

A REPORT  
TO THE  
ARIZONA LEGISLATURE

Accounting Services Division

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Status Review

# Paloma Elementary School District No. 94

As of November 10, 2010

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AUDITOR GENERAL

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February 8, 2011

Governing Board  
Paloma Elementary School District No. 94  
38739 West Interstate 8  
Gila Bend, AZ 85337

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 November 10, 2010. 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.

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

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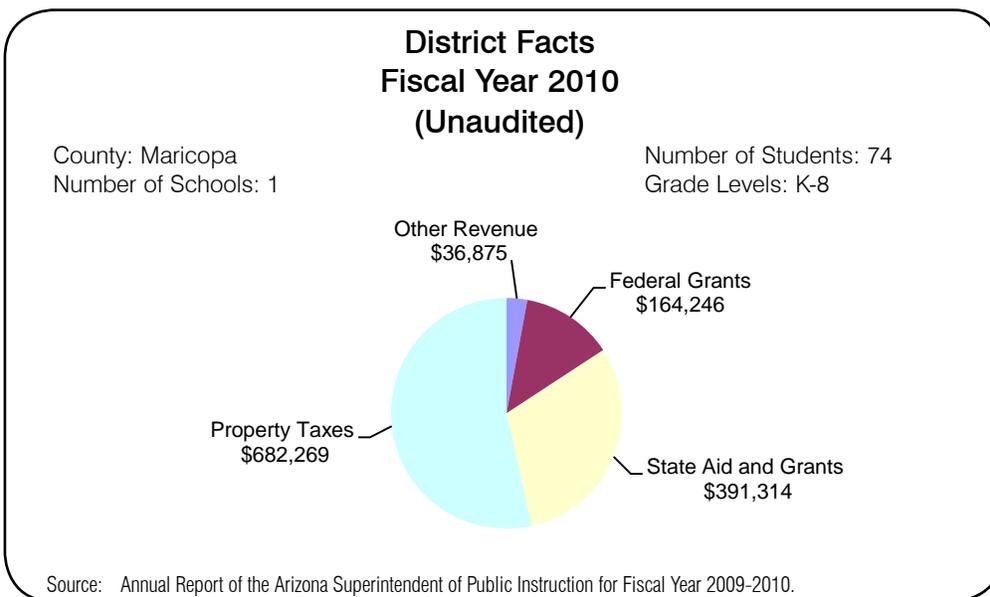


# INTRODUCTION

Paloma Elementary School District No. 94 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 \$1.2 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 cash receipts and bank accounts

The District receives cash from various sources, including student activities and food service sales, 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 monies are deposited into bank accounts in a timely manner. However, the District did not have sufficient controls over its cash receipts and bank accounts. For example, the District did not adequately safeguard its supply of unused checks as the checks were kept in an unlocked desk drawer, to which the key had been misplaced. Also, the District did not issue prenumbered cash receipts or maintain a log of revenues received at the District, or prepare a reconciliation of sales to cash collected or a count of items before and after the sale for student activities fundraisers. In addition, the District did not deposit monies with the County Treasurer in a timely manner, and the District's bank reconciliations for July through September 2010 were not completed in a timely manner.

The District's lack of controls left student activities and district monies at risk of loss, theft, or misuse.

Additionally, the District did not complete cash collection summaries to support amounts deposited in the food service clearing bank account, and as a result, amounts could not be verified to validated deposit slips. Further, the District inappropriately allowed adults to charge meals. Finally, the District did not remit monies in the food service clearing bank account to the County Treasurer from October 2009 to November 2010.

## Recommendations

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

- Safeguard unused checks held at the District's office.
- Prepare, in duplicate, prenumbered cash receipt forms for cash received at the District and numerically account for all forms used, not used, and voided.
- Prepare a daily cash receipt summary to reconcile cash collected to receipts issued.

