



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

Arizona State Schools for the Deaf and the Blind

As of March 31, 2013

October • 2013



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

November 6, 2013

Michael Williams, Board President
Arizona State Schools for the Deaf and Blind

William Koehler, Acting Superintendent
Arizona State Schools for the Deaf and Blind

We have performed a procedural review of the School's internal controls in effect as of March 31, 2013. Our review consisted primarily of inquiries, observations, and selected tests of internal control policies and procedures, accounting records, and related documents. The review was more limited than would be necessary to give an opinion on internal controls. Accordingly, we do not express an opinion on the effectiveness of internal controls or ensure that all deficiencies in internal controls are disclosed.

Specifically, we reviewed travel-related expenditures and expenditures from the School's trust fund.

As a result of our review, we noted certain deficiencies in internal controls that the School's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate internal controls for travel-related expenditures. Our finding and recommendations concerning the deficiencies are described in the accompanying summary.

Should you have any questions concerning our procedural review, please let us know.

Sincerely,

Debbie Davenport
Auditor General

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INTRODUCTION & BACKGROUND

The Arizona State Schools for the Deaf and Blind (School) serves students from preschool to high school who are deaf, hard of hearing, blind, or visually impaired. The School has two campuses, one located in Tucson and one in Phoenix, with the main office located in Tucson. In addition, the School offers state-wide services to students through local school districts. The School is an agency of the State of Arizona established by Arizona's first legislature in 1912. As a state agency, the School must follow applicable laws and regulations identified in Arizona Revised Statutes, the Arizona Administrative Code, and the *State of Arizona Accounting Manual*.

School employees travel on state business

School employees travel on state business for many reasons, including providing state-wide services to deaf and blind students, attending academic and athletic student events, and participating in professional conferences and meetings. The School pays for travel by either directly paying travel vendors, such as hotels and car rental agencies, or by reimbursing employees for travel costs that the employees initially paid themselves. When the School pays travel vendors directly, it either issues a state warrant, which is similar to a check, or uses the School's purchasing card, which is similar to a credit card. When the School pays for travel by reimbursing an employee, the employee submits a reimbursement travel claim, and the School repays the employee by adding the additional amount to the employee's regular paycheck.

Based on the State's accounting records, from July 1, 2010 through March 31, 2013, the School spent \$756,509 for travel. This includes \$297,216 for the fiscal year ended June 30, 2011; \$287,314 for the fiscal year ended June 30, 2012; and \$179,979 for the 9-month period ended March 31, 2013.

Reimbursement travel claim—This form is used by the State of Arizona to reimburse travel-related costs through a one-time payroll payment to an employee. To request reimbursement for travel costs, employees submit a travel claim including supporting documentation to their agency representative for approval. Prior to approving a reimbursement travel claim, an agency representative should ensure the travel costs were reasonable, supported by adequate documentation, compliant with all laws and regulations, and appropriate for the business of the State of Arizona.

Superintendent's travel—During the period July 1, 2010 through March 31, 2013, according to the School's travel records, the Superintendent made 116 trips and was on travel status for 277 days. The School spent \$35,673 for the Superintendent's travel, or 5 percent of the School's total travel costs during this time period.

School must comply with the State's travel policy

As an agency of the State of Arizona, the School must comply with the State's travel policy for its employees' travel. The State's travel policy has been developed by the Arizona Department of Administration to ensure that:

- State travel complies with Arizona Revised Statutes and the Arizona Administrative Code;
- Reimbursement of employee travel costs complies with the U.S. Internal Revenue Code;
- State employees travel only when necessary to conduct legitimate business for the State;
- Travel costs are reasonable and necessary; and
- Appropriate accommodations are made available for state employees when traveling.

In certain circumstances, directly paying for an employee's travel or reimbursing an employee for travel costs that do not comply with the State's travel policy may constitute a gift of public monies in violation of the Arizona Constitution.

