

# McNary Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies for the year ended June 30, 2022

**Governing board/management procedures** - The governing board and District management should establish and implement procedures as required by Arizona Revised Statutes (A.R.S.) to ensure their oversight duties are met.

	Question	Deficiency
1.	The District held governing board meetings in accordance with A.R.S. §§38-431 to 38-431.09, and prepared and retained written minutes and/or recordings.	The District did not include a statement on its website describing where all public notices of their meetings were posted, including the physical and electronic locations.
2.	The District annually provided guidance to all governing board members and employees on what constitutes a substantial interest and that the conflict-of-interest statutes apply to all District governing board members and employees as part of their employment. A.R.S. §§38-502 and 38-509	The District did not retain documentation to demonstrate that annual guidance was provided to all governing board members and employees on what constitutes a substantial interest and that the conflict-of-interest statutes apply to all District governing board members and employees as a part of their employment.
3.	The governing board appointed a student activities treasurer and, if applicable, assistant student activities treasurers. A.R.S. §15-1122	The governing board minutes did not document the appointment of a student activities treasurer.
4.	The governing board received monthly Student Activities Fund Reports of Cash Receipts, Disbursements, Transfers, and Cash Balances that were accurately prepared. A.R.S. §15-1123	The governing board minutes did not document the presentation of the Student Activities Fund Reports of Cash Receipts, Disbursements, Transfers, and Cash Balances during the year.

**Budgeting** - The District should prepare budgets based on legal requirements and allowable uses of monies and monitor spending to accurately inform the public about its planned spending and ensure it stays within those budgets.

	Question	Deficiency
1.	The budget included all funds as required by A.R.S. §15-905 and followed the form's Budget—Submission and Publication Instructions.	<ul style="list-style-type: none"> <li>• The District did not document in the governing board minutes the meeting to propose the budget for the fiscal year.</li> <li>• The District did not document in the governing board minutes the meeting to adopt the budget for the fiscal year.</li> <li>• The District was notified that they were required to revise their budget before the December 15th deadline, however, the District did not document in the governing board minutes approval of a revised budget.</li> <li>• The District could not provide documentation that an email with clickable link to the District's webpage where the proposed and adopted budgets were placed was emailed to the School Finance Budget Team.</li> </ul>
2.	Total budgeted expenditures on the adopted budget for the Maintenance and Operation (M&O) Fund and Unrestricted Capital Outlay (UCO) Fund were within the general budget limit and the unrestricted capital budget limit. If not, and Arizona Department of Education (ADE) notified the District that the budget exceeded either limit, the District followed the requirements of A.R.S. §15-905(E).	The District was notified by ADE through the BUDG25 report that District was required to revise both their General Budget and Unrestricted Capital Budget limits as required by A.R.S. §15-905(E); however, the District did not submit a revised adopted budget.

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**Accounting records** - The District should accurately maintain accounting records to support the financial information it reports and follow processes and controls that reduce the risk of undiscovered errors that would affect the reliability of information reported to the public and oversight agencies.

	Question	Deficiency
1.	The District coded transactions in accordance with the USFR §III Chart of Accounts.	<p>The District did not code transactions in accordance with the USFR Chart of Accounts:</p> <ul style="list-style-type: none"> <li>• The District received money from the tribe to cover the costs of student meals. The District recorded the grant revenue to Object 1610—Daily Food Sales; however, the deposit should have been coded to Object 1200—Revenue from Local Governments.</li> <li>• The District coded 2 purchases of 2020 Collins Type A School Bus to Object 6734—Vehicles under \$5,000, the expenditure should have been coded to Object 6736—Vehicles over \$5,000.</li> <li>• The District coded the purchase of insurance through the Arizona School Risk Retention Trust to Object 6310—Official/Administrative Services, the expenditure should have been coded to Object 6521—Current Year Insurance.</li> <li>• The District coded a capital expenditure related to the purchase of Rubber Mulch totaling \$13,104 coded to Expenditure Function 3100—Food Service and Object 6733—Furniture and Equipment, this expenditure should have been coded to Function 2600—Plant Maintenance and Object 6610—Construction Supplies.</li> </ul>
2.	The District sequentially numbered journal entries and retained supporting documentation and evidence that journal entries were signed, dated, and approved by someone other than the preparer.	For 13 of 25 journal entries selected, the District did not retain documentation that journal entries were properly supported and approved, signed, and dated by someone other than the preparer.