- Prepare cash collection reports to document sales and reconcile cash collected to cash receipt forms issued or the number of tickets or items sold for student activities fundraisers. For events where it is not practical to determine the number of items sold, such as bake sales, the District must still prepare a cash collection report to document cash collected.
- Deposit cash receipts intact daily, if significant, or at least weekly.
- Prepare monthly bank reconciliations for all bank accounts in a timely manner to verify the accuracy of its bank and book balances. Promptly investigate and resolve any discrepancies. The preparer and the reviewer should sign and date the bank reconciliations.
- Prepare a daily cash collection report to reconcile food service sales to cash collected. Promptly investigate and resolve any differences noted in the reconciliation.
- Collect all unpaid balances and discontinue allowing adults to charge meals. Adults should be required to pay for meals when received or in advance.
- Review prepaid meal account balances at least weekly and notify any adults when balances near zero.
- Remit monies in the food service clearing bank account to the County Treasurer weekly, or at least monthly. No other disbursements should be made from the bank account.

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

# FINDING 2

## The District's controls over expenditures should be improved

The District spends tax dollars to purchase goods and services, so it is essential that the District follow procedures designed to help ensure that all expenditures are appropriate, properly approved, and adequately supported. For example, the District did not always retain signed credit card receipts to support credit card purchases. Also, the District did not always prepare receiving reports when items were delivered. Further, the District prepared purchase orders after the goods and services were received and made overpayments to vendors for services.

Additionally, the District did not perform due diligence for purchases made through a purchasing cooperative. Also, the District did not have adequate separation of duties over a credit account as only one district employee had access to the online account to make and review purchases and the account was not approved by the District's Governing Board. Finally, the District did not pay credit card charges on its district credit card in a timely manner, which resulted in late fees and finance charges for the months of July through October 2010.

The District did not pay its credit cards in a timely manner resulting in late fees and finance charges.

## Recommendations

To improve controls over expenditures, the District should:

- Retain documentation, including signed credit card receipts, to support credit card purchases.
- Prepare receiving reports that include the date received, quantity received, condition of goods, and signature of employee receiving the goods.
- Prepare and approve purchase orders before ordering goods and services.
- Review vendor invoices and supporting documentation to ensure that amounts billed are accurate. Cancel paid invoices and supporting documents by stamping them "paid" and recording voucher and warrant numbers on the invoice to prevent duplicate payments. All supporting documentation should be retained.
- Document the process used and results of the due diligence to support its participation in a cooperative purchase.

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

- Separate duties for ordering and reviewing purchases of goods and services for the District's online account by having a supervisor access the account and review the purchases. Also, the District's Governing Board should approve all credit accounts that the District uses.
- Pay credit card balances in full by the due date to avoid late fees and finance charges. If the District is unable to make timely credit card payments because of the time needed to process vouchers, the District should work with the credit card issuer to obtain the credit card statements electronically, thus allowing the District more time to review the statements and issue warrants in a timely manner.

# FINDING 3

## The District should maintain accurate capital assets and stewardship lists

The District did not effectively 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 have an accurate list of these assets to ensure they are properly identified, accounted for, and safeguarded. The District prepared capital assets and stewardship lists; however, the lists were not accurate or complete. For example, the District did not always include the source of funding or purchase document number for assets on its capital assets list, and amounts recorded on the capital assets list did not always agree with the supporting documentation. In addition, items costing between \$1,000 and \$5,000 selected from the District's premises were not always included on the stewardship list. Also, the District did not complete its reconciliation of capitalized acquisitions to capital expenditures for fiscal year 2010. Further, the District did not file a police report for a missing and possibly stolen computer.

### Recommendations

To help account for and safeguard its capital assets and stewardship items, the District should:

- Include the source of funding and purchase document number for each asset on the capital assets list.
- Record capital assets at actual cost. Actual cost includes charges necessary to put the asset in its intended location and condition for use, including sales taxes; freight and delivery charges; installation, assembly, and testing charges; and other incidental costs.
- Prepare and maintain a current stewardship list that includes all equipment and vehicles costing between \$1,000 and \$5,000.
- Reconcile capitalized acquisitions to capital expenditures by fund to ensure that all current-year acquisitions are included on the capital assets and stewardship lists and reconcile the current year's capital assets list to the prior year's list.
- Contact the police in a timely manner in an attempt to recover stolen district assets.

- Require employees to sign an agreement to be responsible for safeguarding assets assigned to them, reporting any missing or stolen assets to the appropriate district administrator, and accepting financial responsibility for the assets if district policies are not followed.