Requirements of the State's travel policy

According to the State's travel policy, employee travel must conform to general and specific travel requirements and documentation requirements. Travel costs do not comply with the State's travel policy if they are not documented well enough to determine whether they conform to the general and specific requirements.

General and specific requirements—The first general requirement of the State's travel policy is that employee travel must be necessary for state business. Consideration should be given to nontravel alternatives such as conference calls or Internet meetings. Additionally, travel should be fair and reasonable, and planned for the State's benefit using the most economical means available. The School may authorize in-state or out-of-state travel as long as it conforms to the State's travel policy. Specific requirements for meals, lodging, transportation, and certain other travel costs are described below:

- **Meals**—Travel expenditures for meals should be based on the number of hours the traveler is on travel status, should not exceed the maximum daily rates, or per diem, and should be consumed outside of a 50-mile radius from the traveler's duty post or personal residence. Travelers are not entitled to a meal allowance when substantial meals are provided free by a conference or hotel.
- **Lodging**—Travel expenditures for lodging should be necessary for state business, should not exceed the maximum daily rates, and should be outside of a 50-mile radius from the traveler's duty post or personal residence.

- **Transportation**—Travel expenditures for transportation may not exceed the actual cost unless the use of a personal motor vehicle is authorized. In that case, a standard reimbursement rate is used to determine the cost. The mode of transportation should be selected based on the most reasonable and usual mode of transportation using the most commonly traveled route consistent with the authorized purpose of the trip. A traveler may use a rental vehicle for official state business if it is the most cost-effective method of travel. Because of this, a rental vehicle should be used only if it is less expensive than a state-owned motor vehicle, a privately owned motor vehicle, taxi, airfare, or another alternate method of transportation. Additionally, a traveler may use a taxi to travel to a location for meals only if meals are not available within a reasonable distance of where he/she is staying or working.
- **Other travel costs**—Travel expenditures may occur for other miscellaneous travel costs. However, late registration fees for conferences and other events should be avoided through proper planning. Additionally, employees should not ordinarily be reimbursed for fuel costs while using a state fleet vehicle because travelers should follow established procedures from the Arizona Department of Administration’s Fleet Management for obtaining fuel, such as using pumps available at Arizona Department of Transportation facilities or purchasing fuel at participating gas stations with the State’s Voyager fuel card that is available with all state-owned vehicles.

In addition, regardless of the amount authorized or the maximum amounts allowed, travelers should not be reimbursed for costs they did not actually incur.

Documentation requirements—All travel costs should be well documented. That documentation should include the purpose of the travel and certain other specific information, such as traveler information, travel destination, and the dates and times travel occurred. In addition, original receipts are required for most costs, including:

- **Air transportation**—airfare, baggage, and other airline costs.
- **Lodging**—itemized hotel, motel, and similar costs.
- **Rental vehicle costs**
- **Communication**—long-distance phone calls and similar costs.
- **Conference and meeting**—registration fees and other conference-specific costs.

School administers a trust fund

The School receives donations that are deposited into a trust fund that the School’s Governing Board administers. Generally, the amount donated cannot be spent; however, the interest earned on the donated monies can be spent with the Governing Board’s approval on goods and services that benefit the School’s students.

Procedural review scope

The scope of this procedural review was limited to determining whether adequate internal controls were in effect as of March 31, 2013, for the School's travel-related expenditures and expenditures from the School's trust fund.

Travel expenditures—Auditors reviewed ten randomly selected travel expenditures directly paid to travel vendors by state warrant and ten randomly selected travel expenditures directly paid using the School's purchasing card. In addition, auditors reviewed all expenditures reported on the State's accounting system during the review period for the School Superintendent's travel. The results of our review of travel expenditures are presented within Finding 1 (see pages 5 through 7 of this report).

Trust fund expenditures—Auditors reviewed 25 randomly selected expenditures from the School's trust fund. For the items tested, the School's procedures to spend money from the trust fund were followed and the expenditures were appropriate and allowable.

