May 18, 2018

SY 16-17 & SY 17-18 Unitary Status Plan (USP): Budget and Expenditures Audit and Consulting Report

INTERNAL AUDIT REPORT

REPORT #: FY18-S003

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DRAFT

Transportation Budget vs. Actual Expenditures

EXECUTIVE SUMMARY

Purpose

The internal auditor performed this audit to determine whether:

- TUSD corrected a prior external Audit Finding, which identified that the district budgeted for negative expenditures in the contingency fund.
- TUSD properly submitted, reviewed, and posted the budget for all 10 areas of the USP.
- USP expenditures were for valid desegregation related expenses and positions.
- Expenditures were recorded in accordance with Uniform System of Financial Records (USFR).
- The USP budget submitted to the Governing Board was a fair representation of actual expenditures.

Additionally, the internal auditor provided consulting services to improve the presentation and dissemination of financial information related to the Unitary Status Plan.

Conclusions

The internal auditor identified the following positive findings: TUSD

- Corrected the prior external finding.
- Properly submitted and reviewed the budget for all 10 areas of the USP.
- Ensured all expenditures were for valid desegregation related expenses and positions.
- Properly recorded all expenditures in accordance with USFR.

However, the internal auditor identified the following findings. TUSD:

- Did not input the correct OBJECT code for one transaction reviewed.
- Exceeded the transportation budget by $2.9M.

Therefore, the internal auditor has provided recommendations in each Tab to address the findings.

Demetrius Lee
Director, Internal Audit

Prior Audit Finding: Negative Budget Item

BACKGROUND

Prior Audit Finding: The external public accounting firm identified "The District budgeted negative expenditures of $1,408,485 for contingency in Fiscal Year 2016-17. Total budgeted expenditures agreed to the District's formally adopted budgets, however, negative expenditures at a detail account level are not a generally accepted budgeting practice.

AUDIT RESULT A: PRIOR AUDIT FINDING

Condition. TUSD corrected this finding by removing the negative contingency fund from the FY 2018 budget.

Impact: Removing negative budget line items from the Unitary Status Plan ensures that budgets are presented as "projected available resources".

Recommendation: There are no recommendations needed since this is a positive finding.

Account Code Structure

BACKGROUND

The Office of the Arizona Auditor General and the Arizona Department of Education prescribe the Chart of Accounts for school districts.

The standardized account structures helps school districts:

- Comply with accounting standards and principles.
- Determine where school dollars originate and where they are used.
- Provide better financial information.

The Account Code Structure is shown below.

Fund	Program	Function	Object	Unit	Activity	Responsibility
3 Digits	3 Digits	4 Digits	4 Digits	4 Digits	5 Digits	4 Digits

Table B.1.

For details on what each part of the Account Code Structure means please see **Appendix I** on Page 6.

AUDIT RESULT B: ACCOUNT CODE STRUCTURE

Condition. One of 23 expenditures reviewed did not have the proper object code. Specifically, a $7,626.47 technology expenditure was coded with OBJECT CODE 6737 (*Technology-Related Hardware and Software **less than** $5,000*) when the expenditure should have been coded with OBJECT CODE 6739 (*Technology-Related Hardware and Software **greater than** $5,000*).

Cause. This minor condition likely occurred due to human error.

Impact. Correcting the object code would not decrease or increase the classroom dollar ratio. Additionally, correcting the error would not increase or decrease the amount spent on technology. Therefore, this minor finding has no impact on the district.

Recommendation B.1. Continue to ensure account code structure is correct when recording expenditures.

Transportation Budget vs. Actual Expenditures

BACKGROUND

Budgets are presented to the Governing Board, as an honest and fair representation of what district leadership believes will be spent throughout the upcoming school year.

Variances between budgeted and actual expenditures are expected since unexpected expenses may arise and expected expenditures may not occur.

Large Variances between projected expenditures and actual expenditures should be reviewed to prevent the variances from happening in subsequent years.

