



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Globe Unified School District No. 1

As of December 2, 2010



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February 25, 2011

Governing Board
Globe Unified School District No. 1
501 East Ash Street
Globe, AZ 85501

Members of the Board:

We previously notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) based on our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2008. The District was given 90 days to implement the recommendations in our report.

We subsequently performed a status review of the District's internal controls as of December 2, 2010. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2009, 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 status review was to determine whether the District was in substantial compliance with the USFR as of the date of our 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.

We appreciate 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,

Debbie Davenport
Auditor General

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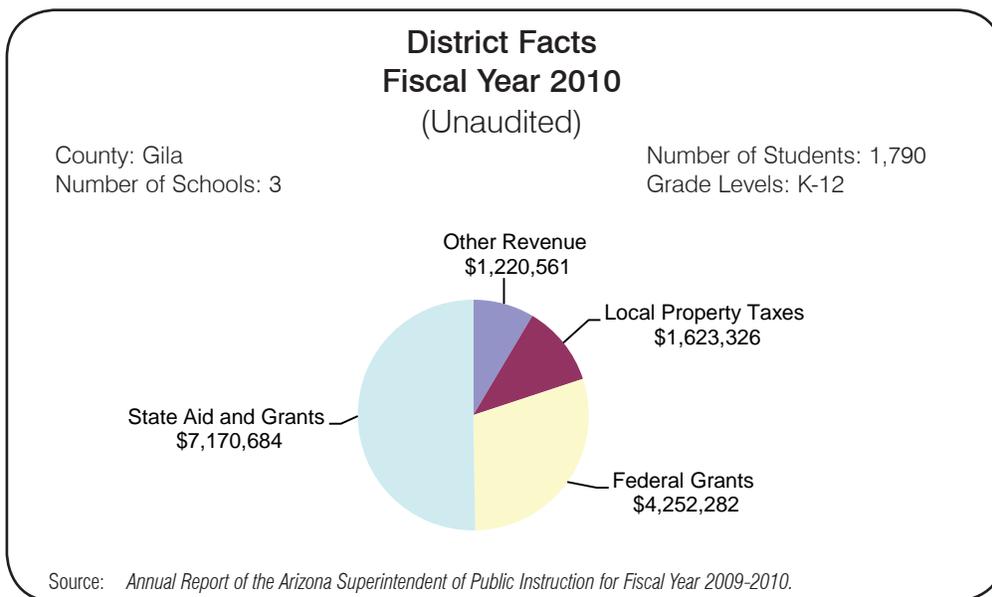
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INTRODUCTION

Globe Unified School District No. 1 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 \$14.2 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 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 strengthen controls over competitive purchasing

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the sealed bid threshold 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 perform an analysis at the beginning of the fiscal year to determine which

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

expenditures might require oral or written price quotations or competitive sealed bids or proposals. In addition, for all purchases made using requests for proposals (RFP), the District did not determine in writing that the use of invitations for bids (IFB) was either not practicable or not advantageous to the District. For one RFP tested, only one proposal was received, and the District did not determine in writing that the price submitted by the sole responding vendor was fair and reasonable, and that either other prospective vendors had reasonable opportunity to respond or that there was inadequate time for resolicitation.

Further, the District did not always follow USFR guidelines for purchases costing less than the sealed bid threshold. For one purchase requiring written price quotations, the District received a quotation from only one vendor and did not document the reasonableness of the price submitted or the other vendors' reasons for not responding. For another purchase requiring written price quotations, the selected vendor was given the opportunity to submit a lower oral quotation after the written quotations were received, without allowing the other responding vendors the same opportunity. Additionally, for purchases requiring oral price quotations, the District did not always follow the proper purchasing procedures. For one expenditure, the vendor was inappropriately designated as sole source, therefore no price quotations were obtained, and for another two expenditures, the District did not select the vendor who submitted the lowest quotation and did not document a reasonable basis for selecting the vendor. Lastly, the District did not exercise due diligence for purchases made through purchasing cooperatives.

Recommendations

To comply with School District Procurement Rules and USFR guidelines, the District should:

- Consider the total dollar amount of all like-item purchases that might occur during the fiscal year and determine whether purchasing the item or items would require using oral or written price quotations, IFBs, or RFPs. This analysis should be documented in writing and retained to support the District's decision to obtain oral or written price quotations or solicit bids or proposals.
- Determine in writing, before issuing an RFP, the specific reasons why issuing an IFB was either not practicable or not advantageous to the District and retain the documentation in the procurement file.
- Award a contract to a sole responsive vendor only after determining in writing that the price submitted was fair and reasonable, and that either other prospective vendors had reasonable opportunity to respond or that there was inadequate time for resolicitation.
- Obtain oral or written price quotations from three or more vendors for purchases requiring them and document the dates quotations are received. If three quotations cannot be obtained, the District should document the vendors contacted and their reasons for not providing quotations. If a vendor is selected for reasons other than lowest price, such as the quality of the product or work to be performed, the basis for the decision must be reasonable and fully documented. If one of the responding vendors submits a revised quotation after all quotes are received, all other responding vendors should be given an opportunity to submit revised quotations to promote fair competition.
- Award a contract for a material, service, or item without competition, only if the District's Governing Board determines in writing that there is only one vendor from which to purchase the item or service. Retain the written determination with other supporting documents that show the selected vendor is the only available option. Sole source purchases should be avoided, except when no reasonable alternative vendor exists.
- Document the due-diligence process used and results of the review to support that the cooperative purchase was made in compliance with the School District Procurement Rules or USFR guidelines, as applicable to the cooperative purchase contract.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$50,000.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

