

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Tucson Unified School District No.1

Year Ended June 30, 2008



Debra K. Davenport
Auditor General

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 30, 2009

Governing Board
Tucson Unified School District No. 1
1010 East 10th Street
Tucson, AZ 85719-5813

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 Michael Stelpstra, 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

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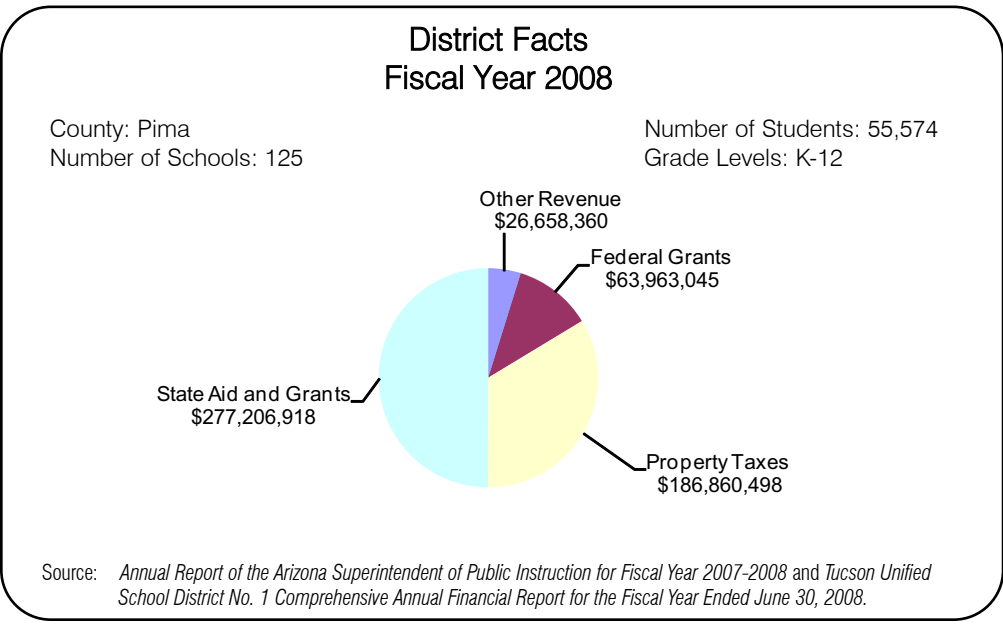
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INTRODUCTION

Tucson 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 \$554 million it received in fiscal year (FY) 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 has 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 improve controls over cash

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

The District receives monies from various sources 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. 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, proper controls and oversight were not established for cash receipts and payments. Specifically, the District did not use its Maintenance and Operation (M&O) Fund revolving bank account properly, as a payroll expenditure was made from the account. In addition, the community schools program cash receipts were used prior to deposit for minor expenditures, including student teacher salaries. Further, the District recorded activity in the Student Activities Fund that would have been more appropriate in the Auxiliary Operations Fund.

Additionally, the District did not always issue prenumbered receipts or tickets; prepare daily cash receipt summaries or cash collection reports; or reconcile cash collected to tickets or items sold for student activities, auxiliary operations, and community schools program cash received. Also, these cash receipts were not deposited in a timely manner or lacked supporting documentation to determine the timeliness of deposit. Finally, the District did not adequately safeguard a signature stamp for the student activities bank account, and auxiliary operations checks were not always signed by two employees.

Recommendations

To help improve its controls over cash, the District should:

- Use the M&O Fund revolving bank account only for activities that require immediate cash outlay such as postage, freight, travel, and other minor disbursements. Salaries and wages may not be paid from the revolving account, and the District should ensure that state retirement and federal and state income taxes are withheld from each employees' paycheck, as applicable.
- Use the Auxiliary Operations Fund to account for monies raised in connection with bookstore and athletic activities.
- Use the Student Activities Fund for monies raised by the efforts of students with the approval of the Governing Board, through student clubs, organizations, school plays, or other student entertainment.

- Prepare prenumbered cash receipt forms, tickets, inventory counts, or cash register tapes to document sales and cash collected. Activity or cash collection reports, as applicable, should be prepared to reconcile cash collected to receipts issued, and tickets or items sold. For student activities events where it is not practicable to determine the items sold, such as bake sales, clubs must still prepare a cash collection report to document cash collected.
- Deposit cash receipts intact daily, when significant, or at least weekly. Disbursements should not be made from cash receipts.
- Physically safeguard signature facsimile plates or stamps, and limit access to them to a minimum number of employees who do not have access to the blank checks.
- Ensure that all auxiliary operations checks are signed by two employees authorized by the Governing Board.

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

FINDING 2

The District should strengthen controls over expenditures

The District spends tax dollars to purchase goods and services, so it is essential that the District follow procedures designed to help ensure that its expenditures are appropriate and adequately supported. However, the District lacked controls to help ensure that its monies were spent appropriately, as credit card transactions were not always supported with receipts and employees making credit card purchases were not clearly identified. In addition, employees utilized district credit cards for fuel purchases related to the use of personal vehicles while on district business, rather than submitting mileage reimbursements. Also, the District did not always obtain written price quotations for purchases requiring them. Finally, building renewal expenditures for routine preventative maintenance did not always appear to meet the statutory definition of “routine preventative maintenance,” and the District exceeded the routine preventative maintenance limit by over \$64,000.

The District's lack of documentation for credit card purchases left district monies susceptible to theft or misuse.

