

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Paloma Elementary School District No. 94

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
Paloma Elementary School District No. 94
38739 West Interstate 8
Gila Bend, AZ 85337

Members of the Board:

We have reviewed the District's audit reports for the years ended June 30, 2007 and 2008, and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2008, prepared by Helfinstine & Associates, 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.

We also noted that the auditors qualified their opinion on the District's financial statements for the year ended June 30, 2008, because the District had insufficient documentation to support its capital assets.

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 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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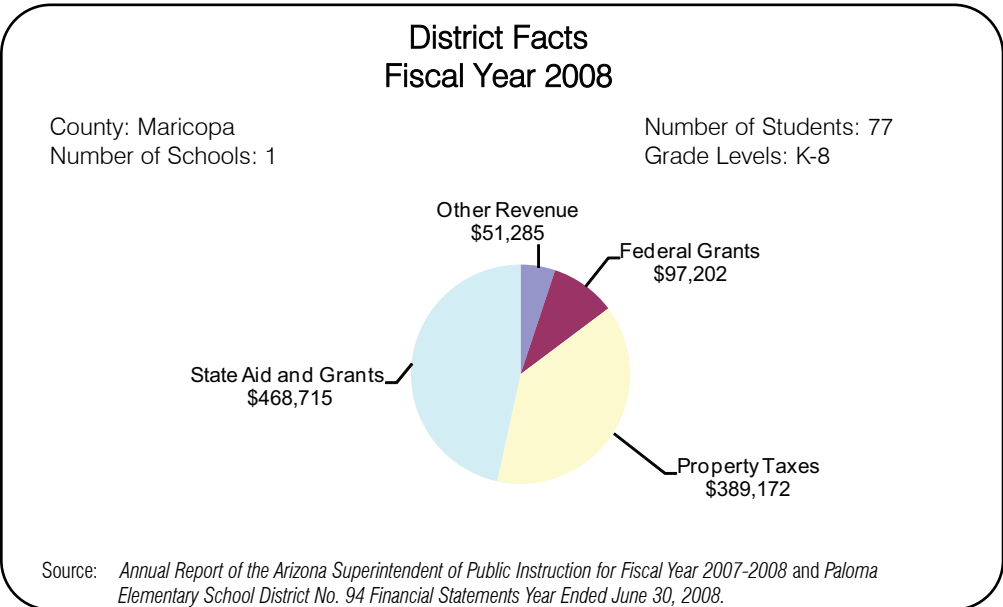
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INTRODUCTION

Paloma Elementary School District No. 94 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 \$1 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. In addition, because of insufficient documentation to support its capital assets, the District's auditors qualified their opinion on the District's financial statements for the year ended June 30, 2008. 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's controls over cash receipts and bank accounts should be strengthened

The District's lack of controls left student activities and district monies at risk of loss, theft, or misuse.

The District receives cash from various sources, including student activities and food service sales, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash and ensure that bank accounts are used as authorized by statute. However, the District did not have sufficient controls over its cash receipts and bank accounts. For example, the District did not have adequate separation of duties as the business manager, school secretary, and head teacher were check signers with access to unused checks and cash in the safe. Additionally, deposits for miscellaneous, food service, and student activities cash received at the District were not made in a timely manner, and the District did not obtain validated treasurer's receipts for monies deposited with the County Treasurer. Finally, the student activities bank reconciliations were not completed in a timely manner, and the District did not prepare standard bank reconciliations; instead a second register was kept to compare against the first register to check mathematical accuracy, which resulted in the District's bank accounts being overdrawn on multiple occasions.

Recommendations

To strengthen controls over cash receipts and bank accounts, the District should:

- Ensure that cash and unused checks held at the district office are physically safeguarded and access to them limited to authorized personnel who are not authorized check signers.
- Deposit all cash receipts intact daily, if significant, or at least weekly.
- Retain validated treasurer's receipts for each deposit with the County Treasurer and reconcile it to supporting documentation to help ensure that the amount deposited agrees with cash received and recorded in the District's accounting records.
- Prepare monthly bank reconciliations for all bank accounts in a timely manner. An employee not responsible for handling cash or issuing checks should prepare the reconciliations. Any discrepancies should be promptly investigated and resolved.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

FINDING 2

The District should maintain accurate capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets and stewardship items. In order to protect its investment, the District should have accurate lists to ensure that they are properly accounted for and safeguarded. However, the District did not have a capital assets list or stewardship list at June 30, 2008. Also, although a physical inventory was taken in February 2007, the District was unable to reconcile it to a capital assets or stewardship list as neither existed. Further, the District did not prepare a reconciliation of capitalized acquisitions to capital expenditures and was not able to reconcile the current year's capital assets list to the previous year's list as neither existed. Finally, accumulated depreciation and depreciation expense reported in the financial statements were estimated, rather than calculated using acceptable depreciation methods.