**Cash and revenue** - The District should document and control cash transactions to safeguard monies, provide evidence of proper handling to protect employees involved in handling monies from unfounded accusations of misuse, and reduce the risk of theft or loss.

	Question	Deficiency
1.	The District used an M&O Fund revolving bank account in accordance with A.R.S. §15-1101.	<ul style="list-style-type: none"> <li>• The governing board minutes did not document that the M&amp;O Fund revolving bank account's imprest amount was approved by the governing board.</li> <li>• Per review of the bank statements throughout the year, the District had not made a deposit to the revolving account since February 2022. In addition, the District did not appear to reconcile the revolving fund to an imprest amount as of June 30, 2022. As such, it could not be determined if all expenditures were reported in the proper accounting period.</li> <li>• The District did not retain support for 2 of 5 expenditures totaling \$272.75 from the M&amp;O Fund revolving account.</li> </ul>
2.	The District used a Food Service Fund clearing bank account(s) in accordance with USFR page X-F-5 and Arizona Attorney General Opinion I60-35.	The Food Service Fund clearing bank account was not cleared at year end as it maintained a \$1,489 balance on June 30, 2022.
3.	The District used the Student Activities Fund bank account(s) in accordance with A.R.S. §15-1122.	For 5 of 5 student activities disbursements selected, the District did not retain supporting documentation for the disbursements.

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4.	The Student Activities Fund monies were deposited in a bank or treasurer account designated as the Student Activities Fund account.	For 4 of 4 Student Activities Fund deposits selected (population exhausted) totaling \$327 the District did not retain documentation to support the cash collected.
5.	The District supported deposits with issued receipts, cash receipt summary reports, mail logs, etc., and reconciled sales to amounts collected with summary reports or ticket logs.	For 1 of 9 food service deposits, totaling \$571, the District did not retain issued receipts, cash receipt summary reports, mail logs, or other documentation. to support the amount received.
6.	The District's deposits were made in a timely manner and supported by deposit slips or other deposit transmittal documentation.	<ul style="list-style-type: none"> <li>• For 1 of 5 receipts deposited directly to the County, totaling \$400, the receipt was deposited 125 days after initial collection.</li> <li>• For 3 of 5 food service deposits selected, totaling \$351, the District did not deposit cash within 7 days of initial collection.</li> <li>• For 5 of 9 food service deposits, totaling \$1,022, the District did not retain prenumbered deposit slips, treasurer's transmittal, or other deposit transmittal documentation.</li> </ul>
7.	All District bank accounts were reconciled monthly by an employee not involved with cash-handling or issuing checks, and reconciliations were reviewed, signed, and dated by an employee independent of the cash-handling process.	All District bank accounts were reconciled monthly by an employee who was involved with cash-handling or issuing checks. Further, reconciliations were not reviewed, signed, and dated by an employee independent of the cash-handling process.

**Property control** - The District should properly value, classify, and report land, buildings, and equipment on its stewardship and capital assets lists. In addition, the District should safeguard its property, which represents a significant investment of its resources, from theft and misuse.

