

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Safford Unified School District No.1

As of January 9, 2009



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

June 2, 2009

Governing Board
Safford Unified School District No. 1
734 11th Street
Safford, AZ 85546

Members of the Board:

In our December 2007 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, 2006. 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 January 9, 2009. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2007, audit reports and USFR Compliance Questionnaire. 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.

We acknowledge the District's progress in taking action to correct some of its deficiencies. However, based on the number and nature of the remaining deficiencies noted in our status review and our review of the District's June 30, 2008, audit reports and USFR Compliance Questionnaire, which we received subsequent to the completion of our test work, 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.

Governing Board
Safford Unified School District No. 1
June 2, 2009
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If you have any questions concerning this matter, please call Magdalene Haggerty, Accounting Services Division, or me at (602) 553-0333.

Sincerely,

Debra K. Davenport
Auditor General

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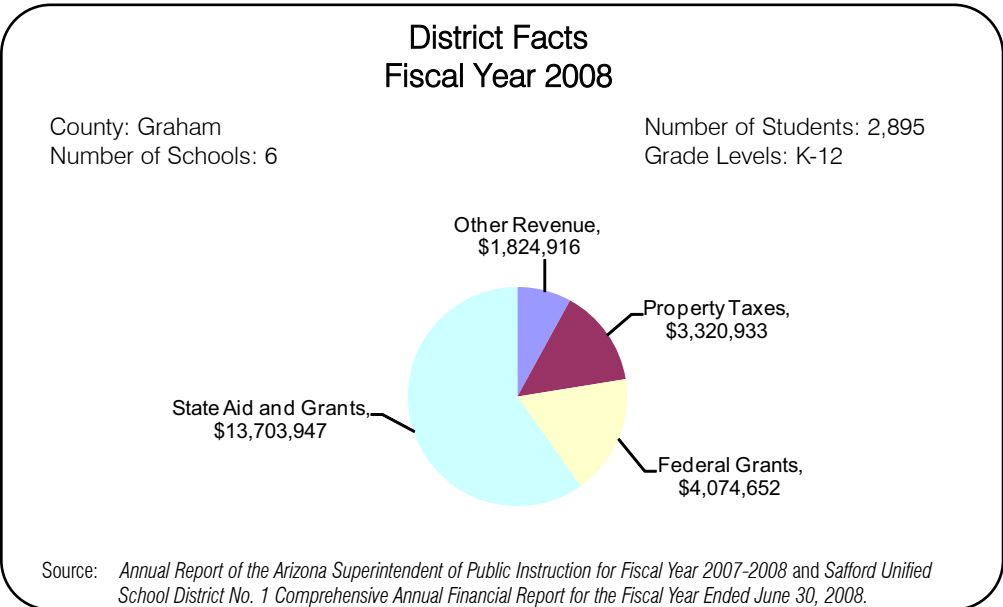
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INTRODUCTION

Safford 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 \$22.9 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 status review and our review of the District's June 30, 2008, audit reports and USFR Compliance Questionnaire, 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 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 districts receive the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective. Specifically, the District did not calculate student absences correctly at the elementary, junior high, and high schools, and absences did not always agree to sign-in and sign-out sheets. Also, the District did not always report average daily membership correctly for high school students enrolled in less than four subjects or in classes provided by a Joint Technological Education District (JTED), and the District's 40th-day attendance information reported to ADE did not agree with the District's computerized attendance system. In addition, the District did not consistently include an entry date on student enrollment forms, document when entry and withdrawal dates were entered into the computerized attendance system, and did not always enter withdrawal information into the computerized attendance system within 5 working days. Finally, the District withdrew a student for consecutive unexcused absences before the student was absent for ten consecutive days.

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

Recommendations

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

- Record kindergarten students, with total instructional time between 346 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 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:
 - Attendance of at least one-half, but less than three-quarters, of the instructional time scheduled for the day should be counted as a half-day of attendance.
 - Attendance of at least three-quarters of the instructional time scheduled for the day should be counted as a full day of attendance.

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

- Record attendance for students enrolled in first through eighth grades, where attendance is based on quarter days, as follows:
 - Attendance of less than three-quarters of the instructional time scheduled for the day should be counted absent for each quarter of the day not in attendance.
 - Attendance of at least three-quarters of the instructional time scheduled for the day should be counted in attendance for a full day.
- Ensure absences for high school students are recorded in accordance with *ADE's School Finance Procedures Manual*.
- Ensure that absences reported to ADE agree with the District's sign-in and sign-out logs.
- 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).
- Verify that membership and absences reported to ADE agree with its attendance records.
- Complete entry and withdrawal forms properly to support the membership data reported to ADE. 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.

FINDING 2

The District's controls over auxiliary operations and student activities monies should be strengthened

Auxiliary operations monies are district monies raised in connection with bookstore and athletic activities. The District holds student activities monies raised through students' efforts for safekeeping. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, proper controls and oversight were not established. For example, the District did not always maintain cash collection reports for auxiliary operations cash received or prepare prenumbered cash receipt forms for student activities receipts at Safford Middle School. Also, auxiliary operations cash receipts were not always deposited in a timely manner and elementary school student activities monies were recorded in the Auxiliary Operations Fund rather than the Student Activities Fund. Finally, during fiscal year 2009, the fiscal year 2008 auxiliary operations cash receipt books for the Safford Middle School were shredded prior to the District's audit, and the District did not prepare club meeting minutes to support all student activities disbursements.

