and report its student attendance	2
Finding 2: The District should ensure the accuracy of its accounting records	4
Finding 3: The District should strengthen controls over expenditures	6
Finding 4: The District's controls over capital assets should be improved	8

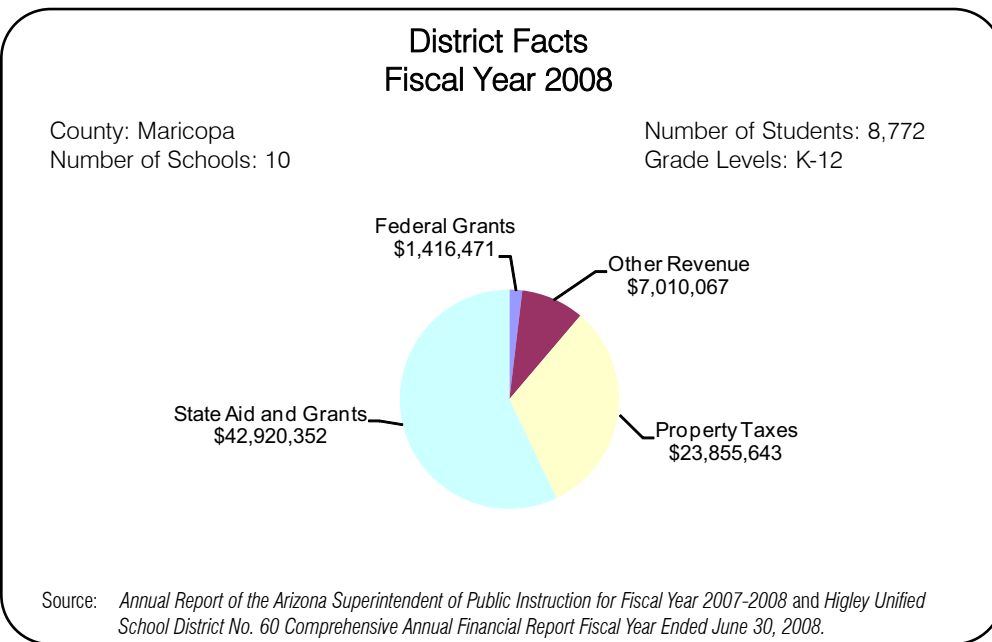


# INTRODUCTION

Higley Unified School District No. 60 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 \$75.2 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 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 must accurately record and report its student attendance

The District may not have received the appropriate amount of funding because it did not report membership and absences correctly.

The State of Arizona provides funding to school districts based on student membership and attendance. In turn, the State requires districts to accurately record and report student membership and attendance. However, the District did not accomplish this objective. For example, the District did not ensure that student entries and withdrawals were adequately supported. Also, the District did not always report average daily membership correctly for high school students enrolled in less than four subjects and for students enrolled in joint technological education district (JTED) classes. Further, for kindergarten, elementary, junior high, high school, and JTED students, the District did not report student absences correctly.

### Recommendations

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

- Complete entry and withdrawal forms properly to support the membership data reported to ADE and ensure that the dates recorded on student entry and withdrawal forms agree with the dates recorded in the District's computerized attendance system. Record student entries and withdrawals in its computerized attendance system within 5 working days and retain documentation to support the date of entry.
- Ensure that students with unexcused absences are withdrawn properly when they have ten consecutive unexcused absences and are only counted in membership through the last day of actual attendance. Retain documentation to support the number of unexcused absences at the time of the withdrawal.
- Prorate part-time high school student membership in proportion with the number of courses in which the student is enrolled.
- Ensure that membership data for students enrolled in a JTED program is reported in accordance with the information provided in ADE's *School Finance Procedures Manual* based on the number of district classes the student is enrolled in and attending (excluding JTED classes).
- Record kindergarten students, with total instruction time between 356 and 692 hours per year, as absent if not in attendance for at least three-quarters of the

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

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 half-days, as follows:
  - Students who attend class less than one-half of a day should be counted absent for one full day.
  - Students in attendance for at least one-half of a day, but less than three-quarters of a day, should be counted absent for one-half day.
  - Students in attendance for at least three-quarters of a day should be counted in attendance for a full day.
- Ensure absences for all high school students are recorded in accordance with *ADE's School Finance Procedures Manual* based on the number of district or JTED classes in which the student is enrolled and attends.

