

A REPORT  
TO THE  
ARIZONA LEGISLATURE

Accounting Services Division

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Status Review

# Deer Valley Unified School District No. 97

As of November 12, 2009

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**Debra K. Davenport**  
Auditor General

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May 4, 2010

Governing Board  
Deer Valley Unified School District No. 97  
20402 North 15th Avenue  
Phoenix, AZ 85027-3636

Members of the Board:

In our July 2008 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, 2007. We subsequently performed a status review of the District's internal controls as of November 12, 2009. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2008, 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.

In addition, subsequent to the completion of our test work, we received and reviewed the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2009.

We acknowledge the District's efforts in implementing the recommendations in our July 2008 report. As a result, the District has complied with the USFR. However, we must emphasize that a number of deficiencies still exist. 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 and to continue to comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debbie Davenport  
Auditor General

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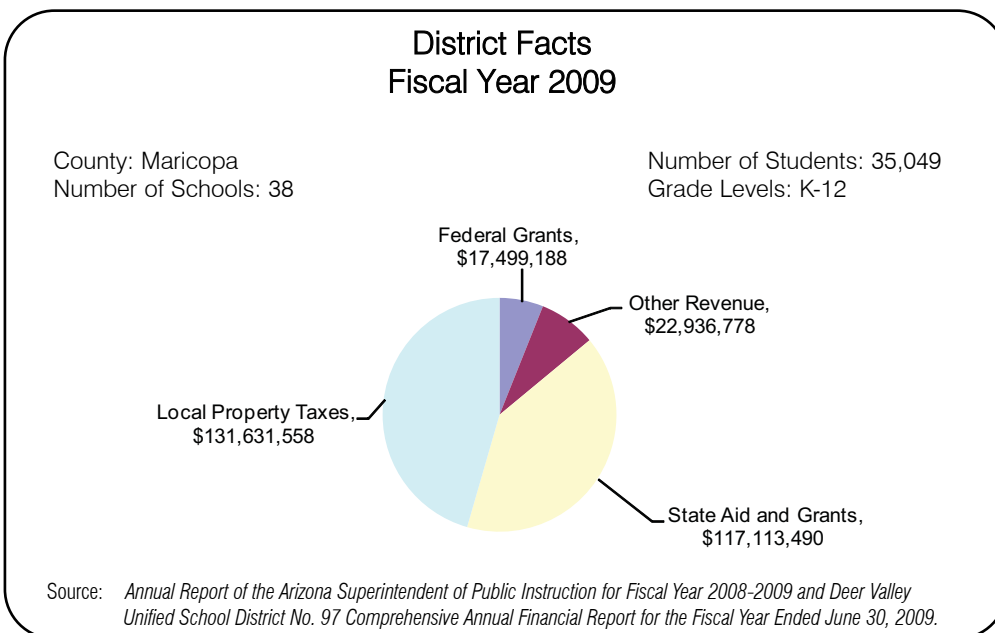


# INTRODUCTION

Deer Valley Unified School District No. 97 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 \$289 million it received in fiscal year (FY) 2009 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, we determined that the District has complied with the USFR. However, 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 continue to comply with the USFR. Our recommendations are described on the following pages.



# FINDING 1

## The District should strengthen controls over competitive purchasing and expenditures

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the 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 or USFR guidelines. The District did not limit its contract awards from invitations for bids (IFB) and requests for proposals (RFP) to the minimum number of vendors needed to meet the District's required quantities for an item. For example, the District awarded contracts to all 17 vendors responding to its RFP for office supplies and equipment, and also purchased similar items from two additional office supply vendors through purchasing cooperatives. Additionally, the District did not have adequate controls in place to monitor expenditures made through purchasing cards (p-cards) to ensure that purchases complied with the School District Procurement Rules and USFR guidelines for like-item purchases.

The District awarded contracts for office supplies and equipment to all 17 vendors responding to its request for proposal.

Further, the District should ensure that all expenditures are appropriate, properly approved, and adequately supported. However, the District did not ensure that transaction logs for p-card purchases were signed by the cardholder's supervisor and did not document action taken, if any, when same-day purchases by a cardholder with one vendor exceeded transaction limits. Also, the District did not ensure that all fuel credit card receipts or related transaction logs were signed by the employee making the purchase and that the receipts or transaction logs included the vehicle license plate number and odometer readings at the time of fuel purchases to support that the purchases were appropriate. Additionally, travel expenses were not always approved in advance or supported by travel claims. Finally, the District purchased food for meetings when employees were not in travel status.

### Recommendations

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



## *Purchasing*

- Award contracts for purchases of like items that exceed \$5,000 to the least number of vendors required to meet the District's needs. Multiple awards may be appropriate when required quantities of an item exceed a vendor's ability to supply the item, or when geographic distance precludes the use of one vendor throughout the District; however, the District should not award contracts to multiple vendors at varying costs when such factors are not present.
- Contract with the lowest responsive and responsible bidder for IFBs, or the highest rated vendor based on the criteria in an RFP. Additionally, if the District uses a vendor through a cooperative purchasing contract, like-item purchases should not be made from other vendors unless a multiple award is warranted as described above.
- Ensure that its policies and procedures for p-card purchases include appropriate periodic reviews of purchases for compliance with the School District Procurement Rules and USFR guidelines. The District should retain documentation of such periodic reviews and any resulting actions taken to ensure compliance.