FINDING 1

The School should ensure all travel costs comply with the State of Arizona travel policy

The Arizona State Schools for the Deaf and the Blind (School) should ensure that travel costs incurred by its employees are necessary and reasonable as required by the State's travel policy. Between July 1, 2010 and March 31, 2013, the School paid nearly \$10,000 for travel that did not comply with the State's travel policy. In addition, these travel costs may represent a gift of public monies in violation of the Arizona Constitution.

Noncompliant travel costs

As shown in Table 1 below, auditors identified \$9,637 of travel costs incurred between July 1, 2010 and March 31, 2013, that were not in compliance with the State's travel policy because the School lacked adequate documentation to show the costs complied with the policy's requirements.

**Table 1: Noncompliant travel costs
July 1, 2010 to March 31, 2013**

Description	In-state travel costs	Out-of-state travel costs	Total travel costs
Excessive lodging	\$1,720	\$2,314	\$4,034
Unnecessary transportation	1,170	2,655	3,825
Ineligible meals	319	436	755
Other noncompliant travel costs	<u>209</u>	<u>814</u>	<u>1,023</u>
Total	<u>\$3,418</u>	<u>\$6,219</u>	<u>\$9,637</u>

Source: Auditor General staff analysis of the available supporting documents related to the School's travel expenditures as reported in the State's Human Resources Information System and the Arizona Financial Information System.

Of the \$9,637 of noncompliant travel costs, auditors determined that \$8,744, or 91 percent, of the costs were for the Superintendent's travel. Of the School's 76 expenditure payments for the Superintendent's travel costs, auditors identified 73 payments lacking adequate supporting documents to indicate how the travel complied with the State's policy.

The following are examples of these travel costs in each category presented in Table 1 above.

Excessive lodging—Auditors identified \$4,034 in excessive lodging costs that the School paid for between July 1, 2010 and March 31, 2013. The School often paid for lodging before and after conferences. For example, at the Conference of Educational Administrators of Schools and Programs for the Deaf, the Superintendent stayed one extra night in Hawaii and spent another night in Phoenix upon returning from Hawaii at an additional cost of \$277 to the School. Because a legitimate state business purpose for the additional travel days in Hawaii and Phoenix was not documented, auditors concluded that these costs did not comply with the State's travel policy. Additionally, the School often paid for lodging in excess of the maximum daily rates without documenting a legitimate reason.

Unnecessary transportation—Auditors identified \$3,825 in unnecessary transportation costs that did not comply with the State's travel policy that the School paid for between July 1, 2010 and March 31, 2013. The School often paid for car rentals and taxi fares when the hotel or conference offered a free shuttle or more economical means for transportation to and from the airport, hotel, or conference center. For example, the Superintendent attended the National Summit on Deaf Education Conference in Austin, TX and was reimbursed for renting a car at a cost of \$315 and paying \$60 in parking fees when the conference center, hotel, and restaurants were within easy walking distance from one another. Additionally, the School often paid for additional costs for travel to off-site restaurants when meals were available at the hotel or conference center.

Ineligible meals—Auditors identified \$755 in ineligible meal costs that did not comply with the State's travel policy that the School paid for between July 1, 2010 and March 31, 2013. The School often paid for meal costs when a conference or hotel offered a substantial meal as part of the conference package or lodging. Additionally, auditors noted numerous reimbursements for meal costs several days before and after conferences where a legitimate state business purpose for the additional travel days had not been documented. For instance, during the Hawaii trip, the School reimbursed the Superintendent \$48 for meals during the extra travel days before and after the conference where no business purpose for the additional meals had been documented.

Other noncompliant travel costs—Auditors identified \$1,023 of other travel costs that did not comply with the State's travel policy that the School paid for between July 1, 2010 and March 31, 2013. For example, the School paid \$550 in late registration fees for the Association for Supervision and Curriculum Development Annual Conference in Washington, D.C. and reimbursed employees for fuel purchases when the State's Voyager fuel card was available for use.