# FINDING 2

## The District should ensure the accuracy of its 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. However, the

The District's cash reconciliation to the County Treasurer contained unreconciled differences resulting in a \$1.3 million adjustment to the Bond Building Fund. In addition, three other funds had significant unresolved differences.

District did not review for propriety transactions that were initiated by the County School Superintendent (CSS) and had not resolved and adjusted its accounting records for reconciling items noted on its cash reconciliation to the County Treasurer. Also, transactions

were not always properly classified in accordance with the USFR Chart of Accounts. Further, not all Classroom Site Fund interest revenue was reported on the fiscal year 2008 budget, the District's adopted expenditure budget exceeded its proposed budget, and amounts reported on its annual financial report (AFR) did not always agree with the District's accounting records.

## Recommendations

To help ensure the accuracy of its accounting records, the District should:

- Develop a process to review CSS reports and postings for propriety and document the review by initialing and dating any documents reviewed or by maintaining a log of transactions reviewed electronically.
- Promptly investigate and resolve all differences noted in reconciling its records to the County Treasurer's records.
- Classify all financial transactions in accordance with the USFR Chart of Accounts.
- Ensure Classroom Site Fund interest revenue is properly reported on the District's budget forms.
- Adopt an expenditure budget that does not exceed the published proposed budget for the Maintenance and Operation (M&O), Unrestricted Capital Outlay, and Soft Capital Allocation Funds.

USFR §III provides guidance for classifying financial transactions.

- Ensure that all revenues and budgeted and actual expenditures reported on the AFR agree with the District's most recently revised adopted expenditure budget and accounting records. The District should assign a second employee to verify that the amounts reported on the AFR are accurate and agree with the District's expenditure budget and accounting records before submitting it to ADE.

USFR Memorandum No. 241 provides instructions for completing the AFR.

# FINDING 3

## The District should strengthen controls over expenditures

The District did not retain receipts to support expenditures made on district credit cards.

The District spends tax dollars to purchase goods and services, so it is essential that the District follow proper expenditure processing procedures to help ensure expenditures are appropriate and adequately documented. However, the District lacked controls to ensure that district monies were spent appropriately. Specifically, the District did not always maintain supporting documentation for credit card purchases, and M&O Fund revolving account checks were not made payable to a vendor or person but instead were inappropriately written to "official."

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 prepare and retain a written determination that the use of competitive sealed bids was either not practicable or not advantageous before issuing requests for proposals (RFPs), or retain documentation to support that proposals were stamped with the date and time received. Further, the District did not always obtain oral price quotations for purchases that required them.

### Recommendations

To help strengthen its controls over expenditures, the District should:

- Require employees using district credit cards to promptly submit receipts to the business office and indicate on them the employee making the purchase and the specific district purpose for the expenditure.
- Checks should be properly completed prior to issuance and should not be written payable to official, cash, or bearer.
- Retain a written determination from the Governing Board that the use of competitive sealed bidding is either not practicable or not advantageous to the District before issuing an RFP.
- Retain documentation to support that all proposals were stamped with the date and time received.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

- Obtain 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.

# FINDING 4

## The District's controls over capital assets should be improved

The District did not have all of its property adequately insured.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, the District should ensure that capital assets are properly valued, accounted for, and safeguarded. However, the District did not accomplish this objective. Specifically, the District did not maintain adequate insurance coverage for all insurable school property. Also, land that was partially donated was not recorded on the District's capital assets list at its correct value, and the District did not prepare a detailed schedule of construction in progress.

### Recommendations

To improve controls over its capital assets, the District should ensure that donated assets are recorded at fair market value at the time of donation. Additionally, the District should accumulate all costs incurred during construction in the construction in progress asset account until completion, and after the project is completed, the asset should be reclassified from the construction in progress account to the proper category on the capital assets list. Further, the District should maintain adequate insurance coverage for all insurable school property.