



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Toltec Elementary School District No. 22

Year Ended June 30, 2008



Debra K. Davenport
Auditor General

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Accounting Services Division Staff

Jerry Strom, Manager and Contact Person
jstrom@azauditor.gov

Roger Walter
Meghan Gouker

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 6, 2010

Governing Board
Toltec Elementary School District No. 22
3315 North Toltec Road
Eloy, AZ 85231-9680

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, 2008, prepared by Heinfeld, Meech & Co., P.C. to determine whether the District substantially complied with the USFR.

As a result of our review and performance audit 6-month follow-up report dated August 27, 2009, 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. This report is not all-inclusive and does not include less serious deficiencies. 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 Jerry Strom, Accounting Services Manager, or Roger Walter, Accounting Services Senior.

A member of my staff will call the Director of Business Services 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,

Debra K. Davenport
Auditor General

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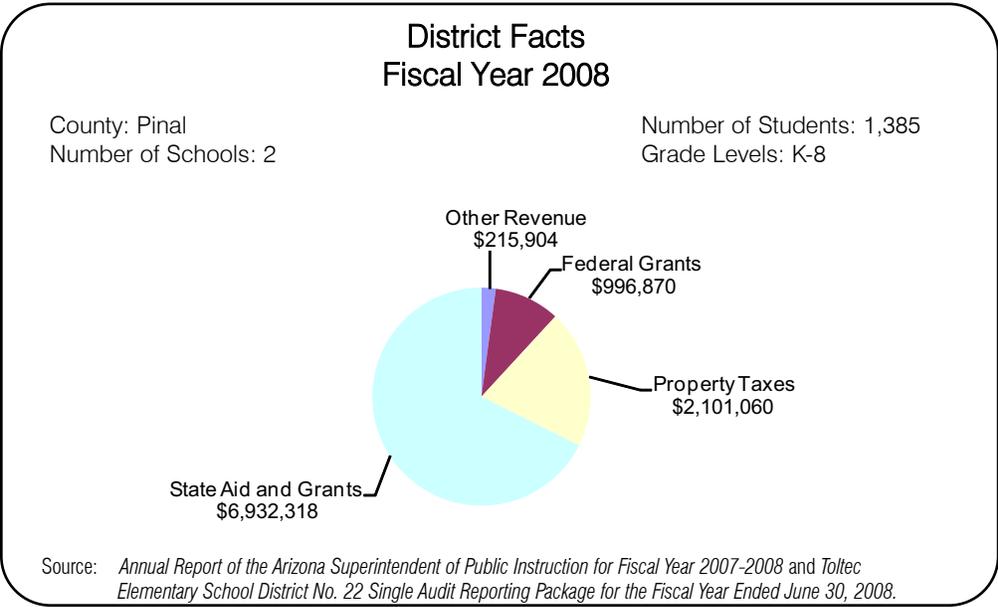
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INTRODUCTION

Toltec Elementary School District No. 22 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 \$10.2 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 review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2008, and the results of our performance audit 6-month follow-up report dated August 27, 2009, we determined that the District 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 improve controls over expenditures

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. USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible

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

value for the public monies they spend. However, the District did not always follow the USFR guidelines. For example, the District did not always obtain oral and written price quotations for purchases that required them. In addition, some purchase orders were prepared after goods or services were received and the actual expenditures exceeded the approved purchase order amount. Further, receiving reports were not always completed and retained. Finally, the District did not always retain receipts to support credit card charges, and extracurricular activities fees tax credit expenditures were not always appropriate.

Recommendations

To improve controls over expenditures, the District should:

- Obtain oral price quotations from at least three vendors for purchases costing between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases costing between \$15,000 and the competitive sealed bid threshold. If three quotations cannot be obtained, the District should document the vendors contacted who did not offer price quotations and their reasons for not providing quotations.
- Prepare and approve purchase orders for all district expenditures, except for exempted items, before ordering goods and services. If the District wishes to make purchases in excess of approved purchase order amounts, the existing purchase order should be revised and reapproved, or a new purchase order should be prepared and approved, prior to ordering goods or requesting services.
- Complete and retain receiving reports for all goods and services received that include the date received, quantity received, condition of goods, and signature of the employee receiving the goods or services.

Purchase order procedures are outlined on USFR page VI-G-1.

- Retain documentation to support all credit card expenditures and require employees using district credit cards to promptly submit credit card receipts to the business office. Receipts should indicate the employee making the purchase and the specific district purpose for the expenditure.
- Retain documentation to support that expenditures of extracurricular activities fees tax credit monies were for statutorily allowable purposes.

FINDING 2

The District's student attendance information should be accurately reported

The District may not have received the appropriate amount of funding because it did not report membership and absences correctly.

