



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

Arizona State School for the Deaf and the Blind

As of April 5, 2005



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

June 30, 2005

Dr. Harold Hoff, Superintendent
Arizona State School for the Deaf and the Blind
P.O. Box 88510
Tucson, AZ 85754

Dear Dr. Hoff:

We have performed a procedural review of the Arizona State School for the Deaf and the Blind's (ASDB) internal controls in effect as of April 5, 2005. 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 internal controls or ensure that all deficiencies in internal controls are disclosed.

Specifically, we reviewed cash receipts, payroll expenditures, cash disbursements, journal entries, purchasing, local and student checking accounts, capital assets, and financial reporting.

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

This letter is intended solely for the information and use of the ASDB 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 our procedural review, please let us know.

Sincerely,

Dennis L. Mattheisen, CPA
Financial Audit Director

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The ASDB should report accurate financial information

The State's General Accounting Office (GAO) relies on financial information that it receives from the ASDB in order to prepare Arizona's state-wide financial statements. Consequently, it is important that the ASDB provide accurate and complete financial information to the GAO. However, auditors noted that the ASDB did not report approximately \$2.6 million of its trust fund investments to the GAO. As a result, these investments were not reported in Arizona's June 30, 2004, state-wide financial statements.

To help ensure that the ASDB's financial information is accurately reported within Arizona's state-wide financial statements, the ASDB should provide all of its investment information to the GAO within GAO's timelines annually. For the ASDB's trust fund investments, this information includes the dollar amounts and types of investments as well as information about the related investment risks.

The ASDB should prepare and maintain an accurate capital assets list

The ASDB has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the ASDB to have an accurate list of these assets and to ensure they are properly controlled and accounted for. However, the ASDB did not have a complete and accurate capital assets list and had not performed a complete physical inventory of its equipment in the last 6 years. In addition, the ASDB could not reconcile capital assets added to the list to capital asset expenditures or reconcile the current year's list to the previous year's list. Also, the ASDB could not provide accurate capital assets information to the State's General Accounting Office for the preparation of Arizona's state-wide financial statements.

The following procedures can help the ASDB improve controls over its capital assets and ensure that its list is accurate, complete, and properly reported:

- Prepare and maintain an accurate capital assets list of all ASDB assets costing \$5,000 or more and with useful lives of 1 year or more.

- Update the capital assets list at least annually for items acquired, disposed of, or transferred.
- Perform a physical inventory of all equipment items at least every 2 years. Assign an employee who has no custodial responsibilities to reconcile the inventory results to the list and add items to or remove items from the list as necessary.
- Reconcile capital assets added to the list during the fiscal year to capital asset expenditures, reconcile the prior year's capital assets list to the current year's list, and make all necessary corrections.
- Reconcile the ASDB's capital assets list to the State's capital assets list, and report all necessary corrections.

June 22, 2005

Mr. Dennis L. Mattheisen, CPA
Office of The Auditor General
2910 North 44th Str., #410
Phoenix, AZ 85018

Dear Mr. Mattheisen:

Enclosed are the responses to the procedural review of the Arizona State Schools for the Deaf and the Blind. Please know that the Agency's management will fulfill its responsibility of implementing an inventory control system.

If you have any questions concerning the responses, please feel free to contact me at 520.770.3601.

Sincerely,

Harold E. Hoff, Ph.D.
ASDB Superintendent

HEH/dg
Encs.

The ASDB should report accurate financial information.

ASDB agrees with your finding. ASDB will complete the CASH, CASH EQUIVALENTS AND INVESTMENT SUMMARY FORM #5, which is part of the State of Arizona Closing package in a timely manner.

Jacque Shaffer
Accounting Manager
ASDB

ASDB should prepare and maintain an accurate capital assets list.

ASDB is in the process of developing an inventory and assets control list that will be compliant with state regulations. The intent is to allow ASDB to maintain an accurate flow of assets into the agency, while in possession of the agency and, finally, when the assets are moved to state surplus. We will provide a physical inventory as defined in state statute. An employee will be assigned to oversee the inventory. Current items will be listed in order to provide an easy means for tracking the assets and movement within the organization.

Once in place, procedures will be implemented to ensure a real time inventory. After all items are inventoried, the list will be reconciled against the state capital assets list. The inventory control system will be put in place this summer and all items will be completely entered and reconciled by the end of FY 06. The inventories of the coop sites, as well as the IT inventory, are currently being completed.

Harold E. Hoff, Ph.D.
ASDB Superintendent