



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Special Review Letter

# Arizona School Facilities Board

Year Ended June 30, 2002

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**Debra K. Davenport**  
Auditor General

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**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

November 25, 2002

Arizona School Facilities Board  
1700 West Washington Street, Suite 602  
Phoenix, AZ 85007

Members of the Board:

We have reviewed the project accounting system for the year ended June 30, 2002, that the Arizona School Facilities Board established to account for projects to correct school district facility deficiencies. Our review consisted primarily of inquiries, observations, and selected tests of internal control policies and procedures, accounting records, and related documents. The review was more limited than would be necessary to give an opinion on internal controls and, therefore, we do not express an opinion on internal controls.

**Background**—The Arizona School Facilities Board has prepared the following three reports to assist school districts in accurately recording deficiency correction projects in their accounting records. The Board compiled these reports from payment information recorded in the Board's project accounting system. However, none of these reports has been prepared on an established basis of accounting. As a result, school districts cannot use these reports as a sole source for recording capital asset information in accordance with generally accepted accounting principles.

- *Summary of Deficiency Correction Project Payments by School District* presents total payments made to vendors for deficiency correction projects by school district. The Board prepared this report by summarizing invoices recorded in the Board's project accounting system between July 1, 2001, and June 30, 2002, that were paid by July 25, 2002. This is the only report that presents summarized data by school district. This report is presented in Appendix A to this letter.
- *FY 2002 Invoices* presents detailed payment data by school district and vendor for the same time period and criteria identified above, but does not group payment information by individual projects. This report may be viewed on the Board's Web site at [www.sfb.state.az.us](http://www.sfb.state.az.us).
- *Payments By Project* presents an inception to date history of payments to vendors for each school district and project. This report may also be viewed on the Board's Web site.

**Scope of Review**—To help evaluate whether the Board's project accounting system was accurate, we selected a sample of project payments the Board made to vendors. We reviewed supporting claims and vendor invoices for each of the selected payments and compared selected payments to the information included in each of the reports identified above. Based on our work, we determined that each payment selected was properly supported by an approved claim and vendor's invoice. In addition, we noted that each payment selected was classified correctly as to school district and project in the Board's project accounting system. However, we do not express an opinion that the information included in the reports is presented in accordance with generally accepted accounting principles.

**Limitations of the Project Accounting System**—Because payment information was not recorded in the Board's project accounting system on an established basis of accounting and contained the deficiencies noted below, the reports available to school districts do not provide enough information to determine the extent of services rendered, and accepted at each district, the project payments by class of capital asset, or whether projects are completed.

The Board did not always accurately record project costs at the date services were completed and approved for payment by the project's architect or engineer. Board policy explains that the Board is obligated to make payments for project costs only upon inspection and approval by the project's architect or engineer. Accordingly, the basis for recording payment information in the system should have followed this policy. During the review we found that this policy was not consistently applied. Costs were recorded in the project accounting system at the date of the architect or engineer's approval, the date the vendor's invoice was input in the system, the date on the vendor's invoice, or some other date. As a result, the reports may not include all payments for services completed, inspected, and approved by a project's architect or engineer during the year ended June 30, 2002.

The Board did not separately identify payments for building improvements and equipment in its project accounting system. For example, some project costs include renovating buildings and replacing equipment. However, the Board's project accounting system only indicated individual payment amounts for each vendor within a project, and did not track information about how much was paid for building renovations and how much was paid for equipment for that project. As a result, the reports will not provide a school district with the amounts that should be reported as building improvements and equipment on its capital assets listing.

The Board did not identify in its project accounting system whether projects were completed or still in progress. As a result, the reports will not indicate whether amounts represent a school district's total project costs, or provide the amounts of construction in progress if the project was not completed.

Our Office has issued USFR Memorandum No. 193 to assist school districts in accurately recording deficiency correction projects that the Board administered. This memorandum, presented in Appendix B to this letter, provides suggestions to help school districts overcome the deficiencies described above and guidance on the appropriate accounting entries necessary to record their projects.

