

PULASKI COUNTY SPECIAL SCHOOL DISTRICT

**REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2010

with

**REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

Exhibit H

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PULASKI COUNTY SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

A. SUMMARY OF AUDITOR'S RESULTS

1. Our report expresses an adverse opinion based on generally accepted accounting principles and an unqualified opinion based on regulatory basis of accounting on the basic financial statements of Pulaski County Special School District.
2. Four material weaknesses were disclosed during the audit of the financial statements and 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*.
3. No instances of non-compliance material to the financial statements of Pulaski County Special School District were disclosed during the audit.
4. There was one significant deficiency 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 was one audit finding 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 I, Part A - Grant to Local Educational Agencies - CFDA 84.010
 - Title I, Part A - Grants to Local Educational Agencies, ARRA - CFDA 84.389
 - Title VI - Part B - Special Education Grants to States - CFDA 84.027
 - Title VI - Part B - Special Education Grants to States, ARRA - CFDA 84.391
 - State Fiscal Stabilization Funds, ARRA - CFDA 84.394
 - Vocational Education - Basic Grants to States - CFDA 84.048
8. The threshold for distinguishing type A and B programs was \$842,649.
9. Pulaski County Special School District was determined to be a high-risk auditee.

B. FINANCIAL STATEMENT FINDINGS

2010-1

Criteria: Bank statements should be reconciled timely.

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

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.

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PULASKI COUNTY SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

B. FINANCIAL STATEMENT FINDINGS

2010-1 (continued)

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

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.

Views of responsible officials: The District has recently converted to the Arkansas Public School Computer Network and new requirements have been issued that require all bank accounts be balanced by the 10th of the month. The District will comply with these new requirements.

2010-2

Criteria: Purchasing duties should be segregated within the department to enhance the design of the internal control process to ensure that purchasing, approval, and recording are segregated.

Condition: The District has not segregated duties among employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliable purchasing, approving and recording.

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

Effect: Purchasing, approving and recording of fixed assets 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 purchasing duties among employees as well as turnover in purchasing positions during the current year.

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

Views of responsible officials: A Purchasing Director has been hired to oversee all purchases using District Funds. Fixed asset purchases are reviewed by the Budget Manager and approved by the CFO. The year-end procedures require a balancing of all Fixed Asset account codes to Fixed Asset additions in the fixed asset system.

2010-3

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.

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PULASKI COUNTY SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

B. FINANCIAL STATEMENT FINDINGS

2010-3 (continued)

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.

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

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

View of responsible officials: The use of blanket purchase orders has been eliminated.

2010-4

Criteria: Duties should be segregated within the accounting department to enhance the design of the internal control process to ensure that receipt of funds, reconciling of bank statements, recording of deposits within the general ledger, and depositing of funds into the bank are segregated.

Condition: The District has not segregated duties among employees to provide reasonable assurance about the achievement of the entity's objectives with regard to receipt of funding.

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

Effect: Authorization, recording, and reconciling of funding among the District's employees to sufficiently reduce the risk that potential fraud or an error will not be prevented or detected.

Cause: Duties were not segregated among employees in the accounting department during turnover that occurred in the current year.

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

Views of responsible officials: We were aware of the lack of segregation of duties, but we were forced to work in this manner due to the illness of the Director of Accounting and Auditing. We have since resolved this issue with an Acting Director of Accounting and Auditing and a Temporary accountant until a more permanent solution is available. The duties in the accounting department have been segregated among four individuals in the accounting department. The Accountant or Secretary to the Director of Accounting and Auditing receipts all deposits. The Director of Accounting and Auditing will only receipt deposits when no one else is available. Another Accountant records the deposits in the general ledger. The Director of Accounting and Auditing deposits the funds and reconciled the bank account.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

C. QUESTIONED COSTS:

2010-5

ARRA - Title 1 - CFDA # 84.389

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 lead to improper coding of employee salaries to the program. Based on the sample selected, there were three employees noted that were supposed to be charged to a general fund program code that were actually charged to ARRA - Title 1. Through inquiry and further testing, it was found that a total of seven employees with salaries totaling \$46,743 were improperly charged to the program.

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

Recommendation: The District should ensure that the policy that requires an approved funding source form to be maintained in employee files should be enforced and monitored on a consistent basis.

View of responsible officials: The salaries charged to the program were properly adjusted to the general fund during audit fieldwork.

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

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, 2010

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

2009-1 (continued)

Previous recommendation: To achieve effective internal control over payroll, accounting duties should be distributed among appropriate employees. The District should continue to monitor this area to ensure that payroll functions are properly segregated.

Current Status: The District continues to monitor these functions and with new employees have been able to better segregate the human resource and payroll functions.

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.

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

Current status: The District has updated the Business Procedures policies to ensure purchases are legitimate, received, and used for District purposes. The District continues to be committed to re-establishing proper levels of management oversight and internal controls in this area. See current year finding 2010-2.

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PULASKI COUNTY SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

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

Current status: See current year finding 2010-5.

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.

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

Previous 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.

Current status: See current year finding 2010-3

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

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.

Previous 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.

Current status: 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 is now taken to determine that travel reimbursement forms are properly completed and approved prior to issuing the reimbursement.



**INDEPENDENT AUDITORS' 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, 2010. 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, 2010.

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
February 7, 2011