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

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December 10, 2009

The Honorable Thayer Verschoor, Chair  
Joint Legislative Audit Committee

The Honorable Judy Burges, Vice Chair  
Joint Legislative Audit Committee

Dear Senator Verschoor and Representative Burges:

Our Office has recently completed a 24-month followup of the Arizona School Facilities Board (SFB) regarding the implementation status of the 27 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in August 2007 (Auditor General Report No. 07-06). As the attached grid indicates:

- 13 have been implemented;
- 5 are in the process of being implemented;
- 3 have not been implemented, one of which requires legislative action;
- 4 are not yet applicable; and
- 2 are no longer applicable

Unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on SFB's efforts to implement the recommendations resulting from the August 2007 performance audit report.

Sincerely,

Melanie M. Chesney, Director  
Performance Audit Division

MMC:Mcv

Attachment

cc: Dean Gray, Director  
Arizona School Facilities Board

**ARIZONA SCHOOL FACILITIES BOARD  
 PERFORMANCE AUDIT AND SUNSET REVIEW  
 Auditor General Report No. 07-06  
 24-Month Follow-Up Report**

| Recommendation   | Status/Additional Explanation  |
|--|--|
| <b>Finding 1: Future new school construction costs will place increasing demands on General Fund</b>   |  |
| 1.1 To ensure its awards of monies to school districts in excess of the statutory funding formula amount are within the scope of its statutory authority, SFB should seek a formal opinion from the Attorney General to determine whether it has statutory authority to award additional monies to pay for specific design features. | <b>Implemented at 6 Months</b>   |
| 1.2 Once the opinion is received, SFB should comply with the opinion.  | <b>No Longer Applicable</b><br>The Legislature passed Laws 2009, 3 <sup>rd</sup> S.S., Ch. 12, §44, amending A.R.S. §15-2041 to clarify that SFB may only deviate from the statutory funding formula under specific circumstances. Because the Legislature acted on this issue, SFB no longer needs an Attorney General opinion to determine the scope of its statutory authority. |
| <b>Finding 2: Building renewal formula may need modification</b>   |  |
| 2.1 The Legislature should consider modifying the school district building renewal funding formula to help districts better manage their building renewal monies.  | <b>Not Implemented</b><br>The Legislature has not considered any bills related to this recommendation.   |
| <b>Finding 3: SFB staff should improve oversight of districts' use of building renewal monies</b>  |  |
| 3.1 SFB staff should continue their efforts to improve the oversight of building renewal expenditures by developing and implementing written policies and procedures that describe the review process for assessing the appropriateness of a district's building renewal expenditures.   | <b>Implemented at 18 Months</b>  |

| Recommendation  | Status/Additional Explanation  |
|---|--|
| 3.2 SFB should either require its liaisons to conduct annual reviews of building renewal expenditures or contract out for such reviews. In making the decision, SFB should consider the relative costs of both options. | <b>Implemented at 12 Months</b>  |
| 3.3 SFB should provide districts an opportunity to challenge its staffs' conclusions regarding inappropriate expenditures.  | <b>Implemented at 12 Months</b>  |
| 3.4 Once the process is in place giving districts the opportunity to challenge SFB staffs' conclusions, SFB should report inappropriate expenditures to the Superintendent of Public Instruction as required by law.    | <p><b>Not Yet Applicable</b></p> <p>Implementing this recommendation is contingent upon three factors. First, SFB must determine that the building-renewal expenditure is inappropriate. Second, after SFB notifies the school district, the district must be unable or unwilling to correct the expenditure. Third, the school district must not make the correction after SFB notifies the school district. As of October 2009, SFB staff had notified two school districts of inappropriate building renewal expenditures. The first district replaced the expenditure upon notification. The second school district agreed that the expenditure was inappropriate and is reclassifying it. According to SFB officials, both instances of inappropriate expenditures that SFB identified did not require notifying the Superintendent of Public Instruction because the school districts corrected the expenditures after being notified by an SFB liaison.</p> |

**Finding 4: Controls should be improved to ensure monies paid out appropriately**

|  |                                 |
|--|---------------------------------|
| 4.1 SFB should develop and implement written policies and procedures that cover:                                   |                                 |
| a. Payments to school districts, including all steps necessary to ensure the appropriate payment for projects; and | <b>Implemented at 12 Months</b> |

## Recommendation

## Status/Additional Explanation

- b. Regular reconciliation of SFB information against the state-wide accounting system, the Arizona Financial Information System.

### Implementation in Process

As of November 2009, SFB's business manager was performing the fiscal year 2009 reconciliation. Although the *State Accounting Manual* prescribes that the reconciliations should be performed on a monthly basis, SFB plans to do the reconciliations quarterly because of the low number of transactions per month. Because of the reconciliation process' complexity, this appears appropriate. However, if the transaction number increases in the future, SFB should consider doing reconciliations on a monthly basis.

