



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Camp Verde Unified School District No. 28

Year Ended June 30, 2009



Debra K. Davenport
Auditor General

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OFFICE OF THE
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

November 19, 2010

Governing Board
Camp Verde Unified School District No. 28
410 Camp Lincoln Road
Camp Verde, AZ 86322

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 Michael Stelpstra, 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

TABLE OF CONTENTS



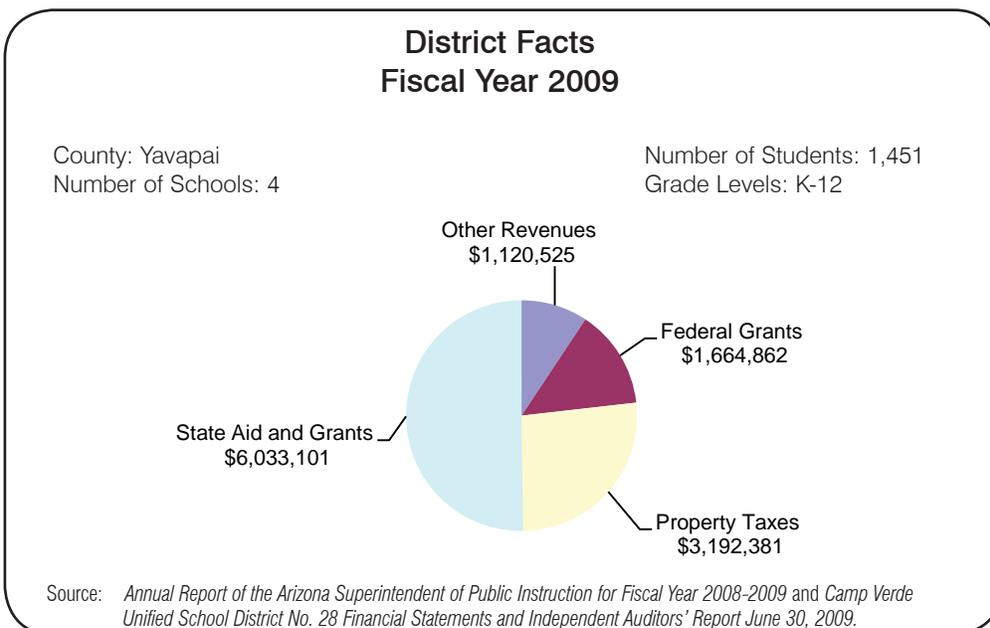
Introduction	1
Finding 1: The District should strengthen controls over cash receipts and bank accounts	2
Finding 2: The District needs to improve controls over student activities and auxiliary operations monies	3
Finding 3: The District's controls over competitive purchasing and expenditures should be strengthened	5
Finding 4: The District should ensure the accuracy of its accounting and payroll records	6

INTRODUCTION

Camp Verde Unified School District No. 28 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 \$12 million it received in fiscal year 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 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 should strengthen controls over cash receipts and bank accounts

The District receives monies from various sources. Because of 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 issue prenumbered cash receipt forms for extracurricular activities fees tax credit monies received and did not always deposit auxiliary operations, student activities, and other miscellaneous cash receipts in a timely manner. Further, the District did not use bank accounts properly. The miscellaneous receipts clearing bank account was used for disbursements to individual employees and schools within the District and the student activities bank account was used for district receipts and disbursements. Finally, formal bank reconciliations were not completed during the fiscal year for one of the District's bank accounts.

Recommendations

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

- Issue prenumbered, numerically controlled cash receipt forms in duplicate, for all payments received. Daily cash receipt summaries should be prepared to reconcile cash receipt forms issued to cash, checks, and warrants collected.
- Deposit cash receipts intact daily, if significant, or at least weekly.
- Remit monies in the miscellaneous receipts clearing bank account to the County Treasurer at least monthly. No other disbursements should be made from the bank account.
- Ensure that only monies raised by student efforts in connection with student activities are deposited into the District's student activities bank account. The monies in the account should not be used to defray any district expense.
- Prepare complete and accurate monthly bank reconciliations to verify the accuracy of the bank and checkbook balances. Any differences should be promptly investigated and resolved. The bank reconciliations should be signed and dated by the preparer and reviewer.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

FINDING 2

The District needs to improve controls over student activities and auxiliary operations monies

The District's Governing Board is responsible for establishing oversight for student activities and auxiliary operations monies to ensure that proper procedures are followed for collecting and spending them. However, adequate oversight was not established. Specifically, the District did not adequately separate the responsibilities of cash-handling and recordkeeping over student activities and auxiliary operations. In addition, the Governing Board did not appoint a student activities treasurer, and the monthly report of student activities receipts and disbursements submitted to the Governing Board was incomplete. Also, the District did not use cash collection reports for student activities and prenumbered tickets for athletic events to document sales and cash receipts.

