



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Department of Education
Year Ended June 30, 2002



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

May 27, 2003

The Honorable Tom Horne
State Superintendent of Public Instruction
Department of Education
1535 West Jefferson Street
Phoenix, AZ 85007

Dear Mr. Horne:

In planning and conducting our single audit of the State of Arizona for the year ended June 30, 2002, we performed the following as required by *Government Auditing Standards* (GAS) and Office of Management and Budget (OMB) Circular A-133:

- Considered the Department's internal controls over financial reporting,
- Tested its internal controls over major federal programs, and
- Tested its compliance with laws and regulations that could have a direct and material effect on the State's financial statements and major federal programs.

Specifically, we performed tests of revenues, expenditures, transfers, journal entries, and compliance with laws and regulations for the School Breakfast Program, National School Lunch Program, Child and Adult Food Care Program, Title I—Grants to Local Educational Agencies, Special Education—Grants to States, Vocational Education—Basic Grants to States, Special Education—Preschool Grants, Title I Accountability Grants, and Class Size Reduction programs.

All audit findings that are required to be reported by GAS and OMB Circular A-133 have been included in the State of Arizona's Single Audit Reporting Package for the year ended June 30, 2002, and have been communicated to your staff. In addition, our audit disclosed an internal control weakness that did not meet the reporting criteria. Management should correct this deficiency to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our recommendation is briefly described below.

The Department Should Improve Controls over Its Grants Management System

The Department's grants management system electronically processes and stores vital information related to federal grants administered by the Department. The Department uses the system to accept and process grant applications, allocate and distribute grant awards, and monitor grant awards to subrecipients. To assist the Department in monitoring grant awards to subrecipients, including cash management compliance, the Department records reimbursements and advances to subrecipients on the System. Therefore, the Department should establish controls and procedures to ensure the accuracy and integrity of information recorded on the System. However, the Department did not always prepare timely, complete, and accurate reconciliations of reimbursements and advances recorded on the System to the actual amounts disbursed on the State's accounting system. As a result, subrecipients may have failed to meet federal cash management requirements or received funding in excess of award amounts.

To help ensure that subrecipients are properly monitored and cash management requirements are met, recorded information must be accurate. Therefore, the Department should establish the following controls and procedures:

- Require monthly written reconciliations of system reimbursement and advance amounts to the actual amounts disbursed on the State's accounting system, and identify and propose all necessary correcting entries.
- Assign a supervisor to review and approve monthly reconciliations and correcting entries.

This letter is intended solely for the information of the Department, and is not intended to be, and should not be used by anyone other than the specified party. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Debbie Davenport
Auditor General



State of Arizona
Department of Education

Tom Horne
Superintendent of
Public Instruction

April 9, 2003

Ms. Debra K. Davenport, CPA
Auditor General
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport,

To assure that the Arizona Department of Education will comply with the federal audit regulations required by the Government Audit Standards (GAS) and Office of Management Budget (OMB) Circular A-133, enclosed are the Department's responses to the FY02 Management Letter findings.

Specifically, we are reporting the status of the management letter findings, as well as the corrective actions that ADE will implement during the 2003 State Fiscal year. If you have further questions please contact Richard Scott in the department's audit resolution unit at 542-3281 or the undersigned at 364-0132.

Sincerely,

Vicki Salazar
Associate Superintendent of Finance

**ARIZONA DEPARTMENT OF EDUCATION
MANAGEMENT LETTER RESPONSES
FOR THE YEAR ENDED JUNE 30, 2002**

Finding: The Department Should Improve Controls over the Grants Management System.

Response: We concur that the Department did not always prepare timely, complete, and accurate reconciliations of reimbursements and advances recorded on the Grants Management System to the actual amounts disbursed on the State's accounting system.

Proposed -Corrective Action:

Effective July 1, 2003 ADE will perform monthly written reconciliations of System reimbursement and advance amounts to the actual amounts disbursed on the State's accounting system. The reconciliation form will provide adequate detail and explanation for all necessary correcting entries.

Effective July 1,2003 the responsible supervisor will review the monthly reconciliations and correcting entries and sign the form approving them.