



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Maricopa Unified School District No. 20

As of December 16, 2009



Debra K. Davenport
Auditor General

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March 26, 2010

Governing Board
Maricopa Unified School District No. 20
44150 West Maricopa Casa Grande Highway
Maricopa, AZ 85138-5900

Members of the Board:

In our December 2008 compliance review report we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2007. 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 16, 2009. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2008, audit reports and USFR Compliance Questionnaire. 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 implementing the recommendations in our December 2008 report. 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,

Debbie Davenport
Auditor General

TABLE OF CONTENTS



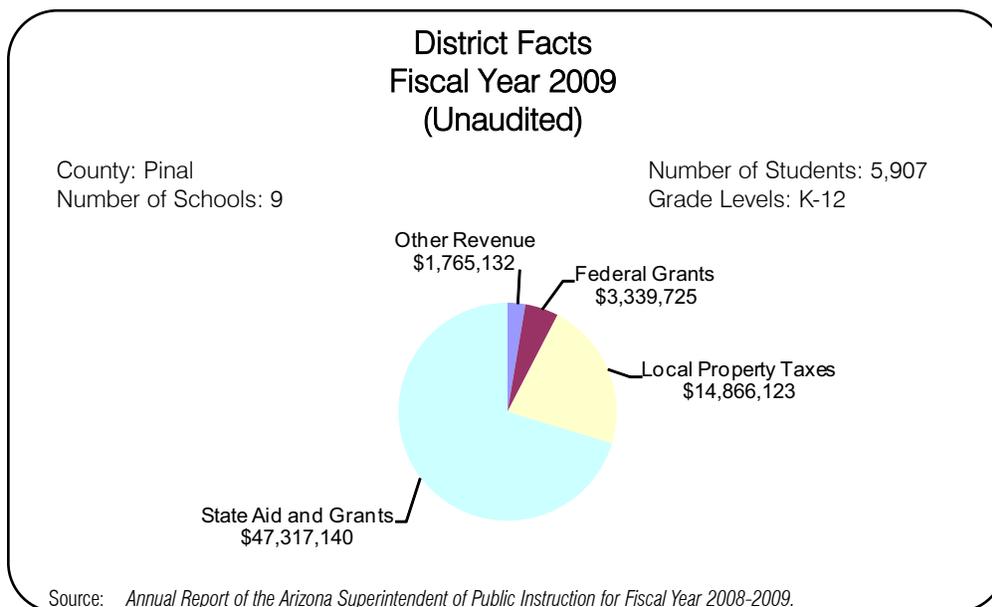
| | |
|---|---|
| Introduction | 1 |
| Finding 1: The District should maintain accurate capital assets and stewardship lists | 2 |
| Finding 2: The District's controls over cash receipts and bank accounts should be improved | 3 |
| Finding 3: The District should ensure the accuracy of its student attendance and accounting records | 5 |

INTRODUCTION

Maricopa 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 \$67 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 status review, we determined that the District 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 maintain accurate capital assets and stewardship lists

The District did not protect its investments 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, 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's capital assets and stewardship lists were not accurate or complete. For example, the District did not record all items on the capital assets list at the correct cost and did not tag or include all items meeting its \$5,000 capitalization threshold on the capital assets list. Also, the District was unable to locate some assets on its premises. Additionally, the District's reconciliation of capital asset additions to capital expenditures for fiscal year 2009 was not prepared in a timely manner and included an unreconciled difference. Finally, items included on the stewardship list were not always in the location indicated on the list or tagged.

Recommendations

To help ensure the District's assets are adequately accounted for and controlled, the District should:

- Record items on the capital assets list at actual cost, including ancillary charges necessary to assemble the asset in its intended location for use.
- Retain cost documentation for all assets on the capital assets list for a period of 3 years after the asset is disposed of.
- Affix a tag with an identifying number to each equipment item costing \$1,000 or more or specifically identify the asset by some other means, such as a serial number.
- Record equipment items on the stewardship list if they cost between \$1,000 and \$5,000, or on the capital assets list if they cost more than \$5,000.
- Update the capital assets list at least annually for items acquired, disposed of, or moved. Employees should prepare asset transfer forms when items are moved to different locations, and the District should use those forms to update the location of items on the capital assets and stewardship lists.
- Reconcile items added to the capital assets list to capital expenditures at least at fiscal year-end, and investigate and resolve all differences.

Instructions for obtaining capital asset cost information are explained on USFR pages VI-E-3 through 5.