	Question	Deficiency
1.	The District maintained a capital assets list that included all required information listed in the USFR for all land, land improvements, buildings, building improvements, and equipment with costs that exceed the District's adopted capitalization threshold.	The District's capital assets listing did not include the location, identification number, method of acquisition, source of funding, condition of the equipment, and percentage of federal participation.
2.	The District's stewardship list for items costing at least \$1,000 but less than the District's capitalization threshold, included financed assets, and contained all required information.	The District's stewardship listing did not include location and identification number.
3.	The District's capital assets and stewardship items were identified as District property, properly tagged, and included on the corresponding list.	Five of 5 assets selected from the stewardship listing and 5 of 5 assets selected from the District site could not be agreed to the asset or the listing, respectively.
4.	The District performed a physical inventory of all equipment at least every 3 years and reconciled the inventory results to the stewardship and capital assets lists upon completion.	The District did not retain documentation that a physical inventory of all equipment was completed and reconciled in the last 3 years.

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**Expenditures** - The District should ensure spending approvals document both the allowable District purpose and confirmation that spending was within budget capacity or available cash, to ensure appropriate use of public monies and compliance with budget limits, and to protect employees from unfounded allegations of misuse.

	Question	Deficiency
1.	The District monitored budget capacity in budget-controlled funds and cash balances in cash-controlled funds before approving purchase orders (PO) and authorizing expenditures, except as authorized in A.R.S. §15-207, A.R.S. §15-304, A.R.S. §15-907, and A.R.S. §15-916.	<ul style="list-style-type: none"> <li>• For 1 of 40 expenditures selected, the purchase order did not contain the total expenditure.</li> <li>• For 1 of 40 expenditures selected, the purchase order did not appear to be approved prior to issuance.</li> </ul>
2.	The District's expenditures were made only for allowable District purposes, properly satisfied the specific purposes required for any restricted monies spent and were adequately supported by documentation required by the USFR.	<ul style="list-style-type: none"> <li>• For 10 of 40 expenditures selected, the District did not retain a written purchase order for the expenditure.</li> <li>• For 7 of 40 expenditures selected, the District did not retain vendor invoices or equivalent documents to support the expenditures.</li> <li>• For 9 of 40 expenditures selected, the District issued purchase orders between 1 to 23 days after the date of the invoice.</li> <li>• For 2 of 5 travel expenditures selected, the District did not retain vendor invoices or equivalent documents to support the expenditures.</li> </ul>
3.	The District's expenditures made through written quotes or competitively awarded contracts, including cooperative contracts, agreed to quoted amounts or contract pricing and terms.	The District did not retain documentation sufficient to document that expenditures made through written quotes or competitively awarded contracts, including cooperative contracts, agreed to quoted amounts or contract pricing and terms.

**Travel** - The District should ensure employee travel is for an approved District purpose and travel reimbursements are correctly calculated and appropriately supported by travel documentation.

	Question	Deficiency
1.	The District's travel expenditures (lodging, meals, and incidentals) and mileage reimbursements were for District purposes and reimbursed within the maximum reimbursement amounts established by the Director of Arizona Department of Administration and in accordance with governing-board-prescribed policies and procedures. Amounts were reimbursed and reported as a taxable employee benefit if no overnight stay or no substantial sleep/rest occurred.	For 1 of 5 travel expenditures selected, the District reimbursed the employee at a per-diem rate, and no vendor invoices or receipts were retained to support the reimbursement.

**Credit cards and p-cards** - The District should control credit cards and p-cards to help reduce the risk of unauthorized purchases and approve purchases to ensure compliance with competitive purchasing requirements in the USFR and School District Procurement Rules.

