



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

# Bagdad Unified School District No. 20

Year Ended June 30, 2009



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February 14, 2011

Governing Board  
Bagdad Unified School District No. 20  
P.O. Box 427  
Bagdad, AZ 86321-0427

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2009, prepared by John C. Todd II, P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Laura Miller, Accounting Services Director, or Cris Cable, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debbie Davenport  
Auditor General

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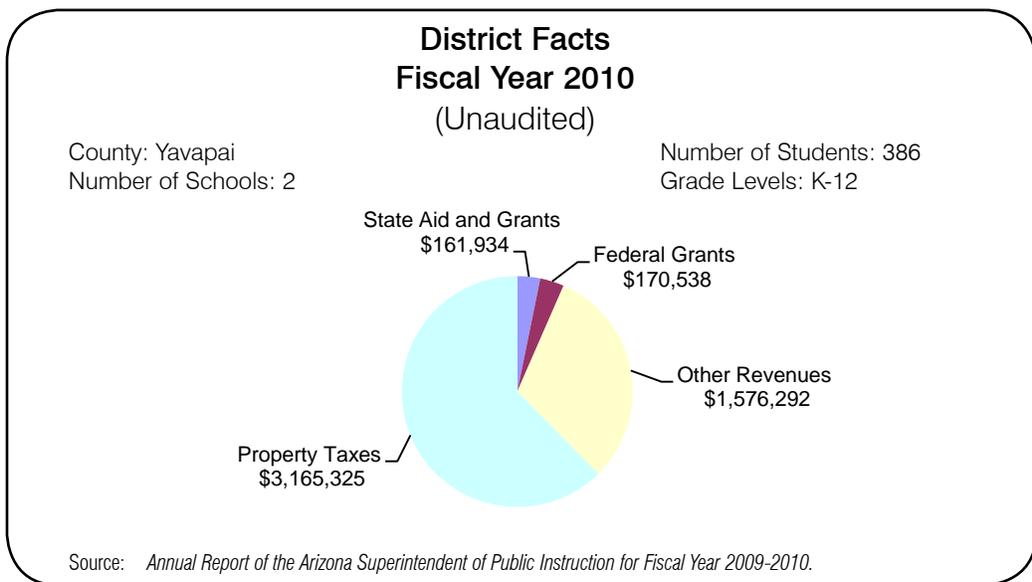


# INTRODUCTION

Bagdad Unified School District No. 20 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 \$5 million it received in fiscal year 2010 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 review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2009, we determined that the District had failed to comply with the USFR. 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 comply with the USFR. Our recommendations are described on the following pages.



# FINDING 1

## The District's controls over competitive purchasing and expenditures should be strengthened

School District Procurement Rules and USFR guidelines for purchases requiring oral and written price quotations 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 School District

The District did not always follow the School District Procurement Rules and USFR guidelines, and therefore, could not ensure it received the best value for the public monies it spent.

Procurement Rules and the USFR guidelines. Specifically, the District did not always issue invitations for bids or requests for proposals, or obtain oral or written price quotations, as applicable, for purchases over \$5,000.

Additionally, the District did not obtain Governing Board approval of vendors designated as sole sources for purchases. Also, the District did not perform due-diligence procedures for purchases made through purchasing cooperatives or prepare a summary of the number of cooperatives and contracts used.

It is also essential that the District follow procedures designed to help ensure that all expenditures are appropriate and adequately supported. However, the District's Governing Board did not establish formal, written credit card policies to help ensure that credit cards were only used for appropriate purposes. Additionally, the District did not always retain credit card statements and receipts to support credit card purchases.

## Recommendations

To strengthen the controls over competitive purchasing and expenditures, the District should:

- Issue invitations for bids or requests for proposals (RFP) for purchases of construction, materials, or services that, individually or in the aggregate, exceed \$50,000. When using an RFP, the District should award the contract to the vendor whose proposal was determined, with specific reason(s) in writing, to be most advantageous to the District based on the factors set forth in the RFP.
- Obtain oral price quotations from at least three vendors for purchases costing between \$5,000 and \$25,000, and written price quotations from at least three vendors for purchases costing between \$25,000 and \$50,000. If three quotations cannot be obtained, the District should document the vendors contacted who did not offer price quotations and the reasons for not doing so.

- Determine in writing, before a purchase is made as a sole source purchase, that there is only one source for the required material, service, or construction item. Such determinations should be retained in the procurement file. Sole source purchases should be avoided, except when no reasonable alternative source exists.
- Document the process used and results of due-diligence performed for each cooperative it uses.
- Establish and maintain formal, written policies governing the use of credit cards. The policies should specify the purposes for which the cards may be used, dollar limits for charges, and require authorized employees to submit credit card receipts and document the specific district purpose for each purchase.
- Retain supporting documentation for all credit card purchases indicating the specific district purpose for the expenditure, including signed receipts and billing statements. Reconcile billing statements to supporting credit card receipts and determine whether the purchase was for a valid district purpose.

