

PULASKI COUNTY SPECIAL SCHOOL DISTRICT

**REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2009

with

**REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

Exhibit C

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PULASKI COUNTY SPECIAL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2009

A. SUMMARY OF AUDITOR'S RESULTS

1. Our report expresses an unqualified opinion on the basic financial statements of Pulaski County Special School District under the regulatory basis of accounting.
2. Five significant deficiencies disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. All five are also considered to be material weaknesses.
3. No instances of non-compliance material to the financial statements of Pulaski County Special School District were disclosed during the audit.
4. There were no significant deficiencies identified during the audit of the major federal award programs.
5. Our report on compliance for the major federal awards programs for Pulaski County Special School District expresses an unqualified opinion.
6. There were no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133 relative to the major federal award programs.
7. The programs tested as major programs included: Title VIB - Special Education Grants to States - CFDA 84.027, Title I Part A - Grants to Local Educational Agencies - CFDA 84.010, Title II Part A - Improved Teacher Quality State Grants - CFDA 84.367.
8. The threshold for distinguishing type A and B programs was \$529,720.
9. Pulaski County Special School District was determined to be a high-risk auditee.

B. FINANCIAL STATEMENT FINDINGS

2009-1

Criteria: Payroll preparation duties should be segregated within the payroll department to enhance the design of the internal control process to ensure that payroll is accurately prepared.

Condition: The District has not segregated payroll duties among employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliable payroll preparation and authorization.

Context: Inquiry of employees and management during documentation of internal controls.

Effect: Payroll preparation duties are not distributed among the District's employees to sufficiently reduce the risk that potential fraud or an error will not be prevented or detected.

Cause: Cost/benefit implications hinder the District's ability to segregate the payroll preparation duties among employees.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

B. FINANCIAL STATEMENT FINDINGS (continued)

2009-1 (continued)

Previous Recommendation (2008-3): To achieve effective internal control over payroll, accounting duties should be distributed among appropriate employees.

Current Recommendation: The District should continue to monitor this area to ensure that payroll functions are properly segregated.

Views of responsible officials and planned corrective actions: We concur with the auditor recommendation. See current status of prior year finding 2008-3.

2009-2

Criteria: Internal control and management oversight should be established to prevent dishonest, illegal or unethical acts.

Condition: An investigation by the Division of Legislative Audit revealed that an employee in the District's Maintenance Department misappropriated approximately \$440,000 in non-federal funds between March 1, 2004 and May 19, 2009. As the District's Mechanical Systems Supervisor, James Diemer had the authority to order items under \$2,500 with no additional supervisory approval necessary. Lack of management oversight and internal controls related to the approval of these items for payment allowed Mr. Diemer to personally acquire items paid for by the District, which were later sold or traded for a personal profit.

On January 21, 2010, Mr. Diemer waived indictment and entered a guilty plea to the charge of theft of property from a governmental entity and is scheduled to be sentenced at a hearing in June, 2010. Initially, Mr. Diemer was placed on administrative leave without pay. However, after pleading guilty to theft of property, his employment was terminated. Additionally, the Director of Purchasing and the Director of Support Services (who were responsible for a significant portion of the management oversight and internal controls related to the acquisition and payment for these items) retired from District employment in August and September 2009, respectively.

Context: Review of the Division of Legislative Audit Investigative Report (Report ID SD 398 09 dated April 28, 2010), inquiry of management, and inquiry of the auditors that conducted the investigation.

Effect: Unauthorized transactions occurred.

Cause: The lack of internal controls and adequate management oversight resulted in the improper transactions.

Recommendation: Policies, procedures, and internal controls should be established to prevent or detect errors and/or irregularities.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

B. FINANCIAL STATEMENT FINDINGS (continued)

2009-2 (continued)

Views of responsible officials and planned corrective actions: The District has updated the Business Procedures policies to ensure purchases are legitimate, received, and used for District purposes. The District concurs with the recommendation and is committed to re-establishing proper levels of management oversight and internal controls in this area.

2009-3

Criteria: The funding source that employees are paid from should be approved and documented in the employee files.