FINDING 2

The District's controls over cash receipts and bank accounts should be improved

The District receives cash from various sources 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 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. The District maintained an unauthorized bank account for extracurricular activities fees tax credit donations and did not prepare monthly written bank reconciliations for any of its bank accounts. Also, the District did not remit food service and miscellaneous cash receipts to the County Treasurer at least monthly.

In addition, the District holds student activities monies raised through students' efforts for safekeeping. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, the Governing Board did not establish proper oversight, since student clubs did not always document when cash was received and did not prepare activity or cash collection reports to reconcile sales to cash collected. Also, in one instance, money raised by a student council at a parent-teacher organization (PTO) event was inappropriately deposited in the PTO's bank account. Although the money earned by the students was subsequently remitted by check to the student council, neither the District nor the PTO documented sales or the actual amount of cash received; therefore, the student council may not have received the appropriate amount of money. Finally, the student activities treasurer was not appointed by the Governing Board.

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

Recommendations

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

- Promptly close unauthorized bank accounts and transfer any remaining balances to an appropriate district account.
- Deposit extracurricular activities fees tax credit monies in the Auxiliary Operations Fund bank account or directly with the County Treasurer in the Auxiliary Operations or Extracurricular Activities Fees Tax Credit Fund. The District may also deposit monies in the Miscellaneous Receipts clearing bank

A list of authorized bank accounts is included on USFR page VI-C-2.

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

A sample form to record cash collections and reconcile sales to cash collected can be found on USFR page X-H-21.

account and then remit monies to the County Treasurer for deposit in the appropriate fund.

- Prepare complete and accurate monthly written bank reconciliations to compare bank and book balances. Investigate and correct all discrepancies.
- Remit monies in its Food Service and Miscellaneous Receipts clearing bank accounts at least monthly to the County Treasurer.
- Require student clubs to document sales at student activities events by issuing prenumbered cash receipt forms or tickets, using a cash register, or by counting items on hand before and after sales. The club should also prepare an activity or cash collection report to reconcile sales to cash collected. For events where it is not practical to determine the items sold, such as bake sales, clubs should still prepare a cash collection report to document cash collected.
- Ensure that all monies raised by students' efforts in connection with activities of student organizations are deposited in the student activities bank account. A student club may participate in a joint fundraising project with an outside group, such as a PTO, if the Governing Board has approved the project; however, the proceeds should be allocated proportionately between the two organizations based on the level of effort devoted by each group.
- Have the Governing Board appoint an employee as the student activities treasurer who will be responsible for the Student Activities Fund.

FINDING 3

The District should ensure the accuracy of its student attendance and accounting records

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school 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. Partial-day absences for elementary and middle school students were not always calculated correctly or supported by the attendance logs. In addition, high school absence calculations could not be verified because the District's attendance data for high school and joint technological education district (JTED) students was inaccurate because of a program error that occurred during an attendance software update.

The District may not have received the appropriate amount of funding since it did not report absences correctly to ADE.

Furthermore, the District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records are accurate and complete. However, this was not always done since the District did not classify several expenditure transactions in accordance with the USFR Chart of Accounts, and did not record some expenditures in the fiscal year in which goods or services were received. Finally, the District reported negative cash balances in several funds.

Recommendations

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

Student attendance records

- Maintain documentation, such as attendance logs, to support partial-day absences reported to ADE.
- Record attendance for students enrolled in first through eighth grades, if attendance is based on half days, as follows:
 - Students in attendance for less than one-half of the day should be counted as absent for one full day. Students in attendance for at least one-half day but less than three-quarters of a day should be counted as absent for one-half day. Students in attendance for at least three-quarters of a day should be counted in attendance for a full day.

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

USFR §III provides guidance for classifying financial transactions.

- Record attendance for students enrolled in first through eighth grades, if attendance is based on quarter days, as follows:
 - Students in attendance for less than three-quarters of a day should be counted absent for each quarter of the day not in attendance. Students in attendance for at least three-quarters of the day should be counted in attendance for a full day.
- Record attendance for high school students, with and without JTED classes, in accordance with ADE's *School Finance Procedures Manual*.

Accounting records

- Classify all transactions in accordance with the USFR Chart of Accounts.
- Maintain separate accounting records for the current and prior fiscal year during 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, close the prior fiscal year's accounting records.
- Ensure that sufficient cash is available in cash-controlled funds before authorizing expenditures from those funds.