Should you have any questions concerning the results of our review, please contact Jay Zsorey, Financial Audit Manager, at (602) 553-0333.

Sincerely,

Debbie Davenport  
Auditor General

Appendix A: Arizona School Facilities Board  
 Summary of Deficiency Correction Project Payments by  
 School District for the Period Ended June 30, 2002<sup>1</sup>

School District Name	Amount
Agua Fria Union High School District	\$ 1,282,770
Aguila Elementary District	5,447
Ajo Unified District	906,490
Alhambra Elementary District	470,174
Alpine Elementary District	14,583
Altar Valley Elementary District	782,834
Amphitheater Unified District	456,471
Antelope Union High School District	183,950
Apache Elementary District	8,640
Apache Junction Unified District	322,496
Arlington Elementary District	9,378
Ash Creek Elementary District	3,809
Ash Fork Unified District	118,693
Avondale Elementary District	25,350
Bagdad Unified District	40,269
Balsz Elementary District	370,687
Beaver Creek Elementary District	4,441
Benson Unified District	158,201
Bicentennial Union High School District	119,542
Bisbee Unified District	279,470
Blue Elementary District	1,426
Blue Ridge Unified District	241,440
Bonita Elementary District	456,089
Bouse Elementary District	45,618
Bowie Unified District	182,936
Buckeye Elementary District	56,781
Buckeye Union High School District	513,640
Bullhead City Elementary District	387,051
Camp Verde Unified District	227,979
Canon Elementary District	6,359
Cartwright Elementary District	3,242,548
Casa Grande Elementary District	404,246
Casa Grande Union High School District	1,135

<sup>1</sup> This summary of payments represents invoices recorded in the Board's project accounting system between July 1, 2001, and June 30, 2002, that were paid by July 25, 2002.

Appendix A: Arizona School Facilities Board  
 Summary of Deficiency Correction Project Payments by  
 School District for the Period Ended June 30, 2002<sup>1</sup>

School District Name	Amount
Catalina Foothills Unified District	\$ 545,359
Cave Creek Unified District	994,633
Cedar Unified District	229,409
Chandler Unified District	189,522
Chinle Unified District	1,817,524
Chino Valley Unified District	71,684
Chloride Elementary District	9,319
Clarkdale-Jerome Elementary District	596,578
Clifton Unified District	136,720
Cochise Elementary District	11,887
Colorado City Unified District	5,905,539
Colorado River Union High School District	44,969
Concho Elementary District	338,844
Congress Elementary District	36,843
Continental Elementary District	186,317
Coolidge Unified District	524,785
Cottonwood-Oak Creek Elementary District	25,698
Crane Elementary District	363,682
Creighton Elementary District	597,540
Crown King Elementary District	3,675
Deer Valley Unified District	1,733,388
Double Adobe Elementary District	3,113
Douglas Unified District	389,742
Duncan Unified District	312,295
Dysart Unified District	619,408
Elfrida Elementary District	28,548
Eloy Elementary District	50,449
Flagstaff Unified District	2,270,809
Florence Unified School District	66,531
Flowing Wells Unified District	276,264
Fountain Hills Unified District	228,076
Fowler Elementary District	22,333
Fredonia-Moccasin Unified District	1,040,621

<sup>1</sup> This summary of payments represents invoices recorded in the Board's project accounting system between July 1, 2001, and June 30, 2002, that were paid by July 25, 2002.