USFR Memorandum  
No. 248 provides  
guidance on appropriate  
due-diligence  
procedures.

# FINDING 2

## The District should strengthen controls over cash receipts and bank accounts

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

The District receives monies from various sources, and due to the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash and ensure that bank accounts are used as authorized by statute. However, the District did not have adequate controls over its cash receipts and bank accounts. Specifically, the District did not adequately separate cash handling and receipt processing for the student activities and auxiliary operations bank accounts or obtain Governing Board approval to establish auxiliary operations petty cash funds. In addition, the District did not always deposit student activities, auxiliary operations, and food service cash receipts in a timely manner. Also, the District did not always reconcile sales to cash collected for student activities events and bookstore sales. Finally, the District did not always prepare formal reconciliations for all bank accounts, and when reconciliations were performed, they were not always completed in a timely manner or signed by the preparer and reviewer.

### Recommendations

To strengthen controls over cash receipts and bank accounts, the District should:

- Separate cash-handling and recordkeeping functions to safeguard cash so that no individual employee has the ability to initiate and complete a transaction without independent review and approval.
- Document Governing Board approval of the use and maximum amount of petty cash for auxiliary operations before implementing a petty cash fund.
- Deposit cash intact daily when significant, or at least weekly, in the appropriate district bank account or directly with the County Treasurer.
- Prepare daily cash collection reports for both student activities and auxiliary operations activities to document sales and reconcile the amount of cash, checks, and warrants received to issued receipts.

The forms on USFR pages X-G-17 and 22, and X-H-21 may be used to document auxiliary operations and student activities cash collections and sales.

- Prepare monthly reconciliations for all bank accounts in a timely manner, and promptly investigate and resolve any discrepancies noted. Reconciliations should be prepared by an employee not responsible for handling cash or issuing checks, and reviewed by a supervisor. Bank reconciliations should also be signed and dated by the preparer and the reviewer.

Bank reconciliation procedures are outlined on USFR pages VI-C-5 and 6.

# FINDING 3

## The District's controls over capital assets should be improved

The District did not accurately account for or control its capital assets.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, the District should ensure that capital assets are properly valued, accounted for, and safeguarded. However, the District did not fully accomplish this objective. Specifically, the District did not have documentation on file to determine when the last physical inventory was conducted. In addition, the District did not follow the required procedures when disposing of capital assets or properly update its capital asset list for disposals. The District also did not reconcile the current year's capital asset list to the previous year's list or reconcile capitalized acquisitions to expenditures. Lastly, items included on the District's stewardship list were not always tagged with an identifying number or specifically identified by some other means.

### Recommendations

To improve controls over its capital assets, the District should:

- Conduct a physical inventory of all equipment at least every 3 years. After the inventory is completed, an employee independent of the custodial function should reconcile the results of the inventory with the capital assets and stewardship lists. The District should retain all written instructions, inventory count sheets, and other documentation relating to the physical inventory.
- Comply with AAC R7-2-1131 when disposing of assets.
- Update its capital assets and stewardship lists during the year or prepare a separate capital additions and disposals list during the year to help ensure that items are appropriately added to or deleted from the capital assets and stewardship lists at fiscal year-end.
- Reconcile capitalized acquisitions to capital expenditures by fund. In addition, the District should reconcile the previous year's capital assets list to the current year's list, and investigate and resolve all differences.
- Ensure that all stewardship items are tagged, marked with an identifying number such as a serial number, or specifically identified by some other means.

Instructions for performing a physical inventory are listed on USFR pages VI-E-8 and 9.

The forms on USFR pages VI-E-13 and 14 may be used to document the reconciliation of capital asset additions to capital expenditures and the current year's capital assets list to the previous year's list.

# FINDING 4

## The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires 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 accomplish this objective. Specifically, membership and absence information submitted to ADE did not agree with the District's computerized attendance system. In addition, the District did not always calculate elementary and high school student absences correctly, and absences in its computerized attendance system did not always agree to the teachers' rosters. Further, there was no evidence that student enrollment data was entered into the computerized attendance system within the required 5 school days. The District was also unable to locate some Official Notice of Pupil Withdrawal forms, and as a result, there was no evidence that the District entered those student withdrawals into its attendance system within 5 school days.

