



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Special Review Letter

## Arizona School Facilities Board

Year Ended June 30, 2003

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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

October 22, 2003

Arizona School Facilities Board  
1700 West Washington Street, Suite 230  
Phoenix, AZ 85007

Members of the Board:

We have reviewed the project accounting system for the year ended June 30, 2003, 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, 2002, and June 30, 2003. This is the only report that presents summarized data by school district. This report is presented in Appendix A to this letter.
- *FY 2003 Annual Reports* present detailed payment data by school district, project, and vendor for the same period and criteria identified above. These reports 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 that 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, 2003.

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 issued USFR Memorandum No. 193 in November 2002 to assist school districts in accurately recording deficiency correction projects that the Board administered. This memorandum, presented in Appendix B to this letter, provided suggestions to help school districts overcome the deficiencies described above and guidance on the appropriate accounting entries necessary to record their projects for the year ended June 30, 2002. The same guidance should be applied for the year ended June 30, 2003.

Arizona School Facilities Board  
October 22, 2003  
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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

Attachments

Appendix A  
Arizona School Facilities Board  
Summary of Deficiency Correction Project Payments  
by School District for the Period Ended June 30, 2003

**Appendix A: Arizona School Facilities Board  
 Summary of Deficiency Correction Project Payments  
 by School District for the Period Ended June 30, 2003 <sup>1</sup>**

<b>School District Name</b>	<b>Amount</b>
Agua Fria Union High School District	\$ 760,148
Aguila Elementary District	170,738
Ajo Unified District	1,954,064
Alhambra Elementary District	221,992
Alpine Elementary District	836,473
Altar Valley Elementary District	92,933
Amphitheater Unified District	3,303,359
Antelope Union High School District	1,886,236
Apache Elementary District	20,324
Apache Junction Unified District	3,989,904
Arlington Elementary District	1,282,302
Ash Creek Elementary District	284,456
Ash Fork Unified District	2,249,864
Avondale Elementary District	1,643,513
Bagdad Unified District	317,651
Balsz Elementary District	412,331
Beaver Creek Elementary District	227,191
Benson Unified District	3,327,387
Bicentennial Union High School District	953,301
Bisbee Unified District	1,066,086
Blue Elementary District	17,963
Blue Ridge Unified District	1,097,040
Bonita Elementary District	467,080
Bouse Elementary District	213,228
Bowie Unified District	290,043
Buckeye Elementary District	3,899,324
Buckeye Union High School District	5,224,675
Bullhead City Elementary District	381,774
Camp Verde Unified District	1,351,653
Canon Elementary District	109,273
Cartwright Elementary District	11,448,082
Casa Grande Elementary District	1,275,633
Casa Grande Union High School District	127,966

(continued)

<b>School District Name</b>		<b>Amount</b>
Catalina Foothills Unified District	\$	1,114,070
Cave Creek Unified District		100,624
Cedar Unified District		3,165,480
Chandler Unified District		2,407,418
Chinle Unified District		3,944,606
Chino Valley Unified District		1,377,671
Chloride Elementary District		293,562
Clarkdale-Jerome Elementary District		376,127
Clifton Unified District		43,351
Cochise Elementary District		227,762
Colorado City Unified District		3,628,633
Colorado River Union High School District		1,230,633
Concho Elementary District		91,849
Continental Elementary District		233,556
Coolidge Unified District		1,789,017
Cottonwood-Oak Creek Elementary District		432,559
Crane Elementary District		4,128,167
Creighton Elementary District		8,447,063
Crown King Elementary District		37,189
Deer Valley Unified District		11,744,084
Double Adobe Elementary District		26,538
Douglas Unified District		3,172,126
Duncan Unified District		1,190,162
Dysart Unified District		5,719,983
Elfrida Elementary District		207,829
Eloy Elementary District		742,960
Flagstaff Unified District		7,824,536
Florence Unified School District		1,541,159
Flowing Wells Unified District		3,022,428
Fountain Hills Unified District		43,023
Fowler Elementary District		752,510
Fredonia-Moccasin Unified District		20,334
Ft. Huachuca Accommodation District		2,558
Ft. Thomas Unified District		53,453
Gadsden Elementary District		1,329,537
Ganado Unified District		6,975,032
Gila Bend Unified District		1,194,058

(continued)

<b>School District Name</b>		<b>Amount</b>
Gilbert Unified District	\$	4,202,283
Glendale Elementary District		3,529,989
Glendale Union High School District		2,717,450
Globe Unified District		3,384,596
Graham County Special Services		1,389,074
Grand Canyon Unified District		35,593
Hayden-Winkelman Unified District		1,420,646
Heber-Overgaard Unified District		712,134
Higley Unified District		113,169
Hillside Elementary District		33,895
Holbrook Unified District		4,821,874
Humboldt Unified District		3,932,891
Hyder Elementary District		410
Indian Oasis-Baboquivari Unified District		1,109,484
Isaac Elementary District		2,608,547
J. O. Combs Elementary District		253,312
Joseph City Unified District		1,482,303
Kayenta Unified District		5,033,949
Kingman Elementary District		880,107
Kirkland Elementary District		327,777
Kyrene Elementary District		1,109,745
Lake Havasu Unified District		2,258,545
Laveen Elementary District		1,531,715
Liberty Elementary District		458,691
Litchfield Elementary District		138,159
Littlefield Elementary District		8,023
Littleton Elementary District		656,451
Madison Elementary District		177,011
Maine Consolidated District		75,669
Mammoth-San Manuel Unified District		1,935,848
Marana Unified District		8,361,414
Maricopa County Regional District		270,559
Maricopa Unified School District		2,098,366
Mary C. O'Brien Accommodation District		508,518
Mayer Unified District		1,977,891
McNary Elementary District		6,131
McNeal Elementary District		51,656