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 School District for the Period Ended June 30, 2002<sup>1</sup>

School District Name	Amount
Ft. Huachuca Accommodation District	\$ 1,687
Ft. Thomas Unified District	69,828
Gadsden Elementary District	130,814
Ganado Unified District	327,467
Gila Bend Unified District	283,055
Gilbert Unified District	482,379
Glendale Elementary District	1,013,039
Glendale Union High School District	499,330
Globe Unified District	512,781
Graham County Special Services	8,001
Grand Canyon Unified District	12,222
Greenlee Alternative School District	1,825
Hayden-Winkelman Unified District	1,376,215
Heber-Overgaard Unified District	7,484
Higley Unified District	1,404,974
Hillside Elementary District	30,702
Holbrook Unified District	132,100
Humboldt Unified District	601,452
Hyder Elementary District	346
Indian Oasis-Baboquivari Unified District	1,439,323
Isaac Elementary District	7,045,455
J. O. Combs Elementary District	262,884
Joseph City Unified District	70,072
Kayenta Unified District	1,358,010
Kingman Elementary District	61,880
Kirkland Elementary District	289,635
Kyrene Elementary District	264,068
Lake Havasu Unified District	902,940
Laveen Elementary District	32,885
Liberty Elementary District	13,825
Litchfield Elementary District	315,483
Littlefield Elementary District	7,319
Littleton Elementary District	21,378

<sup>1</sup> This summary of payments represents invoices recorded in the Board's project accounting system between July 1, 2001, and June 30, 2002, that were paid by July 25, 2002.

Appendix A: Arizona School Facilities Board  
 Summary of Deficiency Correction Project Payments by  
 School District for the Period Ended June 30, 2002<sup>1</sup>

School District Name	Amount
Madison Elementary District	\$ 39,529
Maine Consolidated District	952
Mammoth-San Manuel Unified District	110,324
Marana Unified District	987,382
Maricopa County Regional District	14,384
Maricopa Unified School District	79,819
Mary C. O'Brien Accommodation District	88,526
Mayer Unified District	127,056
McNary Elementary District	7,851
McNeal Elementary District	22,875
Mesa Unified District	7,222,120
Miami Unified District	1,025,296
Mingus Union High School District	57,593
Mobile Elementary District	78,703
Mohave Union High School District	179,305
Mohave Valley Elementary District	492,134
Mohawk Valley Elementary District	8,902
Morenci Unified District	904,338
Murphy Elementary District	460,502
Naco Elementary District	4,012
Nadaburg Elementary District	4,200
Navajo County Accommodation District	19,309
Nogales Unified District	229,187
Oracle Elementary District	988,147
Osborn Elementary District	638,966
Owens-Whitney Elementary District	4,206
Page Unified District	962,522
Palo Verde Elementary District	12,110
Paloma Elementary District	26,521
Palominas Elementary District	222,067
Paradise Valley Unified District	7,166,925
Parker Unified School District	40,487
Patagonia Elementary District	9,887

<sup>1</sup> This summary of payments represents invoices recorded in the Board's project accounting system between July 1, 2001, and June 30, 2002, that were paid by July 25, 2002.

Appendix A: Arizona School Facilities Board  
 Summary of Deficiency Correction Project Payments by  
 School District for the Period Ended June 30, 2002<sup>1</sup>

School District Name	Amount
Patagonia Union High School District	\$ 157,340
Payson Unified District	123,921
Peach Springs Unified District	21,697
Pearce Elementary District	10,977
Pendergast Elementary District	139,027
Peoria Unified District	3,847,216
Phoenix Elementary District	660,901
Phoenix Union High School District	637,578
Picacho Elementary District	4,431
Pima Accommodation District	11,945
Pima Unified District	265,135
Pine Strawberry Elementary District	51,032
Pinon Unified District	1,447,671
Pomerene Elementary District	14,259
Prescott Unified District	2,511,604
Quartzsite Elementary District	16,391
Queen Creek Unified District	474,112
Ray Unified District	118,599
Red Mesa Unified District	1,106,429
Red Rock Elementary District	87,571
Riverside Elementary District	9,137
Roosevelt Elementary District	671,472
Round Valley Unified District	1,770,988
Sacaton Elementary District	4,690
Saddle Mountain Unified District	8,355
Safford Unified District	738,927
Sahuarita Unified District	487,188
Salome Consolidated Elementary District	11,287
San Carlos Unified District	78,409
San Fernando Elementary District	9,530
San Simon Unified District	28,891
Sanders Unified District	122,949
Santa Cruz Elementary District	93,881

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<sup>1</sup> This summary of payments represents invoices recorded in the Board's project accounting system between July 1, 2001, and June 30, 2002, that were paid by July 25, 2002.

