

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Colorado City Unified School District No. 14

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Laura Miller, Manager and Contact Person
lmiller@azauditor.gov

Valerie Deaton
Roger Walter

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:
www.azauditor.gov



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

November 21, 2005

Governing Board
Colorado City Unified School District No. 14
P.O. Box 309
Colorado City, AZ 86021-0309

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2004, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted that the District's auditors expressed substantial doubt about the District's ability to continue as a going concern in their opinion on the District's financial statements. Also, 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. 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 Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the Business Manager 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

TABLE OF CONTENTS



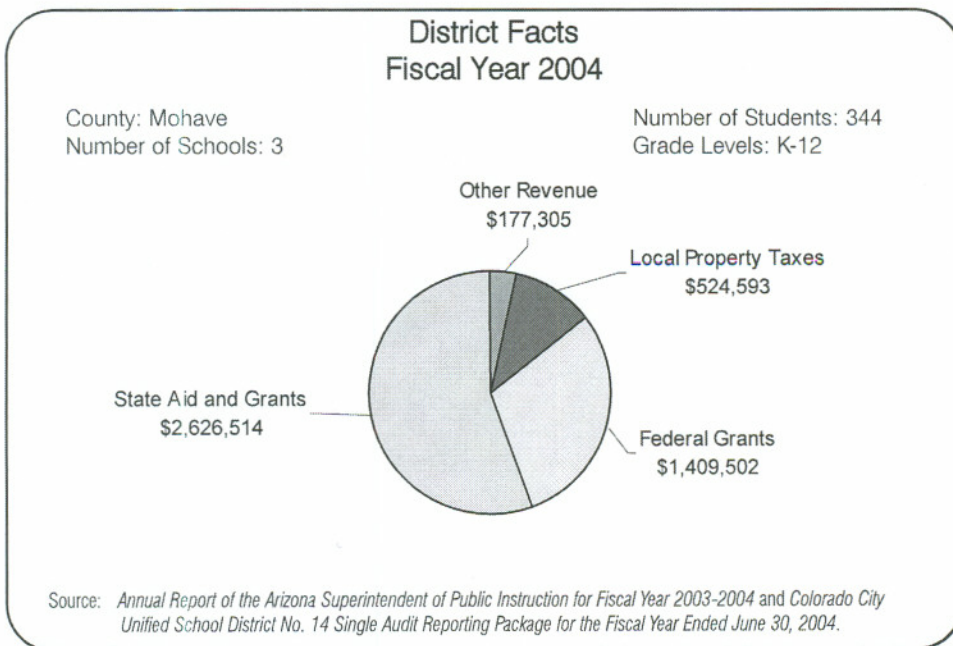
Introduction	1
Recommendation 1: The District must improve its financial condition to ensure it can continue educating its students	2
Recommendation 2: The District should strengthen controls over expenditures	2
Recommendation 3: The District should improve controls over travel expenditures	4
Recommendation 4: The District should maintain and report accurate financial information	5
Recommendation 5: The District's controls over cash receipts and bank accounts should be strengthened	6
Recommendation 6: The District should improve controls over its capital assets and supplies inventories	7

INTRODUCTION

Colorado City Unified School District No. 14 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 \$4.7 million it received in fiscal year 2004 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 single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, we determined that the District had 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.



The District must improve its financial condition to ensure it can continue educating its students

The District has a responsibility to its students, their parents, and the community to provide a quality education that meets state standards. The District receives funding from the state and federal governments as well as local property taxes in order to provide this education. However, the District's financial condition at June 30, 2004, raised substantial doubt as to whether the District can continue to provide an education to its students. Specifically, the District

The District reported liabilities that exceeded its assets by more than \$546,000 and issued more than \$1 million of warrants that it was unable to pay. As a result, the District's auditors expressed substantial doubt about the District's ability to continue its operations.

reported liabilities that exceeded its assets by more than \$546,000 on its June 30, 2004, financial statements. In addition, as of August 19, 2005, the District owed the Arizona Risk Retention Trust (Trust) over \$1,000,000 for district issued warrants purchased by the Trust since the District's cash flow was insufficient to pay them. As a result of the District's reporting liabilities that exceeded its assets and failing to pay issued warrants, the District's auditors' report on the financial statements expressed substantial doubt about the District's ability to continue its operations.

