



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Department of Education

Year Ended June 30, 2003



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

April 30, 2004

The Honorable Tom Horne
State Superintendent of Public Instruction
Department of Education
1535 West Jefferson Street
Phoenix, AZ 85007

Dear Mr. Horne:

In planning and conducting our single audit of the State of Arizona for the year ended June 30, 2003, we performed the following as required by *Government Auditing Standards* (GAS) and Office of Management and Budget (OMB) Circular A-133:

- Considered the Department's internal controls over financial reporting,
- Tested its internal controls over major federal programs, and
- Tested its compliance with laws and regulations that could have a direct and material effect on the State's financial statements and major federal programs.

Specifically, we performed tests of revenues, expenditures, transfers, journal entries, and compliance with laws and regulations for the Title I Grants to Local Education Agencies, Special Education—Grants to States, Special Education—Preschool Grants, Vocational Education—Basic Grants to States, and Improving Teacher Quality State Grants programs.

All audit findings that are required to be reported by GAS and OMB Circular A-133 have been included in the State of Arizona's Single Audit Reporting Package for the year ended June 30, 2003, and have been communicated to your staff. In addition, our audit disclosed an internal control weakness resulting in an instance of noncompliance with laws and regulations that did not meet the reporting criteria. Management should correct this deficiency to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws and regulations. Our recommendation is briefly described below.

The Department Should Ensure Proposition 301
Monies Are Available and Distributed in
Accordance with Statutory Requirements

The Arizona Department of Education (Department) has the responsibility to properly manage public monies entrusted to it, including Proposition 301 monies. The Department receives Proposition 301 monies in accordance with Arizona Revised Statutes §42-5029(E) for distribution to school districts and charter schools for the following statutorily defined purposes: increased cost of basic state aid, which includes the Additional School Days accounts, school safety, charter education matching grants program, school accountability, failing schools tutoring fund, and the classroom site fund.

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The Department deposits these monies into separate accounts to ensure that the limitations and restrictions placed upon these monies by statute are observed. However, the Department did not achieve this objective. Specifically, at the end of fiscal year 2003, the Department transferred \$2,151,000 and \$1,275,492 in Proposition 301 monies remaining in the School Accountability and Additional School Days accounts, respectively, to another Department Proposition 301 account, the Classroom Site Fund. As a result, these monies were not available for distribution to schools for school accountability and increased cost of basic state aid purposes as required by statute.

The Department should not transfer Proposition 301 monies it receives between accounts that have been established for different statutory purposes. This will help to ensure that these monies are available and distributed for only their statutorily intended purposes. In addition, the Department should return these Proposition 301 monies to the appropriate accounts.

This letter is intended solely for the information of the Department and is not intended to be and should not be used by anyone other than the specified party. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Debbie Davenport
Auditor General



State of Arizona
Department of Education

Tom Home
Superintendent of
Public Instruction

April 06, 2004

Ms. Debbie Davenport, Auditor General
Office of the Auditor General
2910 North 44" Street, Suite 410
Phoenix, AZ 86018

Dear Ms. Davenport:

In response to the audit performed, the Arizona Department of Education concurs with the internal control weakness found in the managing of Proposition 301 monies. Monies were transferred to the Classroom Site Fund from the School Accountability fund and the Additional School Days fund in an effort to prevent the funds from being reverted to the General Fund.

The ADOA, General Accounting Office set up school Accountability and Additional School Days as reverting accounts. An effort to get them to change the accounts to "non-reverting" was futile. When we tried to transfer the monies back into the applicable accounts, the General Accounting Office told us that the funds had been closed and the transfers could not take place. We have since generated a letter to Clark Partridge, State Comptroller, with no response.

In the future, although we realize that Proposition 301 monies may revert to the General Fund, the Agency will not transfer the monies remaining in the reverting accounts.

Sincerely,

Vicki Salazar
Associate Superintendent of Finance
Arizona Department of Education