The State of Arizona provides funding to school districts based on student membership and attendance. In turn, the State requires districts to accurately record and report student membership and attendance. However, the District did not accomplish this objective. For example, the District did not always report absences for kindergarten, elementary, and junior high students correctly. In addition, the District did not reconcile its computerized attendance records to the data reported to ADE and did not always document when entry and withdrawal dates were entered into its computerized attendance system. Further, the District did not always properly withdraw students for having ten consecutive unexcused absences.

Recommendations

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

- Record kindergarten students, with total instruction time between 356 and 692 hours per year, as absent if not in attendance for at least three-quarters of the day. If the instructional time for the year is 692 hours or more, students not in attendance for at least one-half of the day should be counted as being absent.
- Record attendance for students enrolled in first through eighth grades, if attendance is based on half-days, as follows:
 - Students who attend class less than one-half of a day should be counted 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 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.
- Record attendance for students enrolled in first through eighth grades, if attendance is based on quarter days, as follows:
 - Students should be counted absent for each quarter of the day not in attendance. Students in attendance for more than three-quarters of a day should be counted in attendance for a full day.

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

- Ensure that the membership and absences reported to ADE agree with its attendance records and review ADE's reports for any differences and promptly resolve any discrepancies.
- Record student entries and withdrawals in its computerized attendance system within 5 working days and retain documentation to support the date the information is entered into the system.
- Ensure that students with unexcused absences are withdrawn properly when they have ten consecutive unexcused absences and are only counted in membership through the last day of actual attendance. Retain documentation to support the number of unexcused absences at the date of withdrawal.

FINDING 3

The District should ensure the accuracy of its accounting records and establish proper access controls over its computer systems

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, the

The District used Classroom Site Fund monies to supplant other district monies.

District did not accomplish this objective. For example, the District was unable to provide documentation to verify that its records of revenues and expenditures were reconciled at least at fiscal year-end to those of the County School Superintendent (CSS). In addition, budgeted expenditures reported on the annual financial report (AFR) for the Other Federal Projects and Adjacent Ways Funds did not agree with the District's adopted expenditure budget. Further, actual expenditures reported on the AFR for numerous funds did not agree with the District's accounting records and the District used Classroom Site Fund (CSF) monies to supplant other district monies. Finally, the District had inadequate computer password controls as some passwords were assigned, and lists of employee passwords were given to several staff members.

Recommendations

To help ensure the accuracy of its accounting records, the District should reconcile its records of revenues, expenditures, and cash balances by fund, program, function, and object code, at least at fiscal year-end, to the CSS' records. Reconciliations should be in writing, and reconciling items should be investigated and resolved. In addition, the District should assign a second employee to review the District's AFR to help ensure that the budgeted and actual expenditures reported on the AFR agree with the District's final revised expenditure budget and accounting records. Further, the District should use CSF monies properly and establish proper security measures for its computer systems.

USFR pages VI-B-8 and 9 include reconciliation procedures.

FINDING 4

The District should strengthen controls over cash

The District receives monies from various sources, including food service. 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. For example, the District did not prepare prenumbered and numerically controlled cash receipt forms for all monies the District received. Also, the District did not properly document cash disbursements from food service cash receipts when reimbursing students for unused prepaid meals. Further, although the District did not have any outstanding bonded debt, its Debt Service Fund had a balance of \$223,885 at June 30, 2008.

The District reimbursed unused prepaid meals for students from food service cash receipts without supporting documentation.

Recommendations

To strengthen controls over cash, the District should prepare, in duplicate, and retain a copy of prenumbered and numerically controlled cash receipt forms for each cash payment received. Daily cash receipt summaries should be prepared, as applicable, to reconcile cash receipt forms issued to cash, checks, and warrants collected. In addition, the District may refund the unused portion of prepaid meals by check from the food service revolving bank account, or if necessary, from daily cash receipts. For refunds made from daily cash receipts, the District should maintain documentation of the refund amount. The food service clearing bank account should not be used for refunds. Finally, if the District has no outstanding bond indebtedness, the balance remaining in or accruing to the Debt Service Fund must be transferred to the District's Maintenance and Operation Fund at the request of the Governing Board.

USFR pages X-F-10 and 11 include procedures for refunding unused student meals.

FINDING 5

The District's controls over capital assets should be improved

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 ensure that capital assets are properly valued, accounted for, and safeguarded. However, the District did not accomplish this objective. Specifically, the items on the District's stewardship list could not always be located on the District's premises. In addition, the District did not always record capital assets at the correct cost on its capital assets list. Further, the District did not reconcile capitalized acquisitions to capital expenditures.

Recommendations

To improve controls over its capital assets, the District should prepare and maintain an accurate and complete stewardship list that includes all equipment items costing between \$1,000 and \$5,000. The stewardship list should be updated for items acquired, disposed of, or moved at least annually. In addition, the District should record assets on its capital assets list at actual cost, which includes sales taxes; freight and delivery charges; installation, assembly, and testing charges; and other incidental costs. Further, the District should reconcile all capitalized acquisitions to capital expenditures annually by fund, and all differences should be investigated and resolved.