- 4.2 Once written policies and procedures are developed, SFB should establish a formal training program for employees involved in the processing and disbursement of payments based on the established policies and procedures.

### Not Yet Applicable

As of November 2009, SFB has not hired any new staff who would be responsible for carrying out these policies, and current staff were involved in developing them. SFB has developed a new-hire checklist showing that new staff will be trained on these policies and procedures.

- 4.3 SFB should modify its close-out process to:
  - a. Initiate the close-out procedure when the project award amount has been all or nearly all distributed instead of waiting to receive a close-out package from the school district; and
  - b. Include a review to detect duplicate payments and recordkeeping errors.

**Implemented at 18 Months**

**Implemented at 18 Months**

## Finding 5: Database controls need improvement

- 5.1 SFB should strengthen access to controls over its project-tracking database by:
  - a. Using unique account identification numbers and passwords for each employee who uses the database;

### Not Implemented

This recommendation has not been implemented. SFB hired an IT employee on June 30, 2008, but he has had other priorities. According to SFB's Executive Director, SFB will take steps toward implementing the recommendation, and in the meantime, it is addressing concerns about database controls through employee training.

| Recommendation  | Status/Additional Explanation   |
|---|---|
| <ul style="list-style-type: none"> <li>b. Restricting database access to only essential users and assigning rights using the rules of least privilege required to complete an employee's assigned task(s); and</li> <li>c. Establishing an automated edit check on the database that ensures a payment cannot be made in excess of the remaining budgetary capacity of a specific project.</li> </ul>   | <p><b>Not Implemented</b><br/>According to SFB's Executive Director, SFB has been using IT resources to focus on operations and not accountability.</p> <p><b>Implemented at 6 Months</b></p>   |
| <p>5.2 SFB should develop written policies and procedures for its IT system to address:</p> <ul style="list-style-type: none"> <li>a. Access controls;</li> <li>b. Controls over making changes to the database system, including identifying user needs, identifying necessary changes, documenting changes made, and testing changes before implementation; and</li> <li>c. Work station management, including restrictions on downloading software from the Internet and requirements to regularly install security patch and virus protection.</li> </ul> | <p><b>Implementation in Process</b><br/>SFB has not developed policies and procedures related to access controls or controls over changes to the database system. According to SFB's Executive Director, SFB plans to develop these written policies and procedures by January 2010.</p> <p><b>Implementation in Process</b><br/>See explanation for 5.2a.</p> <p><b>Implemented at 18 Months</b></p> |
| <p>5.3 Once written policies and procedures are developed, SFB should establish a formal training program that:</p> <ul style="list-style-type: none"> <li>a. Communicates SFB policies and procedures to its employees; and</li> <li>b. Includes security awareness training to help ensure employees understand their role in protecting SFB data.</li> </ul>   | <p><b>Not Yet Applicable</b><br/>Implementing this recommendation is contingent upon SFB's completing and implementing written policies and procedures.</p> <p><b>Implemented at 18 Months</b></p>  |

| Recommendation  | Status/Additional Explanation   |
|---|---|
| <p>5.4 SFB should develop a comprehensive business continuity plan by:</p> <ul style="list-style-type: none"> <li>a. Updating and maintaining its plan;</li> <li>b. Addressing weaknesses identified by the Business Continuity Leadership Task Force; and</li> <li>c. Testing the plan at least annually.</li> </ul>   | <p><b>Implemented at 18 Months</b></p> <p><b>Implemented at 18 Months</b></p> <p><b>Not Yet Applicable</b><br/> According to SFB's Executive Director, SFB planned to test the plan by October 30, 2009. However, because of a change in Executive Directors on October 23, 2009, SFB has delayed the testing plan. The new Executive Director plans to update the continuity plan and test it after the first of the year.</p>   |
| <p>5.5 SFB should modify its IT consultant contract to:</p> <ul style="list-style-type: none"> <li>a. Require documentation of the database system, including such information as database structure, data dictionaries, and program code;</li> <li>b. Establish state ownership of the project-tracking database; and</li> <li>c. Require testing and SFB staff review of system changes.</li> </ul> | <p><b>Implementation in Process</b><br/> SFB has hired an IT employee and no longer has an IT consultant contract (see explanation for 5.6). According to SFB's Executive Director, SFB is not documenting the existing database system but is documenting all changes to the system. The Executive Director stated that this should result in documenting most of the database over the next few years as changes are made to the system.</p> <p><b>No Longer Applicable</b><br/> See explanation for 5.5a.</p> <p><b>Implementation in Process</b><br/> See explanation for 5.5a.</p> |
| <p>5.6 To meet its IT needs, SFB should consider converting a vacant position to an IT position, using a consultant(s), or a combination of the two.</p>  | <p><b>Implemented at 12 Months</b><br/> SFB has created an Information Technology Specialist position and hired its former IT consultant to fill the position.</p>  |