Appendix A: Arizona School Facilities Board  
 Summary of Deficiency Correction Project Payments by  
 School District for the Period Ended June 30, 2002<sup>1</sup>

School District Name	Amount
Santa Cruz Valley Unified District	\$ 42,445
Santa Cruz Valley Union High School District	1,695
Scottsdale Unified District	4,585,815
Sedona-Oak Creek Joint Unified District	205,716
Seligman Unified District	34,449
Show Low Unified District	105,209
Sierra Vista Unified District	362,316
Skull Valley Elementary District	21,390
Snowflake Unified District	100,414
Solomon Elementary District	24,778
Somerton Elementary District	6,334
Sonoita Elementary District	35,116
St. David Unified District	46,654
St. Johns Unified District	2,008,114
Stanfield Elementary District	182,647
Sunnyside Unified District	710,227
Superior Unified District	31,797
Tanque Verde Unified District	162,529
Tempe Elementary District	1,202,990
Tempe Union High School District	16,321
Thatcher Unified District	263,051
Tolleson Elementary District	33,544
Tolleson Union High School District	102,609
Toltec Elementary District	17,732
Tombstone Unified District	241,003
Tonto Basin Elementary District	526,616
Topock Elementary District	11,788
Tuba City Unified District	257,950
Tucson Unified District	2,016,447
Union Elementary District	3,347
Vail Unified District	575,184
Valentine Elementary District	10,313
Valley Union High School District	12,319

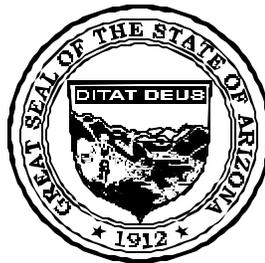
<sup>1</sup> This summary of payments represents invoices recorded in the Board's project accounting system between July 1, 2001, and June 30, 2002, that were paid by July 25, 2002.

Appendix A: Arizona School Facilities Board  
 Summary of Deficiency Correction Project Payments by  
 School District for the Period Ended June 30, 2002<sup>1</sup>

School District Name	Amount
Vernon Elementary District	\$ 346
Washington Elementary District	325,331
Wellton Elementary District	324,280
Wenden Elementary District	11,115
Whiteriver Unified District	301
Wickenburg Unified District	93,178
Willcox Unified District	29,804
Williams Unified District	103,098
Wilson Elementary District	260,300
Window Rock Unified District	407,523
Winslow Unified District	280,877
Yarnell Elementary District	3,526
Young Elementary District	587,744
Yucca Elementary District	13,845
Yuma County Accommodation District	1,364
Yuma Elementary District	15,355
Yuma Union High School District	<u>348,791</u>
Total	<u>\$ 104,729,219</u>

<sup>1</sup> This summary of payments represents invoices recorded in the Board's project accounting system between July 1, 2001, and June 30, 2002, that were paid by July 25, 2002.

Appendix B  
USFR Memorandum No. 193  
Recording Capital Assets and Improvements Provided  
by the Arizona School Facilities Board



**USFR MEMORANDUM NO. 193**

**TO:** School District Administrators; County School Superintendents

**FROM:** Magdalene D. Haggerty, Office of the Auditor General  
Scott W. Thompson, Arizona Department of Education

**DATE:** November 25, 2002

**SUBJECT:** Recording Capital Assets and Improvements Provided by the Arizona School Facilities Board

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The Arizona School Facilities Board is responsible for administering the State's requirements for correcting school facilities and equipment deficiencies under the provisions of Arizona Revised Statutes §§15-2002 and 15-2021. As a result, the School Facilities Board has contracted for construction services and materials and purchased equipment that are necessary to correct existing deficiencies in school district facilities. In addition, the Board makes payments directly to contractors and vendors for facilities improvements and equipment as projects are completed or services are rendered.