Condition: Controls not in place to approve and document the funding source that employees are paid from.

Context: As a result of testing controls related to payroll transactions, it was noted that the funding source for employees was not consistently documented in the respective files.

Effect: The lack of funding source documentation can lead to improper coding of employee salaries to unallowed funding sources which can potentially lead to questioned cost related to payroll.

Cause: The lack of controls in place requiring a funding recommendation form be consistently maintained within employee files.

Previous Recommendation (2008-2): The District should implement a policy that requires an approved funding source form to be maintained in employee files indicating the fund and program that the employee is to be paid from. See current status in finding 2008-2.

Current Recommendation: The District should continue monitoring this process to ensure that the records are accurate and complete.

Views of responsible officials and planned corrective actions: We concur with the auditor recommendation.

2009-4

Criteria: The District's published policy for the use of blanket purchase orders requires that their use be limited to \$1,000 per month to each vendor

Condition: The District issued blanket purchase orders exceeding the District policy of \$1,000 per vendor, per month.

Context: As a result of sampled disbursements tested, it was noted that blanket purchase orders exceeded allowable amounts.

Effect: The risk of improper bidding, fraud, or theft is increased with the lack of controls to prevent the business manual policies from being followed.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

B. FINANCIAL STATEMENT FINDINGS (continued)

2009-4 (continued)

Cause: Controls were disregarded for the proper use of blanket purchase orders.

Recommendation: The District should enforce it's policy of the monthly limit per vendor on blanket purchase orders or take steps to modify the current policy.

Views of responsible officials and planned corrective actions: We concur with the auditor recommendation. Additionally, revised purchasing policies will be presented to the Board for approval whereby the blanket purchase order option will be eliminated.

2009-5

Criteria: Travel request and reimbursement forms should include the proper supporting documentation and approvals in accordance with board policy.

Condition: Travel request forms are not consistently fully completed before submission for reimbursement, with several not including all required approval signatures.

Context: Review of travel requests during disbursement testing to ensure that proper support is included and the disbursements are being approved in an accurate and timely manner.

Effect: In instances where supporting documentation was not provided with the reimbursement forms, it was unable to be determined if the disbursements were allowable and in accordance with the intended use. In instances where the forms lacked the proper approvals, the risk of improper use of travel funds is enhanced.

Cause: Controls are not being consistently followed to ensure that all approvals are received and supporting documentation is provided for travel reimbursements and advances.

Recommendation: To achieve effective internal control over travel advances and reimbursements, the District should ensure that the board policies are being consistently followed and enforced.

Views of responsible officials and planned corrective actions: Subsequent to year end, the District adopted a new board policy that utilizes per-diem rates by city for meals and incidentals which will reduce the need to provide detailed supporting documentation for individual travel transactions. Additional care will be taken to determine that travel reimbursement forms are properly completed and approved prior to issuing the reimbursement.

C. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

2008-1

Criteria: Bank statements should be reconciled timely.

Condition: Controls not in place to reconcile the bank statements in a timely manner.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

C. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

2008-1 (continued)

Context: As a result of cash testing, we requested bank reconciliations that were not immediately available because they had not yet been prepared or approved.

Effect: The increased time between the month end and the reconciliation procedures increases the opportunity for undiscovered error, misstatements, or unrecorded information.

Cause: The lack of controls in place related to specific deadlines for the reconciliations to be prepared.

Previous Recommendation: The District should implement a policy requiring the bank statements to be reconciled and approved prior to the end of the month they were received.

Current status: The statements are currently being reconciled on a timely basis.

2008-2

Criteria: The funding source that employees are paid from should be approved and documented in the employee files.

Condition: Controls not in place to approve and document the funding source that employees are paid from.

Context: As a result of testing controls related to payroll transactions, it was noted that the funding source for employees was not consistently documented in the respective files.

Effect: The lack of funding source documentation can lead to improper coding of employee salaries to unallowed funding sources which can potentially lead to questioned cost related to payroll.

Cause: The lack of controls in place requiring a funding recommendation form be consistently maintained within employee files.

