

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Snowflake Unified School District No. 5

Year Ended June 30, 2008



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

December 18, 2009

Governing Board
Snowflake Unified School District No. 5
682 School Bus Lane
Snowflake, AZ 85937

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 Jerry Strom, Accounting Services Manager.

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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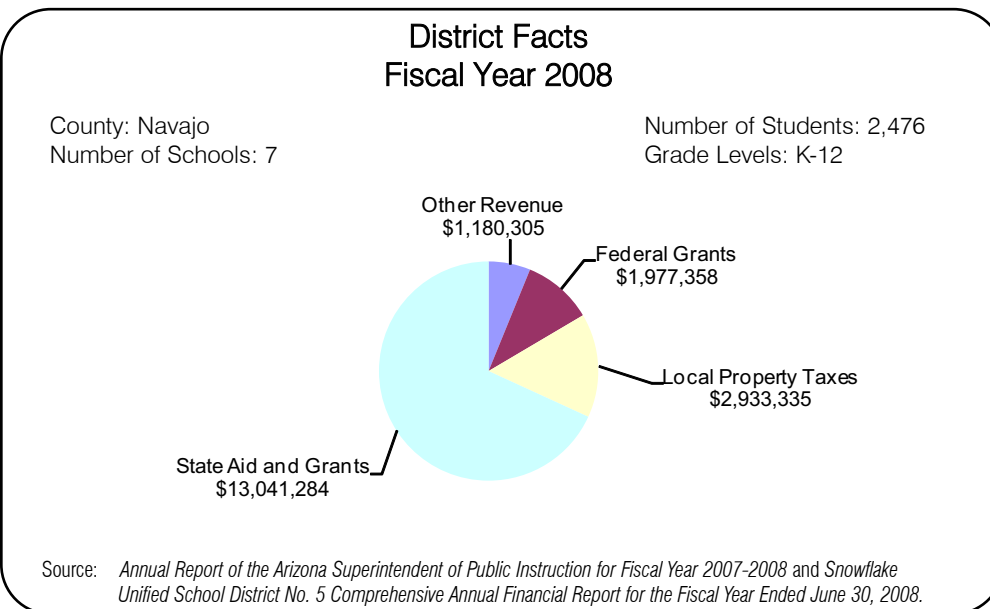
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INTRODUCTION

Snowflake Unified School District No. 5 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 \$19 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's controls over competitive purchasing and expenditures should be strengthened

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's requests for proposals (RFP) did not always include all required information, and for an RFP where only one proposal was received, the District did not retain documentation to support that the price paid was fair and reasonable and that other vendors had a reasonable amount of time to respond to the RFP. In addition, the District did not prepare documentation to support an emergency procurement and did not perform due-diligence procedures for purchases made through a purchasing cooperative.

It is also essential that the District follow proper expenditure processing procedures. However, the District did not always follow such procedures as the Food Service Fund had a deficit cash balance at June 30, 2008, and the District recorded an expenditure in fiscal year 2009 for goods or services that were received in fiscal year 2008. Finally, the District paid travel reimbursements to employees that exceeded the allowable limits set by the Arizona Department of Administration (ADOA) and did not include the amounts in excess of the Internal Revenue Service (IRS) limits as income on the employee's Form W-2.

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.

Recommendations

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

Competitive Purchasing

- Include all information required by the School District Procurement Rules in its RFPs.
- Award a contract to the single responsive bidder only after determining that the price submitted is fair and reasonable, and that either other prospective bidders had a reasonable opportunity to respond or that there was not adequate time for resolicitation. Documentation should be retained to support the determination.

School District Procurement Rules provide the requirements for:

- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Emergency procurements and other exceptions.

- Retain a written statement for each emergency purchase made that documents the description of the emergency, the basis for the selection of the particular vendor, and why the price paid was reasonable.
- 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.

Expenditures

- Verify that sufficient cash is available in cash-controlled funds before authorizing expenditures.
- Maintain separate accounting records for the current and prior fiscal year for the 60-day encumbrance period following June 30 and record expenditures in the appropriate fiscal year's records. At the end of the 60-day encumbrance period, the prior fiscal year's accounting records should be closed.
- Ensure that travel reimbursements are within the limits set forth by ADOA; however, the District may exceed the reimbursement limits for conference-designated lodging. Although travel reimbursements should not exceed amounts allowed by ADOA travel reimbursement policies, any reimbursements in excess of IRS limits should be included on the employees' W-2 forms.

FINDING 2

The District should ensure the accuracy of its student attendance records

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. Specifically, the District did not always prepare student entry forms. In addition, withdrawal dates recorded in the computerized attendance system did not always agree to the student withdrawal forms, and documentation was not retained for the date on which entries and withdrawals were entered into the computerized attendance system.

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

Additionally, the District did not ensure that high school classes were in session for the minimum number of hours required by Arizona Revised Statutes (A.R.S.). Further, the District's absence information uploaded to ADE for the 100th-day reporting period did not agree to the District's computerized attendance system. Finally, the District did not properly calculate absences for all grade levels including Joint Technological Education District (JTED) students.

Recommendations

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

- Prepare and retain properly completed entry forms for all students.
- Assign a second employee to verify that entry and withdrawal dates recorded in the District's computerized attendance system agree to student entry and withdrawal forms.
- Record student entries and withdrawals in its computerized attendance system within 5 working days and retain documentation to support the date of the data entry.
- Ensure that high school subjects meet for at least 123 hours each school year, as required by A.R.S. §15-901.
- Verify that membership and absences reported to ADE agree with the District's computerized attendance system, teachers' attendance registers, and sign-in and sign-out logs.

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

- 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 of at least 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 absent for each quarter of the day not in attendance.
- Ensure absences for high school and JTED students are recorded based on the number of district or JTED classes the student is enrolled in and attends.

FINDING 3

The District should improve controls over student activities and auxiliary operations monies

The District receives monies from various sources, including student activities and auxiliary operations. Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash. Additionally, the Governing Board is responsible for establishing oversight for student activities monies to ensure that proper procedures are followed for collecting and spending them. However, the District did not achieve this objective as cash collection reports for student activities and auxiliary operations cash received were not consistently prepared. In addition, the District did not document the dates on which student activities and auxiliary operations monies were received; consequently, it could not be determined if the monies were deposited in a timely manner. Also, for an auxiliary operations receipt where the date was documented, the deposit was not made in a timely manner. Further, student activities clubs' intrafund transfers were not properly authorized, and a void auxiliary operations check was recorded as revenue in the current year, resulting in an overstatement of revenues and expenditures.

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

Recommendations

To improve controls over student activities and auxiliary operations monies, the District should prepare cash collection reports for student activities and 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 the cash collection reports to verify their accuracy. Also, monies received should be deposited intact daily, if significant, or at least weekly; and all documentation to support the date monies were received and the amount deposited should be retained. Further, student activities club intrafund transfers should be authorized by the club sponsor and officer or, for defunct clubs, by the student activities treasurer and student council. Finally, the District should delete void checks from the list of outstanding checks and increase the check register balance by the amount of the voided checks.

The forms on USFR pages X-G-17 and 22, and X-H-21 may be used to document auxiliary operations and student activities cash collections and sales.