

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Coolidge Unified School District No. 21

As of September 29, 2009



Debra K. Davenport
Auditor General

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January 6, 2010

Governing Board
Coolidge Unified School District No. 21
221 West Central Avenue
Coolidge, AZ 85128

Members of the Board:

In our August 2006, status review report we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR). In August 2009, the District represented to the State Board of Education that it had corrected its deficiencies. Therefore, we subsequently performed another status review of the District's internal controls as of September 29, 2009. Our review covered the deficiencies included in the District's June 30, 2008, audit reports and USFR Compliance Questionnaire, as well as other internal control deficiencies we were aware of at the time of our review. The purpose of our most recent status review was to determine whether the District was in substantial compliance with the USFR as of the date of that 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.

We acknowledge the District's diligence in correcting its deficiencies. 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,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



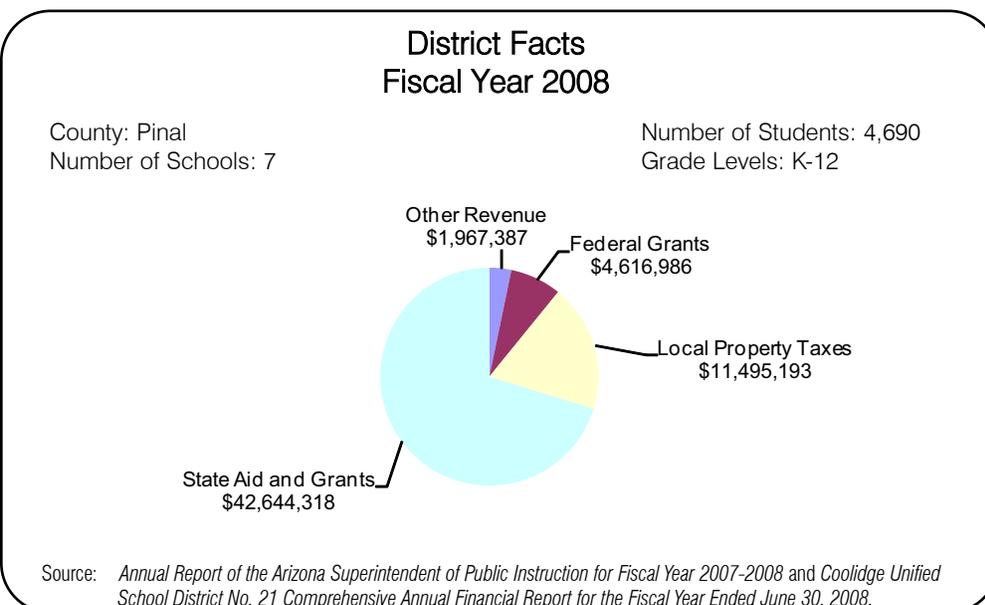
Introduction	1
Finding 1: The District should accurately record and report its student attendance	2
Finding 2: The District's controls over cash receipts should be improved	3
Finding 3: The District should maintain accurate capital assets and stewardship lists	4
Finding 4: The District should maintain accurate payroll records	5

INTRODUCTION

Coolidge Unified School District No. 21 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 \$60.7 million it received in fiscal year 2008 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 continue to comply with the USFR. Our recommendations are described on the following pages.



FINDING 1

The District should accurately record and report its student attendance

The District may not have received the appropriate amount of funding since the District did not correctly 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 help ensure that they receive the appropriate amount of state aid and local property taxes. However, the District did not fully accomplish this objective. Specifically, the District did not resolve discrepancies between its computerized attendance system and the 100th-day attendance information the District reported to ADE for fiscal year 2009. In addition, the District did not always properly report student absences because student sign-in and sign-out logs did not always support partial-day absences. Finally, the District did not exclude Joint Technological Education District (JTED) classes when calculating and reporting attendance.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Ensure that membership and absences reported to ADE agree with the District's attendance records. A second employee should review ADE's reports for differences and promptly resolve any discrepancies.
- Maintain accurate student sign-in and sign-out logs to support the calculation of student absences.
- Report absences for elementary, junior high, and high school students based on the requirements prescribed in ADE's *School Finance Procedures Manual*.
- Calculate absences in accordance with ADE's *School Finance Procedures Manual* based on the number of district or JTED classes the student is enrolled in and attends.

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

FINDING 2

The District's controls over cash receipts should be improved

The District receives cash from various sources, including student activities, auxiliary operations, and miscellaneous receipts, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash. However, the District did not have adequate controls over its cash receipts. Specifically, the District did not issue prenumbered and numerically controlled receipt forms for student activities, auxiliary operations, and miscellaneous cash received, and did not consistently deposit cash received in a timely manner. Also, the District did not remit the monies in the miscellaneous receipts clearing bank account to the County Treasurer at least monthly. In addition, student activities checks were not signed by the student activities treasurer and one other person authorized by the Governing Board. Further, the student activities treasurer was not an approved signer on the bank account.

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

Recommendations

To help improve the District's controls over cash receipts, the District should:

- Prepare prenumbered and numerically controlled cash receipt forms whenever cash or checks are received.
- Deposit all monies intact daily, if significant, or at least weekly.
- Remit monies in the miscellaneous receipts clearing bank account by check to the County Treasurer at least monthly.
- Ensure that all student activities checks are signed by two authorized persons, one of whom is either the student activities treasurer or an assistant student activities treasurer, and one other person authorized by the Governing Board.

FINDING 3

The District should maintain accurate capital assets and stewardship lists

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 have an accurate list of these assets to ensure they are properly identified, accounted for, and safeguarded. However, the District did not fully accomplish this objective. For example, the District did not always include leased assets on its capital assets list and did not always record accurate asset locations on its stewardship list. Further, the District was cited by its auditors for underreporting construction in progress by \$2 million at June 30, 2008.

Recommendations

To help ensure that the District reports accurate amounts for capital assets in its financial statements, and to ensure that assets are properly accounted for, the District should:

- Prepare and maintain a detailed capital assets list that includes equipment and vehicles with unit costs of \$5,000 or more and useful lives of 1 year or more and all land, buildings, and related improvements. The list should include items purchased under the terms of capital lease agreements.
- Prepare and maintain an accurate stewardship list for items costing between \$1,000 and \$5,000, which includes the item's description, identification number or tag number, location, and the month and year of acquisition. The list should be updated annually for additions, disposals, and location changes.
- Design and implement effective internal control procedures to maintain accurate accounting records of construction in progress.

The capital assets list should include the information described on USFR pages VI-E-2 and 3.

FINDING 4

The District should maintain accurate payroll records

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical that the District maintain adequate records to support payroll expenditures. However, the District did not maintain accurate records for vacation and sick leave and taxable employee benefits. Specifically, the District's payroll system did not always properly account for vacation and sick leave used, and the District's compensated leave schedules contained errors, resulting in one employee being overpaid by more than \$900 for sick leave. In addition, the District was cited by its auditors for not properly reporting taxable employee benefits in fiscal year 2008.

Recommendations

To help ensure the accuracy of its payroll records, the District should establish and follow the policies and procedures listed below:

- Maintain a time accounting system to account for the accrual and use of vacation, sick leave, and compensatory time for all employees on an ongoing basis that is consistent with Governing Board policies.
- Ensure compensated leave balances are calculated accurately, supported, and completed in time for financial statement presentation. A second employee should verify that all information is accurately recorded and reported.
- Seek reimbursement from current and former employees who have been overpaid.
- Ensure that taxable employee benefits are reflected in the employees' taxable wages and reported to the IRS.