### Recommendations

To ensure the accuracy of its student attendance records, the District should:

- Ensure that membership and absences reported to ADE agree with the District's attendance records. The District should review ADE's reports for differences and resolve any discrepancies promptly.
- Record attendance for elementary school students, if attendance is based on quarter days as follows:
  - Students in attendance for more than three-quarters of the instructional time scheduled for the day should be counted as in attendance for a full day.
  - Students in attendance for less than three-quarters of the instructional time scheduled for the day should be counted as absent for each quarter of the day not in attendance.
- Record absences for high school students in accordance with the guidance provided in ADE's *School Finance Procedures Manual*.
- Ensure that student absences recorded in its computerized attendance system agree to teacher attendance records when prepared separately.

- Record student entry and withdrawal dates in its computerized attendance system within 5 working days. Retain Official Notice of Pupil Withdrawal forms to support each student withdrawal and require employees entering student entry and withdrawal dates in the attendance system to initial and date the applicable form to document when the entry was made.

# FINDING 5

## The District should ensure the accuracy of its accounting records

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. Therefore, district management should ensure that its accounting records are accurate and complete. However, the District did not fully accomplish this objective. The District did not adequately separate duties related to recording adjusting journal entries as the same employee could initiate, approve, and post journal entries. In addition, the District did not always maintain supporting documentation for adjusting journal entries. Also, the District did not maintain its accounting records in accordance with the USFR Chart of Accounts as the majority of Auxiliary Operations Fund transactions did not flow through the District's main accounting system. Additionally, the District incorrectly deposited some donations received in the Auxiliary Operations Fund. Further, Extracurricular Activities Fees Tax Credit monies, included with auxiliary operations monies, could not be separately identified by the District. Finally, the District did not retain documentation to support monthly reconciliations of its cash balances to the County Treasurer's records.

District accounting records were not complete and documentation was not always retained to support amounts recorded in them.

## Recommendations

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

- Establish adequate separation of duties for initiating, approving, and recording journal entries. District management should review and approve all journal entries before they are posted to the accounting records. Also, retain journal entry documentation that contains explanations, attachments, or references to support the entry, and the signature or initials of the individual making the entry and the official authorized to approve it.
- Record all transactions in its accounting records and ensure those records are maintained in accordance with the USFR Chart of Accounts. Donations received by the District should be accounted for in an appropriate gift fund. However, tax credit eligible contributions may be deposited in the Auxiliary Operations Fund or the Extracurricular Activities Fees Tax Credit Fund. If the District chooses to record tax credit monies in the Auxiliary Operations Fund, it must separately track those monies to ensure they are used for tax credit eligible purposes and within donor restrictions.

- Ensure that its records of cash balances are reconciled with the County Treasurer's records at least monthly and at fiscal year-end, and maintain documentation to support the reconciliations. If reconciliations are performed by the County School Superintendent's office, the District should obtain and review copies of the reconciliations and keep them on file.

# FINDING 6

## The District should establish proper controls over its computer systems and improve the accuracy of its financial reporting

The District should protect its computerized systems and review reports for accuracy to help ensure that it reports reliable information to the public and agencies from which it receives funding. To achieve this objective, District management should ensure that its computer systems are secure and that its budgets, annual financial report (AFR), and other reports are accurate and complete. However, the District did not establish formal information technology (IT) policies and procedures for backup, disaster recovery, removal of user access rights, periodic password modification, and testing procedures of new or updated programs. Additionally, the District did not retain documentation to support amounts reported on its Transportation Route Report and did not ensure that transportation amounts included in its budget agreed to the route report. Also, the District did not ensure that all required information was included on its AFR before submitting it to ADE.

### Recommendations

To establish proper access controls over its computer systems and improve the accuracy of its financial reporting, the District should:

- Develop and document IT policies and procedures in accordance with USFR §IX, including contingency planning controls such as backup, environmental, and disaster recovery to help safeguard against the accidental loss or destruction of records, and to prevent interruption of electronic data processing. The District should also implement proper testing procedures for new or updated programs to ensure that system changes perform as expected.
- Establish access control procedures for the removal of user access rights upon termination of employment or change of job duties. Require users to periodically change assigned passwords and keep them confidential to help ensure that no employee can gain access to unauthorized or incompatible areas within the District's accounting system.
- Report amounts on the Transportation Route Report for the number of routes, route miles traveled, and the number of students transported that are supported by documentation such as daily bus logs. Ensure that amounts used to calculate district transportation funding on expenditure budget Work Sheet D agree with the Transportation Route Report.

- Assign a second employee to verify that the amounts reported on the AFR are accurate and all applicable information has been reported before submitting it to ADE.