## *Expenditures*

- Verify that transaction logs for p-card purchases are reviewed and signed by the cardholder's supervisor. If a purchase does not comply with district policies, such as transaction limit policies or allowable purchases, the District should ensure that appropriate action is taken and documented.
- Ensure that all credit card receipts are signed by the employee making the purchase. If the receipt is not signed, the employee should sign the transaction log when submitting the receipt.
- Verify that receipts or transaction logs for fuel card purchases identify the vehicle for which fuel was purchased and the odometer reading at the time of fueling.
- Approve all travel in advance, in accordance with district policy.
- Require travel claims to be prepared to support employee meals or lodging costs, including costs paid with a district p-card.
- Refrain from using district resources to purchase food for employees or Governing Board members when they are not in travel status.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$50,000.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$50,000.

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

# FINDING 2

## The District's controls over cash receipts and student activities disbursements should be improved

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

The District receives monies from various sources, including auxiliary operations and student activities. 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 such monies and to ensure that only appropriate transactions are processed through student activities. However, proper controls and oversight were not established for cash receipts and payments. For example, the District did not adequately separate the responsibilities of cash-handling and recordkeeping for bookstore operations, since one employee received, reconciled, and deposited auxiliary operations and student activities cash and checks received at the bookstore. Additionally, the District did not ensure that student clubs prepared and retained documentation of sales to reconcile to cash collected. Also, the District inappropriately maintained nonstudent general accounts within the student activities bank accounts at some campuses that were used as staff accounts. Further, the District did not obtain club meeting minutes documenting student approval for student activities disbursements, and used p-cards for student activities purchases without reviewing club account balances to ensure monies were available before making the purchases.

Finally, the District operated a print shop that received payments from within the District and from outside customers. However, the District did not have sufficient controls over cash receipts. Specifically, the District did not adequately separate the responsibilities of cash-handling and recordkeeping since the employee responsible for receiving cash and checks also prepared deposits. Additionally, the District did not prepare reconciliations of cash and checks received to sales invoices paid, and did not always deposit cash receipts in a timely manner.

### Recommendations

To improve controls over cash receipts and student activities disbursements, the District should:

- Separate cash-handling and recordkeeping responsibilities among employees to safeguard cash.

- 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. For student activities events where it is not practical to determine the number of items sold, such as bake sales, a cash collection report should still be prepared to document cash collected.
- Prepare written reconciliations of sales to cash or checks received on a daily basis. Ensure that an employee not responsible for receiving cash reviews such reconciliations for accuracy and confirms the amounts deposited.
- Deposit cash receipts intact daily, when significant, or at least weekly.
- Use student activities bank accounts only for monies raised by student efforts with the Governing Board's approval. The District may not establish accounts to hold employee monies to be used for gifts or social purposes.
- Require student clubs to prepare minutes of all meetings, including authorizations of all disbursements. Retain copies of club meeting minutes to support all student activities purchases.
- Establish procedures to ensure that student activities disbursements, including those made with district p-cards, are approved by the appropriate student club and sufficient monies are available in the club account before each disbursement is made.

Sample forms to record daily cash collections and reconcile sales to cash collected can be found on USFR pages VI-F-11, X-G-22, and X-H-21.

# FINDING 3

## The District should ensure the accuracy of its accounting records and financial reports

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 and financial reports are accurate and complete. However, the District did not fully accomplish this objective. The District did not classify all accounting transactions in accordance with the USFR Chart of Accounts since it did not always record expenditures by program classifications and did not report capital expenditures at the required level of detail. Also, the District did

The District may have understated its capital acquisitions in 2009 since it capitalized less than \$1.5 million of over \$12 million of capital expenditures.

not complete a reconciliation of capital asset additions to capital expenditures for FY 2009. Additionally, the District's capitalization procedures for construction, land, and building expenditures did not include a review of such expenditures for significant renovations that should be capitalized. As a result, the District may have understated its capital acquisitions by as much as \$10 million in FY 2009. Further, the District did not prepare its FY 2009 Transportation Route Report (TRR) accurately since it reported route miles for the first 100 days based on multiplying one day's logged miles by 100 rather than using actual route miles and did not include an estimate of activity miles for the 101st through 180th days. Finally, the District did not separately record miles to and from repair facilities to ensure that they were not included in daily route miles.

## Recommendations

To help ensure the accuracy of its accounting records and financial reports, the District should:

- Classify all transactions in accordance with the USFR Chart of Accounts.
- Reconcile capital asset additions to capital expenditures each year and make all necessary corrections.
- Review construction, land, and building expenditures for significant renovations that should be capitalized. Capitalize those expenditures that exceed the District's capitalization threshold of \$5,000 and are allowable expenditures of a capital fund based on statute.

USFR Chart of Accounts §III provides guidance for classifying financial transactions.

- Record route miles and all other types of miles driven to provide a basis for accurate reporting on the TRR.
- Ensure that a second employee independent of the transportation function reviews the TRR for accuracy and agreement to the supporting documentation before the report is submitted to ADE.

# FINDING 4

## The District should maintain and report accurate student attendance information

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

The State of Arizona provides funding to school districts based on membership and attendance. 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 fully accomplish this objective. Specifically, absences reported for elementary, junior high, and high school students did not always agree to sign-in and sign-out logs and other supporting documentation. Additionally, the District did not take attendance at least twice a day at elementary schools. Further, membership and absences reported to ADE did not always agree to the District's records.

### Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should ensure that attendance information recorded in its computerized attendance system and reported to ADE is supported by the records maintained at the campuses, including the student sign-in and sign-out logs. Additionally, attendance should be taken at least twice a day at elementary schools and recorded in the District's computerized attendance system. Furthermore, the District should periodically compare its records of membership and absences to ADE's SAIS system to determine if any corrections need to be made to ensure that accurate information is reported for funding purposes.

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