Since the School Facilities Board administers the projects, districts may not have the information necessary to accurately record the related capital improvements and equipment in their accounting records. Also, because of the number of projects and the manner in which information is maintained, the School Facilities Board is unable to provide copies of supporting documentation to individual districts. Consequently, the School Facilities Board prepared reports that districts can use to supplement their information, and made these reports available on the School Facilities Board Web site at [www.sfb.state.az.us](http://www.sfb.state.az.us). These reports have been compiled from payment information recorded in the School Facilities Board's project accounting system.

The Office of the Auditor General reviewed the School Facilities Board's project accounting system for the year ended June 30, 2002. Based on that review, a Special Review Letter, dated November 25, 2002, was issued. As noted in that letter, the Auditor General determined that payments recorded on the Board's project accounting system were properly supported by an approved School Facilities Board claim and related vendor's invoice, and were classified correctly as to school district and project.

However, the letter also noted that the School Facilities Board's project accounting system did not provide enough information to determine that payments to vendors for work completed as of June 30, 2002, were recorded in the proper period; the allocation of project payments by class of capital asset; or whether projects were completed at year end.

Since the School Facilities Board's project accounting system was not adequate to furnish districts with complete information, district business officials should consult with the district's project managers, architects, engineers, facilities personnel, and vendors to gather additional

information about the district's deficiency correction projects. When this information is combined with the School Facilities Board's information, districts should be able to accurately record their capital improvements and equipment in district accounting records. Ultimately, through consultation with the above named parties, districts need to determine:

- Which projects have been completed as of June 30, 2002,
- How much, if any, of a project's costs for the year ended June 30, 2002, are not included in the School Facilities Board's reports (for completed projects or construction-in-progress),
- The allocation of project costs between land improvements, buildings, building improvements, and equipment for completed projects, and
- Which assets meet the capitalization thresholds specified by the *Uniform System of Financial Records*.

Districts may rely on the amounts recorded on the School Facilities Board project accounting system from July 1, 2001, through June 30, 2002, without obtaining the physical supporting documents from the School Facilities Board. However, any additional information that the district gathers through consultation to support the costs of capital assets and improvements recorded, or to be recorded, in the district's accounting records, must be retained by the district. For example, if a project was completed by fiscal year-end and included building improvements and equipment, the district should retain documentation supporting that it was completed and how vendor payments or project cost totals were allocated by the district to those two asset categories.

**Suggested Accounting Entries**

The following accounting entries illustrate entries a district should make to properly report capital assets for which the School Facilities Board paid contractors directly. The district and its auditor would determine how and where the capital assets and related equity (Investments in Fixed Assets / Capital Contributions) should be recorded in the district's accounting system in order to have the information necessary to properly present these amounts in the audited financial statements.

**General Fixed Assets Account Group  
(Pre-GASB Statement No. 34 Implementation)**

Buildings and Improvements	XXXX	
Equipment	XXX	
Investment in General Fixed Assets		XXXX

**Government-wide Financial Statements  
(GASB Statement No. 34 Implementation)**

Buildings and Improvements*	XXXX	
Equipment*	XXX	
Capital Contribution (General Revenues)		XXXX

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\* Function codes should be determined by the purpose for which the equipment is being used to assist in recording depreciation on the entity-wide financial statements.

School District Administrators; County School Superintendents

November 25, 2002

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Since the assets provided by the School Facilities Board did not require a use of current financial resources, no entries are required for individual government funds.

If you have any questions or need assistance, please call the Office of the Auditor General, Accounting Services Division at (602) 553-0333, or the Arizona Department of Education, School Finance Operations Unit at (602) 542-5695.

MDH/SWT/gr