USFR Memorandum No. 248 requires:

- Oral price quotations for purchases between \$5,000 and \$25,000.
- Written price quotations for purchases between \$25,000 and \$50,000.

FINDING 2

The District's controls over capital assets and stewardship items should be improved

The District did not protect its investment in capital assets since it did not have complete and accurate capital assets and stewardship lists.

The District has invested a significant amount of money in its capital assets. Effective stewardship requires the District to have complete and accurate lists of these assets to ensure they are properly identified, accounted for, and safeguarded. However, the District did not fully accomplish this objective. For example, items included on the capital assets and stewardship lists could not always be located on the District's premises. In addition, items on the District's premises, with an apparent cost in excess of \$1,000, were not always included on the capital assets or stewardship lists. Finally, the District did not have adequate control over its information technology (IT) assets, since those capital asset and stewardship items tested that were not found on the District's premises or not included on the appropriate list were IT-related.

Recommendations

To help ensure district assets are adequately accounted for and safeguarded, the District should maintain a capital assets list that includes all assets costing \$5,000 or more with useful lives of 1 year or more and a stewardship list that includes all equipment items costing between \$1,000 and \$5,000, and include all required information for each item on the lists. All capital asset and stewardship items should be included in the District's computerized capital asset system. If the District decides to keep a separate IT inventory, any items on the inventory above \$1,000 should still be included on the appropriate capital assets or stewardship list in the District's computerized capital asset system.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe the information that should be recorded on the capital assets and stewardship lists.

FINDING 3

The District should maintain accurate and complete payroll records and conflict-of-interest files

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. Specifically, the District made expenditures from its Classroom Site Fund 012—Performance Pay that were not in accordance with the District's performance pay plan. Additionally, the District did not verify that amounts on direct deposit verification forms agreed with the payroll registers.

Further, the District is responsible for ensuring that employees and Governing Board members comply with Arizona Revised Statutes Title 38, Chapter 3, Article 8, Conflict of Interest of Officers and Employees. These statutes require that any school district board member or employee who has or whose relative has a substantial interest in any contract, sale, purchase, service, or decision of a school district must disclose this interest. The District did maintain conflict-of-interest statements; however, the District's conflict-of-interest statements did not provide a space for employees to document conflicts with other district employees or Governing Board members. Consequently, known conflicts between employees and other employees or board members were not properly disclosed.

Recommendations

The following procedures can help the District maintain accurate and complete payroll records and conflict-of-interest files:

- Make expenditures from the Classroom Site Fund 012—Performance Pay only for instructional staff who meet the objectives outlined in the District's performance pay plan and associated employee-related expenditures.
- Verify that direct deposit amounts are accurate and agree with the District's payroll register.

Arizona Revised Statutes §38-502(9) defines a relative as a parent, child, sister, brother, spouse, grandchild, grandparent, mother-in-law, father-in-law, brother-in-law, sister-in-law, or stepchild.

- Modify the District's conflict-of-interest statement to provide a space for employees to document conflicts with other district employees or Governing Board members.
- Require employees who supervise relatives, either directly or indirectly, to refrain from participating in decisions or contracts related to that relative, such as approving pay increases.

FINDING 4

The District should maintain and report accurate student attendance information

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires school districts to maintain accurate student attendance records to help ensure that they receive the appropriate amount of state aid and local property taxes. However, absences reported to ADE for elementary, junior high, and high school students did not always agree with student sign-in and sign-out logs and other supporting documentation.

The District may not have received the appropriate amount of state and local funding since it did not correctly calculate and report student attendance.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should ensure that attendance information recorded in its computerized attendance system and reported to ADE is supported by the records maintained at each school, including student sign-in and sign-out logs. For students in first through eighth grades, if attendance is based on quarter days, students who attend class for three-quarters of the instructional time scheduled for a day or less should be counted absent for each quarter of the day not in attendance. Students in attendance for more than three-quarters of the day should be counted in attendance for a full day. For high school students, the District should ensure absences are recorded based on one of the calculation methods described in Arizona Revised Statutes §15-901(A)(6)(d) and (e).

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