(continued)

<b>School District Name</b>		<b>Amount</b>
Mesa Unified District	\$	32,626,024
Miami Unified District		7,554,355
Mingus Union High School District		491,430
Mobile Elementary District		186,139
Mohave Union High School District		2,753,912
Mohave Valley Elementary District		265,143
Mohawk Valley Elementary District		330,681
Morenci Unified District		383,722
Murphy Elementary District		3,198,079
Naco Elementary District		170,495
Nadaburg Elementary District		266,585
Navajo County Accommodation District		369,957
Nogales Unified District		4,043,378
Oracle Elementary District		474,489
Osborn Elementary District		94,594
Owens-Whitney Elementary District		194,812
Page Unified District		341,632
Palo Verde Elementary District		302,109
Paloma Elementary District		454,459
Palominas Elementary District		1,362,642
Paradise Valley Unified District		4,117,245
Parker Unified School District		394,473
Patagonia Elementary District		4,554
Patagonia Union High School District		34,144
Payson Unified District		3,276,463
Peach Springs Unified District		135,627
Pearce Elementary District		81,879
Pendergast Elementary District		3,564,866
Peoria Unified District		7,384,338
Phoenix Elementary District		1,191,462
Phoenix Union High School District		8,557,236
Picacho Elementary District		119,103
Pima Accommodation District		62,450
Pima Unified District		1,549,257
Pine Strawberry Elementary District		361,806
Pinon Unified District		10,920,632
Pomerene Elementary District		414,737

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<b>School District Name</b>		<b>Amount</b>
Prescott Unified District	\$	3,764,824
Quartzsite Elementary District		869,102
Queen Creek Unified District		629,527
Ray Unified District		1,173,897
Red Mesa Unified District		4,548,042
Red Rock Elementary District		32,929
Riverside Elementary District		7,185
Roosevelt Elementary District		5,060,787
Round Valley Unified District		81,111
Sacaton Elementary District		15,692
Saddle Mountain Unified District		880,605
Safford Unified District		707,623
Sahuarita Unified District		1,464,571
Salome Consolidated Elementary District		720,260
San Carlos Unified District		165,966
San Fernando Elementary District		2,375
San Simon Unified District		370,748
Sanders Unified District		5,162,698
Santa Cruz Elementary District		1,570,576
Santa Cruz Valley Unified District		1,327,131
Santa Cruz Valley Union High School District		138,587
Scottsdale Unified District		10,114,106
Sedona-Oak Creek Joint Unified District		1,871,769
Seligman Unified District		1,206,048
Sentinel Elementary District		647
Show Low Unified District		1,715,658
Sierra Vista Unified District		9,693,875
Skull Valley Elementary District		4,748
Snowflake Unified District		7,483,380
Solomon Elementary District		429,120
Somerton Elementary District		1,942,194
Sonoita Elementary District		2,110,285
St. David Unified District		255,795
St. Johns Unified District		2,804,521
Stanfield Elementary District		46,794
Sunnyside Unified District		8,917,747
Superior Unified District		641,808

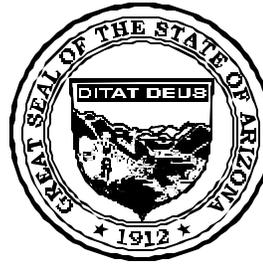
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School District Name	Amount
Tanque Verde Unified District	\$ 902,527
Tempe Elementary District	8,137,861
Tempe Union High School District	2,058,507
Thatcher Unified District	1,650,870
Tolleson Elementary District	309,005
Tolleson Union High School District	1,182,137
Toltec Elementary District	268,259
Tombstone Unified District	1,276,584
Tonto Basin Elementary District	206,876
Topock Elementary District	489,338
Tuba City Unified District	1,761,938
Tucson Unified District	27,915,079
Union Elementary District	57,809
Vail Unified District	547,100
Valentine Elementary District	348,755
Valley Union High School District	187,871
Washington Elementary District	3,885,410
Wellton Elementary District	56,533
Wenden Elementary District	564,360
Whiteriver Unified District	240,384
Wickenburg Unified District	258,226
Willcox Unified District	937,818
Williams Unified District	577,470
Wilson Elementary District	65,808
Window Rock Unified District	5,515,209
Winslow Unified District	6,125,751
Yarnell Elementary District	214,149
Young Elementary District	2,346,469
Yucca Elementary District	372,786
Yuma Elementary District	3,191,119
Yuma Union High School District	5,609,883
<b>Total</b>	<b>\$ 442,379,035</b>

(concluded)

<sup>1</sup> This summary of payments represents invoices recorded in the Board's project accounting system between July 1, 2002, and June 30, 2003.

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