Recommendations

To help ensure that the District is able to continue to provide an education to its students, the District must improve its financial condition. Specifically, the District should take action to pay off liabilities, including the amount owed to the Trust, keep expenditures within budget limits, and eliminate all unnecessary expenditures.

The District should strengthen controls over expenditures

The District spends public monies to purchase goods and services. It is essential that the District follow procedures designed to help ensure that it receives the best possible value for its purchases, approves purchases before committing district monies, and retains documentation to support its expenditures. However, the District did not always follow such procedures. Specifically, the District did not analyze the known requirements for items to be purchased. As a result, the District did not always obtain written price quotations for purchases that required them.

Further, the District did not ensure sufficient cash or budget capacity was available before authorizing expenditures. As a result, the District reported deficit fund balances in several funds at June 30, 2004, and exceeded the Maintenance and Operation (M&O) Fund's budget for fiscal year 2004 by more than \$330,000. Also, the District exceeded its budget for the Classroom Site Fund (CSF) 011 by more than \$4,400. In addition, the District used a purchase order limited to \$2,500 as authorization for purchases totaling more than \$8,000. Finally, the District did not retain time cards for all hourly employees.

The District spent more than \$330,000 in the M&O Fund than was allowed by its adopted budget.

Recommendations

To strengthen controls over expenditures, the District should establish and follow the policies and procedures listed below:

- Analyze the estimated quantities and costs for an item or a collection of items that, in the aggregate, may result in purchases above competitive purchasing thresholds and determine whether to request oral or written price quotations or issue invitations for bids or requests for proposals.
- Obtain oral quotations from three or more vendors for purchases estimated to cost between \$5,000 and \$15,000, and written quotations from three or more vendors for purchases estimated to cost between \$15,000, and \$33,689.
- Verify that sufficient cash or budget capacity exists before authorizing expenditures.
- Ensure that the CSF budget limit and the statutory percentages of allowable expenditures in the three CSF funds are followed.
- Prepare blanket purchase orders that include a specific dollar limit and for a definite time period. Deduct invoice amounts authorized by a blanket purchase order from the limit to determine the unexpended balance remaining.
- Require employees subject to the Fair Labor Standards Act to prepare and sign a time card for each pay period. The employee's supervisor should approve and initial the time card and the District should retain all time cards to support expenditures.

Guidelines for oral and written price quotations can be found on USFR pages VI-G-8 and 9, and USFR Memorandum No. 213.

USFR pages VI-G-2 through 5 describe expenditure processing procedures.

The District should improve controls over travel expenditures

Arizona Revised Statutes §15-342(5) requires districts to prescribe travel policies and procedures, and set amounts for paying lodging and meal expenses of employees and governing board members traveling on district business. The District is responsible for ensuring that taxpayer monies are spent only for appropriate district purposes. Amounts paid to district employees and governing board members must

On one trip, the District paid an employee's spouse over \$500 for mileage and meals, which appeared to be a gift of public monies.

not exceed the standard mileage, meal reimbursement, or lodging reimbursement rates established by the Arizona Department of Administration (ADOA). However, it appears the District did not fulfill its responsibility since it

used district monies to pay excessive travel expenses for district employees and to pay travel expenses for family members. For example, auditors noted three instances in which the District reimbursed employees in excess of the lodging limits. In addition, the District improperly reimbursed employees' spouses and other family members for mileage and meals.

Recommendations

The following policies and procedures can help ensure the District pays only for allowable travel expenses for district employees and governing board members:

- Reimburse travel expenses only for district employees and governing board members who are traveling on authorized district business.
- Reimburse employees and governing board members at the standard mileage rate, and ensure that rates for lodging and meals do not exceed the maximum reimbursement amounts established by the ADOA.
- Ensure lodging costs are only paid to district employees in authorized travel status (35 miles away from the District and the employee's residence) and require original itemized lodging receipts.
- If a room is shared by two or more district employees, ensure that the lodging cost reimbursed does not exceed the amount allowed per person at the single room rate plus tax. If a room is shared with an individual, such as a family member who is not an employee on district business, limit the lodging reimbursement to the single room rate plus tax.
- For meal reimbursement, ensure that the district employee is on travel status (35 miles away from the District and the employee's residence) for at least 4 continuous hours.