According to the School's officials, travel was not always well planned and employees preparing and reviewing travel expenditures were not aware of all the State's travel policy requirements. Because of this, unallowable travel costs were incurred, errors were made when reviewing and approving travel expenditures, and adequate supporting documentation was not always maintained.

Possible gift of public monies

Reimbursing employees for travel costs that do not comply with the State's travel policy may constitute a gift of public monies in violation of the Arizona Constitution. The State's travel policy specifically identifies the requirements, including documentation requirements, which must be followed for travel costs to be allowable. Travel costs that do not comply with those requirements may not have a valid public purpose, and the Arizona Constitution, Article 9, Section 7, prohibits spending public money without a public purpose. Consequently, spending public money for the noncompliant travel costs in Table 1 on page 5 may have been a gift of public monies that violated the Arizona Constitution.

Recommendations

1. To help ensure future travel costs are necessary, reasonable, and comply with the State's travel policy, the School should: (1) better plan its travel, (2) train employee travelers and officials responsible for approving travel costs on state travel policy requirements, and (3) require that all travel expenditures be reviewed and approved by a trained and knowledgeable official. This review and approval should specifically ensure that:
 - a. Travel expenditures are supported by adequate documentation.
 - b. Meals are eligible for reimbursement and only reimbursed up to the cost of the traveler's meal, not to exceed the maximum daily rates.
 - c. Lodging costs are necessary for state business, reimbursed at or below the maximum daily rates, and otherwise eligible for reimbursement.
 - d. Transportation costs are necessary for state business and are for the most reasonable and economic transportation available.
 - e. Late registration fees are avoided.
 - f. Fuel is obtained through proper methods.
2. The School should further research the noncompliant travel costs in Table 1 on page 5 and seek legal counsel to help identify and collect any required reimbursements.



Agency Administration

P.O. Box 88510
Tucson, AZ 85754
520.770.3601
520.770.3711 Fax

Phoenix Campus
7654 N. 19th Avenue
Phoenix, AZ 85021
602.771.5300
602.771.5364 Fax

Tucson Campus
P.O. Box 85000
Tucson, AZ 85754
520.770.3863
520.770.3007 Fax

Desert Valleys
Regional Cooperative
2051 W. Northern Ave., #200
Phoenix, AZ 85021
602.771.5200
602.544.1704 Fax

Eastern Highlands
Regional Cooperative
153 W. Vista
Holbrook, AZ 86025
928.524.6770
928.524.6779 Fax

North Central
Regional Cooperative
1000 E. Butler Ave., Ste 115
Flagstaff, AZ 86001
928.774.0655
928.773.9229 Fax

Southeast
Regional Cooperative
P.O. Box 85000
Tucson, AZ 85754
520.770.3200
520.770.3782 Fax

Southwest
Regional Cooperative
2450 S. 4th Ave. Ste 600
Yuma, AZ 85364
928.317.0429
928.317.0447 Fax

Early Childhood
& Family Education
P.O. Box 88510
Tucson, AZ 85754
520.770.3725
520.770.3711 Fax

November 5, 2013

Debra K. Davenport, Auditor General
State of Arizona
Office of the Auditor General
2910 N. 44th Street Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport,

We have received and reviewed the report for the procedural review of travel and trust fund expenditures for the Arizona State Schools for the Deaf and the Blind. We agree with Finding 1, the school should ensure all travel costs comply with the State of Arizona travel policy. We agree with the recommendations to ensure travel costs are necessary, reasonable and comply with the state's travel policy. Training will be scheduled for all employees who travel and for officials who are responsible for approval of travel costs. In addition, the school will research reported non-compliant travel costs and seek legal counsel in identification of and collection of required reimbursements. Recommendations will be implemented.

Thank you for your assistance in this review. Planning to implement the recommendations will begin immediately.

Sincerely,

William Koehler
Assistant Superintendent