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

Recommendations

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

- Prepare cash collection reports for auxiliary operations cash receipts to document sales and reconcile cash collected to receipt forms, tickets, or items sold, and investigate any differences noted. A second employee should review cash collection reports to verify their accuracy.
- Require student clubs to document sales at student activities events by issuing prenumbered cash receipt forms or tickets, by using a cash register, or by performing counts of items on hand before and after sales.
- Deposit cash receipts daily, if significant, or at least weekly.
- Ensure cash receipts are deposited in the appropriate fund. Monies raised by student efforts in connection with activities of student organizations, clubs, school plays, or other student entertainment should be recorded in the Student Activities Fund. The Auxiliary Operations Fund should include only monies raised in connection with school bookstores and athletic activities.

The forms on USFR pages X-G-17 and 22 may be used to document auxiliary operations cash collections and sales.

USFR §X-G and §X-H prescribe general policies and procedures for auxiliary operations and student activities.

- Retain accounting records and supporting documentation in accordance with the *General Records Retention Schedule for School Districts and Charter Schools* published by the Records Management Division of the Arizona State Library, Archives and Public Records.
- Prepare minutes of all student club meetings, ensure that approval of disbursements is documented in the minutes, and retain a copy of the minutes with the supporting documentation for the purchase.

FINDING 3

The District should ensure the accuracy of its accounting records

The District did not always ensure that journal entries were recorded accurately in 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 District did not maintain adequate separation of responsibilities for the preparation, authorization, or recording of journal entries. In addition, journal entries were not always properly classified in accordance with the USFR Chart of Accounts, and transfers were not limited to only those authorized by Arizona Revised Statutes. Also, the District did not reconcile monthly federal reimbursement revenues to the District's records or the County School Superintendent's monthly revenue reports.

Recommendations

To help ensure the accuracy of its accounting records, the District should separate duties among individuals who initiate, approve, and record journal entries. Also, district management should review and approve journal entries before they are posted to the accounting records and retain documentation to support the review and approval of all journal entries. In addition, the District should classify all journal entries in accordance with the USFR Chart of Accounts and ensure that transfers are made only when specifically authorized by statute. Further, the District should reconcile the official county treasurer receipts for monthly federal reimbursement revenues to the District's records and the County School Superintendent's monthly revenue report.

USFR §III provides guidance for classifying financial transactions.

FINDING 4

The District's controls over expenditures should be improved

The District spends public monies to purchase goods and services, so it is essential that the District follows USFR guidelines designed to help ensure that its expenditures are appropriate, properly approved, and adequately supported. However, the District did not follow procedures to ensure that sufficient cash was available in cash-controlled funds and sufficient budget capacity was available in budget-controlled funds before authorizing expenditures. Additionally, meal reimbursements were not reported as taxable employee benefits, when appropriate.

During fiscal year 2009, the District had negative cash balances in numerous funds and a negative budget balance in the Soft Capital Allocation Fund.

Recommendations

To help improve controls over expenditures, the District should verify that sufficient cash is available in cash-controlled funds and sufficient budget capacity is available in budget-controlled funds before approving expenditures. Also, the Internal Revenue Service requires employees to be traveling "away from home" in order to exclude reimbursements for meals from their income. As a result, all meal reimbursements for travel with no overnight stay or no substantial sleep or rest must be reported as a taxable employee benefit. For travel with an overnight stay or substantial sleep or rest, meal reimbursements for the day of and the day after the actual overnight stay should be excluded from income.

USFR Memorandum No. 231 provides guidance on taxable meal reimbursements.

FINDING 5

The District should establish procedures to document and address conflicts of interest

The District is responsible for ensuring that employees and board members comply with A.R.S. Title 38, Chapter 3, Article 8, Conflict of Interest of Officers and Employees. This requires that any school district board member or employee (full-time, part-time, or on a contract basis) who has or whose relative has a substantial interest in any contract, sale, purchase, service, or decision of a school district must disclose this interest. The interest must be disclosed in writing and retained by the District in a file exclusively for that purpose. This file is public record. In addition, according to statute, a board member or employee who has such a conflict must refrain from participating in or voting on such a matter. However, the District did not maintain documentation of a Governing Board member's conflict related to a family member employed by the District. Further, the District did not have procedures in place to periodically inform employees and Governing Board members regarding conflict-of-interest requirements and ensure that conflicts of interest are identified and disclosed.

Recommendations

To help ensure that the District identifies and documents all conflicts of interest with its Governing Board members and employees, the District should:

- Establish a procedure for periodically notifying employees and Governing Board members of the requirement to disclose conflicts of interest.
- Require all Governing Board members and employees who have, or whose relative has, a substantial interest in any contract, sale, purchase, service, or decision of the District to file a conflict-of-interest statement and refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale, or purchase. A.R.S. §38-502(9) defines a relative as a parent, child, sister, brother, spouse, grandchild, grandparent, mother-in-law, father-in-law, brother-in-law, sister-in-law, or stepchild.
- If an employee supervises a relative, the conflict-of-interest statement should describe the relationship, and the supervisor must refrain from participating in decisions or contracts related to that relative, such as approving pay increases.