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

Further, the District did not ensure that monies were available in student clubs' accounts before disbursements were made and did not always retain documentation to support auxiliary operations expenditures. Finally, the District did not always ensure two authorized individuals signed student activities and auxiliary operations checks.

Recommendations

To improve controls over student activities and auxiliary operations monies, the District should:

- Separate student activities and auxiliary operations cash-handling and recordkeeping responsibilities among employees so that one person does not have complete authority over a transaction cycle. If one employee must perform multiple functions, district management should require supervisory reviews at appropriate points in the process to help ensure that adequate internal controls are maintained.
- Have its Governing Board appoint a student activities treasurer and assistant student activities treasurers, if necessary.
- Submit monthly reports to the Governing Board that include all student activities transactions.

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 cash collection reports for student activities cash receipts to document sales and reconcile cash collected to receipt forms, tickets, or items sold, and investigate any differences noted.
- Use a ticket log to account for tickets issued at athletic events. The log should record the beginning and ending ticket numbers, date, school, and total number of tickets issued. Reconcile the number of tickets sold and ticket price to actual cash collections for auxiliary operations monies received.
- Verify that an individual student club's cash balance is sufficient before authorizing disbursements.
- Prepare and retain purchase requisitions, purchase orders, receiving reports, and vendor invoices to support auxiliary operations expenditures.
- Ensure all student activities checks are signed by the student activities treasurer or assistant treasurer and by one other individual appointed by the Governing Board.
- Ensure that all auxiliary operations checks are signed by two employees authorized by the Governing Board.

FINDING 3

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

School District Procurement Rules for competitive sealed bidding and USFR guidelines for written and oral 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 Procurement Rules and the USFR guidelines. Specifically, the District did not retain adequate documentation to support its sole source procurements or consistently perform due-diligence procedures on purchasing cooperatives it used. Also, the District did not ensure credit card purchases were under the single purchase limit as outlined in the District's written policies governing the use of credit cards.

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

Recommendations

To strengthen controls over competitive purchasing and expenditures, the District should retain the Governing Board determination that there is only one source for the required material, service, or construction item in the procurement file. Sole source purchases should be avoided, except when no reasonable alternative source exists. In addition, the District should document the due-diligence procedures performed for each purchasing cooperative used. Such procedures should include reviewing documentation of the cooperative's compliance with the requirements of the School District Procurement Rules. Further, the District should enforce its credit card policies that specify the single purchase limits for credit card charges.

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

FINDING 4

The District should ensure the accuracy of its accounting and payroll records

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. To achieve this objective, 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. Also, supporting documentation was not always provided to the District's audit firm for adjusting journal entries. In addition, although the District's reconciliation of cash on deposit with the County Treasurer for the month ended June 30, 2009, was completed by the County School Superintendent's (CSS) Office, a fiscal year-end reconciliation was not completed until March 2010. Additionally, the District did not ensure that active intergovernmental agreements and cooperative purchase agreements were fully executed and on file.

Further, salaries, wages, and related payroll costs are a major portion of the District's total expenditures, and the District should ensure adequate records are maintained to support payroll processing. However, the District did not fully accomplish this objective. Specifically, the District did not establish a delayed payroll system for contracted and salaried employees or document that payroll warrants were compared to the payroll register prior to distribution to employees. Finally, the District did not establish processes and procedures to ensure payroll expenditures were recorded in the correct fiscal year.

Recommendations

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

- Maintain adequate separation of duties for initiating, approving, and recording journal entries. District management should review and approve journal entries before they are posted to the accounting records. Also, documentation for each journal entry should be retained and contain 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.

- Ensure that the CSS or the District reconciles its accounting records to those of the County Treasurer at least monthly and at fiscal year-end.
- Retain a fully executed and signed copy of each of its intergovernmental and cooperative purchase agreements.
- Establish a delayed payroll system with a “lag” time that allows adequate time between the end of the pay period and the payment of wages to ensure that employees are paid only the wages they have earned.
- Verify and document that payroll warrants agree with the payroll register and voucher, on a test basis, before distributing warrants to employees.
- Maintain separate accounting records for the current and prior fiscal year for the 60-day encumbrance period following June 30 and record expenditures in the appropriate fiscal year’s records. At the end of the 60-day encumbrance period, the prior fiscal year’s accounting records should be closed.

Instructions for performing the reconciliations are provided on USFR pages VI-B-8 through 10.