Recommendations

To help strengthen controls over expenditures, the District should:

- Require employees using district credit cards to promptly submit receipts to the business office, and clearly indicate on the receipt the employee making the purchase and the specific district purpose for the expenditure.
- Reimburse employees and board members for mileage at the standard rate established by the Arizona Department of Administration, currently 44.5 cents per mile for privately owned motor vehicles.
- Obtain written price quotations from three or more vendors for purchases costing 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.
- Ensure that expenditures for “routine preventative maintenance” are made only for services that are performed on a regular schedule at intervals ranging from four times a year to once every 3 years and that are intended to extend the useful life of a building system and reduce the need for major repairs. Additionally, the District must limit routine preventative maintenance expenditures from the Building Renewal Fund to 8 percent of the building renewal amount calculated pursuant to Arizona Revised Statutes (A.R.S.) §15-2031.

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

FINDING 3

The District's controls over payroll processing should be improved

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid accurately, required deductions are withheld, and adequate records are maintained to support payroll expenditures. However, the District did not have adequate controls over payroll processing. For example, time sheets were not always retained, daily logs used to track employee attendance did not specify time in and time out, and several departments did not always verify that the hours recorded in the payroll system agreed to the hours reported on the employee time sheets. In addition, for certified staff who received additional pay, the District did not retain a schedule or other documentation to support the amounts paid to the employees, and there was no control in place to ensure that time worked was reasonable in relation to work schedules. Further, the District did not calculate performance pay correctly for employees who received Classroom Site Fund (CSF) monies. Finally, sick leave was not consistently accrued in accordance with district policy, the District's financial statement leave liability was not calculated correctly, and ending leave balances from the prior fiscal year were not reconciled to the current year.

The District did not always maintain time sheets or other documentation to support the amounts paid to employees.

Recommendations

To improve controls over payroll processing, the District should:

- Prepare attendance records such as individual time sheets for each employee subject to the Fair Labor Standards Act for each pay period to ensure that employees are paid only for actual hours worked.
- Update the District's payroll register from employee attendance records, and have a second employee verify the accuracy of the payroll registers on a test basis before processing payroll.
- Include agreements for performing additional duties for additional pay in certified staff contracts and ensure additional pay amounts agree to a Governing Board approved salary and wage schedule. Attendance records for additional duties performed should be reviewed and approved by a supervisor and retained to support payroll expenditures.

- Specify in its CSF Proposition 301 plan the amount of performance pay each eligible employee can earn if performance criteria are met. Also, the District should retain adequate documentation to demonstrate that CSF monies are spent in accordance with A.R.S. §15-977 and the District's Governing Board approved plan, including documentation of the goals achieved by employees toward performance pay and calculation of employees' performance pay amounts.
- Maintain leave summaries, or other similar documents, to record the accrual of vacation, personal, sick, and compensatory time earned or used for each employee in accordance with district policy.
- Ensure its leave-tracking system calculates leave correctly and includes correct pay rates.
- Reconcile the current year's leave schedule to the previous year's schedule.

FINDING 4

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, as Joint Technological Education District (JTED) classes were not excluded when calculating district membership and absences. Also, elementary, junior high, high school, and Technology Assisted Project-Based Instruction (TAPBI) student attendance was not reported correctly to ADE, resulting in an understatement of absences. Additionally, daily logs for TAPBI students were not properly prepared. Finally, total membership and absence amounts calculated by the District did not always agree to the information uploaded to ADE.

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

Recommendations

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

- Calculate membership and absences for high school students enrolled in a JTED program based only on the number of district classes the student enrolls in and attends.
- Record attendance for students enrolled in first through eighth grades, if attendance is based on half days, as follows:
 - Attendance for less than one-half the instructional time scheduled for the day should be counted as a full day absence.
 - 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 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*.

- Ensure absences for high school students are recorded in accordance with the applicable table provided in ADE's *School Finance Procedures Manual*.
- Maintain a log to support TAPBI student attendance that is completed daily by the student's parent or guardian and filed weekly with the school. If the school is able to track a student's hours using computer login times and generate a report of those hours, such a report may be used in place of a log completed by a student's parent or guardian.
- Ensure that the membership and absence information reported to ADE agrees with the District's attendance records. Review ADE's reports for any differences, and resolve discrepancies promptly.

FINDING 5

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 of these assets to ensure they are properly accounted for and safeguarded. However, the District did not include several assets acquired under capital leases on its capital assets list. Additionally, numerous items from the District's stewardship list could not be located on the District's premises, and several items on the District's premises were not tagged with an identification number and could not be found on the District's stewardship list. Also, the District included several construction projects that were completed during fiscal year 2008 as construction in progress on the capital assets list; as a result, depreciation was not calculated for the assets.

The District's capital assets and stewardship lists were incomplete, leaving equipment at greater risk of undetected loss or theft.

Recommendations

To assist in accounting for and safeguarding its assets, the District should maintain accurate capital assets and stewardship lists. The District's capital assets list should include all equipment with unit costs of \$5,000 or more and useful lives of 1 year or more, including items acquired by lease-purchase agreement; and all land, buildings, and related improvements with costs of \$5,000 or more. In addition, the District should prepare and maintain an accurate and complete stewardship list that includes all equipment items costing between \$1,000 and \$5,000. All equipment should be tagged, marked with an identifying number, or specifically identified by some other means such as a serial number. The capital assets and stewardship lists should be updated for items acquired, disposed of, or moved at least annually. Finally, the District should accumulate all costs incurred during construction projects in the construction in progress asset account until completion. When the project is completed, the District should reclassify the asset from the construction in progress account to the proper category on the capital assets list. Depreciation expense should be calculated for all depreciable items such as buildings and equipment.

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