Previous Recommendation: The District should implement a policy that requires an approved funding source form to be maintained in employee files indicating the fund and program that the employee is to be paid from.

Current status: The District implemented new forms, policies and filing procedures during the current year in order to provide a clearer understanding of the funding sources and enhanced ability to review for accuracy. The District also provided listings of employees to each school Principal in order for them to check the current funding source and review for accuracy. All changes noted by Principals were changed by the District. However, it was noted during the audit for June 30, 2009 that forms remain incomplete and recommend forms are not consistently being maintained in the files. Finding is reflected as 2009-3 in the current year's findings. Additionally, management is developing processes for utilizing electronic recommendation forms. The Division Manager will complete these forms to include the funding source prior to advertising for a position.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

C. PRIOR YEAR FINDINGS AND QUESTIONED COSTS (continued)

2008-3

Criteria: Payroll preparation duties should be segregated within the payroll department to enhance the design of the internal control process to ensure that payroll is accurately prepared.

Condition: The District has not segregated payroll duties among employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliable payroll preparation and authorization

Context: Inquiry of employees and management during documentation of internal controls.

Cause: Cost/benefit implications hinder the District's ability to segregate the payroll preparation duties among employees.

Recommendation: To achieve effective internal control over payroll, accounting duties should be distributed among appropriate employees.

Current status: This control is still considered a deficiency in the current year. The client has attempted to hire 4 different employees to comply with the segregation of duties; however, the turnover in that position has resulted in the District being unable to fully implement desired segregation of duties in this area. Additionally safeguards have been put in place to offset risks arising from these issues. Pre-calculation reports are being reviewed each pay period to verify the accuracy of payroll totals, with additional review being performed by Accounting Department personnel, who are independent of the Payroll Department.

2008-4

Program: CFDA #93.778 - Medical Assistance Program (ARMAC):
Passed-through Arkansas Department of Education
Audit period - year ended June 30, 2008

Criteria: The annual roster submitted to ARMAC should include employees paid only out of state and local funding that meet the ARMAC requirements.

Condition: The 07/08 annual roster submitted to ARMAC improperly included employees paid out of federal funding.

Context: As a result of testing controls related to payroll transactions for federal programs, we examined payroll files and recommendation forms for ARMAC reimbursed employees to determine whether the employees being included on the roster were paid out of state and local funding.

Questioned Costs: Total questioned cost were \$34,634.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

C. PRIOR YEAR FINDINGS AND QUESTIONED COSTS (continued)

2008-4 (continued)

Effect: ARMAC funding requires that the salaries submitted on the annual roster were expended out of state and local funding. The District included employees on the 07/08 roster that were paid out of federal funding, which created unallowed expenditures under the federal programs. This is a questioned cost because it violates the federal reimbursement policy set forth in the Code of Federal Regulations (42 CFR 433.51 (a) and (c)).

Cause: The lack of controls in place requiring a funding recommendation form be consistently maintained within employee files and a lack of understanding of the ARMAC requirements.

Recommendation: The auditors recommend that the District adhere to the Code of Federal Regulations set out for ARMAC reimbursement which requires that all employees submitted on the annual roster be 100% paid out of the state share of public, non-federal funds.

Current status: The District has corrected their procedures and have only requested reimbursement for employees paid out of the state share of public, non-federal funds.



**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH ARKANSAS STATE REQUIREMENTS**

To the Board of Education
Pulaski County Special School District
Little Rock, Arkansas

We have examined management's assertions that Pulaski County Special School District substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and the applicable laws and regulations including those listed in the accompanying schedule of statutes required to be addressed by the Arkansas Department of Education during the year ended June 30, 2009. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the District's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, Pulaski County Special School District complied with the aforementioned requirements for the year ended June 30, 2009, except for statute 6-21-304 described in the accompanying schedule.

This report is intended solely for the information and use of the School Board, management, and the Arkansas Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Hudson, Cisne & Co. LLP

Hudson Cisne & Co. LLP
Little Rock, Arkansas
May 28, 2010