The District's auditors issued a qualified opinion on the financial statements because the District did not have sufficient documentation to support its capital assets.

Recommendations

To help account for and safeguard its capital assets and stewardship items, the District should:

- Prepare and maintain a current capital assets list that includes all equipment 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.
- Prepare and maintain a current stewardship list that includes all equipment and vehicles costing between \$1,000 and \$5,000.
- Ensure that all equipment and vehicles included on the capital assets and stewardship lists are tagged, marked with an identifying number, or specifically identified by some other means such as serial number and included on the lists.
- Assign an employee independent of the custodial function to reconcile the results of the District's physical inventory with the capital assets and stewardship lists after the inventory is completed. All differences should be investigated and resolved.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe the information that should be recorded on the capital assets and stewardship lists.

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

- Reconcile capitalized acquisitions to capital expenditures by fund to ensure that current-year acquisitions are included on the capital assets and stewardship lists and reconcile the current year's capital assets list to the prior year's list.
- Calculate depreciation accurately based on the District's useful life policy in order to properly report accumulated depreciation and depreciation expense in the financial statements.

FINDING 3

The District's controls over competitive purchasing and expenditures should be improved

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. It is also essential that the District follow procedures designed to help ensure that its purchases are approved before committing district monies and that expenditures are adequately supported. However, the District did not have adequate controls over purchasing and expenditures, as the District did not perform due-diligence procedures for purchases made through a purchasing cooperative. In addition, the District did not have a Governing Board-approved credit card policy that includes dollar limits for charges. Finally, the District did not maintain supporting documentation for expenditures, purchase orders were often dated after the purchase was made, and student activities checks were not always signed by two employees.

The District did not have Governing Board-approved dollar limits for credit card purchases.

Recommendations

To strengthen controls over competitive purchasing and expenditures, the District should:

- Review documentation for at least a sample of the contracts that the District wishes to use from each purchasing cooperative and document the process used and results of the due diligence to support its participation in the cooperative.
- Establish and maintain formal, written policies governing the use of credit cards. The policies should specify purposes for which the cards may be used and dollar limits for charges, and require authorized employees to submit signed credit card receipts and document the specific district purpose for the expenditure.
- Prepare and approve purchase orders prior to ordering goods and services.

Purchase order procedures are outlined on USFR page VI-G-1.

- Retain documentation to support all expenditures, including receiving reports that document the date received, quantity received, condition of goods, and signature of employee receiving the goods.
- Ensure disbursements of monies raised through the efforts of a specific student club are approved by that group and documented in the club's meeting minutes.
- Have student activities checks signed by the student activities treasurer or assistant treasurer and by one other individual appointed by the Governing Board.

FINDING 4

The District should improve 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, expenditure budget, and annual financial report (AFR) are accurate and complete. However, the District did not fully accomplish this objective as the District did not make the necessary journal entries to reconcile its records with those of the County School Superintendent (CSS) monthly or at year-end. Also, the District did not file its proposed expenditure budget with the CSS and did not submit its adopted expenditure budget in a timely manner. Finally, the District's AFR did not contain the appropriate signatures and was not considered complete by the CSS.

Recommendations

To help improve the accuracy of its accounting records and financial reporting, the District should make the appropriate journal entries and resolve all differences noted in reconciling its records to those of the CSS. Additionally, the District must retain documentation to support that its proposed expenditure budget and adopted expenditure budget are submitted to the CSS no later than July 5 and July 18, respectively. Further, the District must prepare and file its completed AFR with the Superintendent of Public Instruction and the CSS no later than October 15 of each year. Once the Governing Board has signed the cover page of the AFR and the AFR has been electronically submitted to ADE, the superintendent and business manager should complete the paper copy of the cover page, sign where indicated, and mail it to the Arizona Department of Education.