AUDIT RESULT C: TRANSPORTATION BUDGET vs. ACTUAL EXPENDITURES

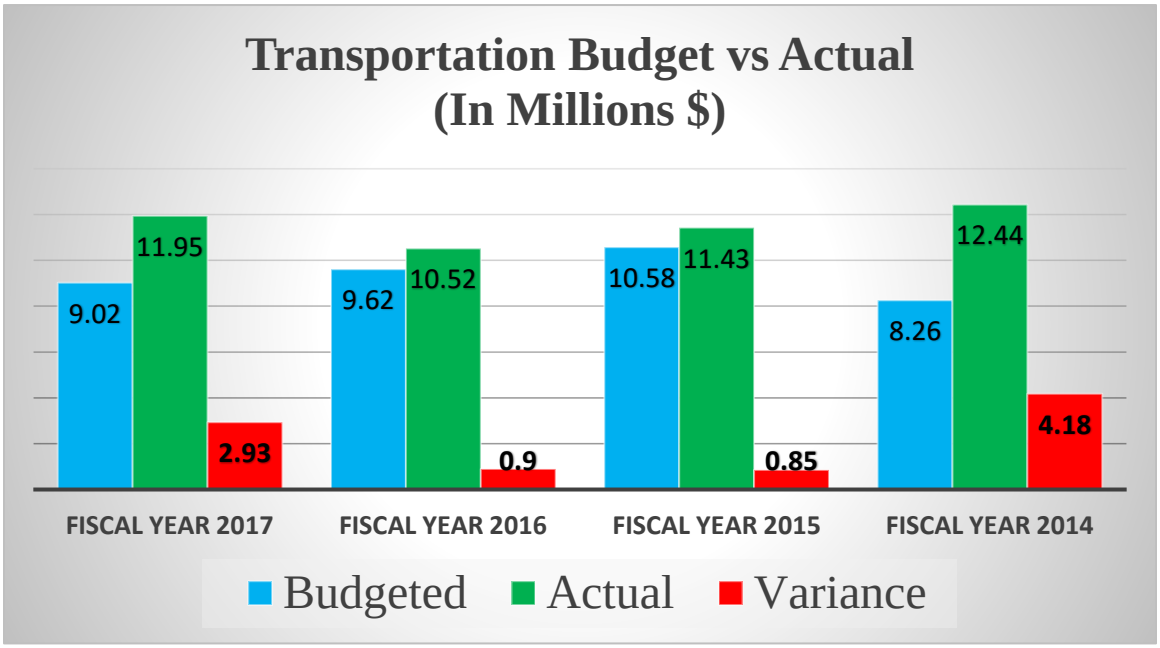

Exhibit C.1

Condition. TUSD exceeded the transportation budget by $2.93 Million for Fiscal Year (FY) 2017. Additionally, the district will exceed the transportation budget for FY 2018. To illustrate, for Current Year 2018, Year-to-Date expenditures have exceeded the budget by $490,000.

Cause. This condition occurred because of the following reasons:

- EQUAL SPLIT OF TRANSPORTATION EXPENSES. TUSD budgeted for a 60/40 split of all transportation expenses (M&O: 60%; Desegregation: 40%). Although, the district expected a 50/50 split. This is a $2.38M difference. *See table below for details.*

Variance Between 40% and 60% Budget Splits		
	($) In Millions	**Formula**
Actual Transportation Expenses (FY17)	$23.77 (A)	----------
40% Split *(Desegregation Portion)*	$9.51 (B)	(A) * 40%
50% Split (*Desegregation Portion*)	$11.89 (C)	(A) * 50%
Variance Between 40% & 50% Split	**$2.38 (D)**	(B) – (C)

Table C.2

Transportation Budget vs. Actual Expenditures

- BUDGET WAS NOT RELATIVE TO HISTORICAL PERCENTAGE CHANGES. Historically since FY 2014 transportation ACTUAL expenditures decreased by approximately 8 percent each year. However, for fiscal year 2017 TUSD budgeted for 15.33% reduction in transportation expenditures.

- BUDGET CONSTANTLY UNDERESTIMATED TRANSPORTATION EXPENDITURES. Since FY 2014, the ACTUAL transportation expenses have been above $10.52M but TUSD budgeted for approximately $9.02 Million in transportation for FY 2017. The lowest variance over the last four years has been approximately $850,000. *See **Exhibit C.1** for an illustration*.

Recommendations: The Executive Director of Finance and the Desegregation Department should:

- Recommendation C.1. Budget for an equal split of all transportation expenses between "Maintenance & Operations" and "Desegregation".

- Recommendation C.2. Submit a budget that is more reasonable based on prior year expenditures and current predictions.

- Recommendation C.3. Monitor budget to actual variances to reduce variances every year.

Consulting: USP Budget Book Format

BACKGROUND

This tab is not a finding. This tab is to provide best practice recommendations for the Desegregation Department and the Finance Department to consider.

A "form" is a report within the USP budget report that shows how TUSD plans to spend desegregation funds. Each "form" illustrates the planned expenditures in a different format.

CONSULTING: USP BUDGET REPORT FORMAT

Current Format. The annual USP budget report has approximately 110 pages of financial information and offers several different "forms". Currently, the USP budget report does not state the starting page of each "form". Additionally, the reader does not receive an explanation of the financial information presented in the USP budget report.

Recommendations: Below are a few recommendations to consider. Within the USP budget report, TUSD should provide a:

- Recommendation D.1. Table of contents that shows where each "form" begins.
- Recommendation D.2. Description of what each "form" contains.
- Recommendation D.3. Key term glossary to assist the reader in understanding the report.

Impact. These improvements will provide further evidence that TUSD goal is not simply to comply with the court order. Instead, the district is constantly finding ways to be more transparent and improve the dissemination of information.

Appendix I-Account Code Structure Elements

ACCOUNT CODE STRUCTURE

TUSD's account code structure provides a basis for financial reporting and budgeting and consists of the following required elements:

FUND—A fiscal and accounting entity.

PROGRAM-A plan of activities and procedures designed to accomplish a predetermined objective. This element provides the framework for classifying expenditures by objective to determine cost.

FUNCTION—Describes the activity for which a service or material is acquired.

OBJECT—Describes the service or material obtained as the result of a specific expenditure.

UNIT—Separates expenditures by instructional level, such as elementary, high school, and districtwide departments.

ACTIVITY—To further identify costs in particular areas, such as desegregation, grants, gifts and donations.

RESPONSIBILITY—Codes used in this element are a duplicate of the Unit code. This allows multi-tiered budget tracking to facilitate budget management at various departments.