USFR Memorandum Nos. 210 and 217 and the *Arizona Accounting Manual*, Travel Policy, §II-D provide guidance on allowable travel expenses.

- Ensure that public monies are not spent for private individuals unless there is a public purpose served by the expenditure and the value received by the public is not far exceeded by the amount paid. The Governing Board should ensure expenditures do not violate the gift of public monies clause in Arizona Constitution, Article 9, §7.

The District should maintain and report accurate financial information

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 and budgets are accurate and complete. However, the District did not fully accomplish this objective. Specifically, the District did not always reconcile its accounting records to those of the County School Superintendent (CSS). In addition, the District's M&O Fund expenditure budget exceeded the general budget limit by \$17,932, and the amount encumbered on the Advice of Encumbrance for the M&O Fund exceeded the unexpended budget balance. Also, the daily route miles included on its expenditure budget did not agree with its Transportation Route Report submitted to ADE.

The District did not ensure its record of cash balances agreed with that of the County School Superintendent as it did not prepare timely reconciliations.

Recommendations

The following procedures can help the District record and report accurate financial information:

- Reconcile the District's records of cash balances by fund monthly, and 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. Written reconciliations should be prepared and all necessary corrections should be made.
- Ensure the proposed, adopted, and revised expenditure budgets do not exceed the general budget limit.
- Verify the total amount encumbered on the Advice of Encumbrance for each levy fund is less than or equal to the funds' unexpended budget balance.
- Use the route miles and number of eligible students transported from the District's Transportation Route Report filed with ADE for its expenditure budget.

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

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

The District receives cash from various sources, including student activities, auxiliary operations, 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 have effective internal controls to safeguard cash, that include ensuring that deposits are made timely and are adequately supported, and that bank accounts are used as authorized by statute. However, the District did not have strong controls over its cash receipts and bank accounts. Specifically, the District did not deposit all miscellaneous cash receipts in a timely manner. In addition, the District did not ensure that auxiliary operations and food service checks were signed by two employees. Also, the District inappropriately used monies in the Food Service Fund clearing bank account for purchases. Further, the District did not remit monies in the Food Service Fund clearing bank account to the County Treasurer at least monthly. Finally, the District did not submit a report of cash receipts, disbursements, transfers, and cash balances for the Student Activities Fund to the Governing Board monthly.

Recommendations

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

- Deposit all cash receipts daily, if significant, or at least weekly in the appropriate bank account.
- Ensure that checks written from the Food Service Fund clearing and Auxiliary Operations Fund bank accounts are signed by two bonded employees authorized by the Governing Board.
- Use the Food Service Fund clearing account only for the temporary deposit of food service cash receipts until those monies are remitted to the County Treasurer for credit to the District's Food Service Fund weekly, or at least monthly. No other disbursements are allowed from the clearing account.
- Establish a Food Service Fund revolving account, if necessary, to pay for freight on commodities, emergency food purchases, temporary employment of 8 hours or less for any person, and other minor disbursements.
- Submit a monthly report of student activities transactions and cash balances to the Governing Board.

The Food Service Fund clearing and revolving bank accounts are described on USFR page X-F-5.

The District should improve controls over its capital assets and supplies inventories

The District has invested a significant amount of money in its capital assets and supplies inventories. 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 accomplish this objective. Specifically, the District did not update the capital assets list at least annually for items acquired and disposed of. Also, items on the capital assets list could not always be located on the District's premises. In addition, the District did not properly safeguard its supplies inventory since employees could take items from the teachers' workroom without following the appropriate requisition process.

Recommendations

Capital Assets

To strengthen controls over capital assets and help ensure the capital assets list is accurate, the District should prepare and maintain a detailed capital assets list that includes all land, buildings, improvements, and equipment costing \$5,000 or more, or the District's capitalization threshold if less than \$5,000. In addition, the District should prepare and maintain a stewardship list that includes all equipment and vehicles costing \$1,000 or more, but less than the capitalization threshold. The lists should be updated at least annually for items acquired, disposed of, or moved.

Supplies Inventory

To strengthen controls over supplies inventories, the District should establish effective inventory policies and procedures to help physically safeguard such inventories. Such procedures should include appointing an employee as custodian and requiring the custodian to issue items to employees based on approved requisitions. Supplies should be stored at a location where loss from fire, theft, temperature changes, humidity, or other elements is minimized.

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