	Question	Deficiency
1.	The District issued and tracked possession of all District credit cards and trained employees who make credit card purchases or process transactions on the District's policies and procedures.	<ul style="list-style-type: none"> <li>• The District did not retain documentation that a list/log of card users to track card possession was maintained.</li> <li>• The District did not retain documentation that annual training that outlined card use policies and procedures, including possible disciplinary actions for misuse was provided.</li> </ul>

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2.	The District's card purchases were only for authorized District purposes, within the dollar limits authorized for the employee, and supported by valid receipts or transaction logs that clearly identify the employee making the purchase.	<ul style="list-style-type: none"> <li>• For 5 of 5 credit card expenditures selected, the District could not provide source documents, including receipts and transactions, to support the expenditures</li> <li>• For 1 of 3 District credit cards, the District could not provide the monthly statements for July 2021 through November 2021.</li> </ul>
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**Procurement** - The District should follow the School District Procurement Rules and USFR purchasing guidelines for purchases it makes to promote fair and open competition among vendors that helps ensure the District receives the best value for the public monies it spends.

	Question	Deficiency
1.	The District requested at least 3 written quotes for purchases costing at least \$10,000 but less than \$100,000 and followed the guidelines prescribed by the USFR.	For total expenditures with 6 vendors which were within the written quote range, the District did not retain documentation whether 3 written quotes were obtained.
2.	The District properly procured expenditures that individually or cumulatively totaled over \$100,000.	The District purchased 2 buses from 1 vendor at a total cost above the invitation for bid (IFB) and request for proposal (RFP) limit; however, the District did not retain documentation whether required procedures were performed.
3.	The District provided training and guidance related to restrictions on soliciting, accepting, or agreeing to accept any personal gift or benefit with a value of \$300 or more. A.R.S. §15-213(N) and Arizona Administrative Code (A.A.C.) R7-2-1003	The District did not retain evidence that the District provided training and guidance related to restrictions on soliciting, accepting, or agreeing to accept any personal gift or benefit with a value of \$300 or more.
4.	The District used only school district purchasing cooperatives contracts from cooperatives it was a member of or used only lead district contracts that it was listed as a member of in the solicitation or ensured its additional purchases would not have materially increased the volume stated in the original solicitation. R7-2-1191 through A.A.C. R7-2-1195	The District identified 7 vendors with whom purchases were made via purchasing cooperatives. The District did not retain the cooperative agreements.
5.	The District performed due diligence to support the use of each cooperative or lead district contract the District made purchases from during the audit period.	The District identified 7 vendors with whom purchases were made via purchasing cooperatives. The District did not retain evidence of due diligence procedures performed.
6.	The District prepared written determinations for any specified professional services, construction, construction services, or materials purchased through a school purchasing cooperative, including how the determination was made. A.A.C. R7-2-1004	The District did not retain written determinations for purchases made from a purchasing cooperative.

**Classroom site fund (CSF)** - The District should ensure it appropriately spends the State sales tax revenues for teacher pay and programs to support students, such as class size reduction, dropout prevention, and tutoring, as required by law.

	Question	Deficiency
1.	The District adopted a performance-based compensation system for at least a portion of its CSF monies and ensured CSF expenditures were made only for allowable purposes listed in A.R.S §15-977 (see CSF FAQs).	The governing board minutes did not document the adoption of a performance-based compensation system for at least a portion of its CSF monies.

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**Payroll** - The District should document the review, verification, and approval of payroll expenditures to ensure employees are appropriately compensated and payments to employees are supported by Governing Board approved contracts, pay rates, and terms of employment.

	Question	Deficiency
1.	The District's individual personnel files included all appropriate supporting documentation, as listed on USFR pages VI-H-2 through 4.	<ul style="list-style-type: none"> <li>• For 1 of 12 employees selected, the District's individual personnel files did not include the I-9, A-4 and loyalty oath forms.</li> <li>• The District was unable to provide a personnel action request (PAR) or other applicable documentation to support the extra payments made for 2 of 12 employee's selected. The District paid the previous Superintendent and Business Manager \$17,314 and \$7,490, respectively, in extra pay; however, the District was unable to provide a PAR or other applicable documentation to support the extra payments.</li> </ul>
2.	The District ensured that valid fingerprint clearance cards were on file for all required personnel and a method to identify employees whose cards were going to expire was in place. A.R.S. §§15-512, 15-342, and 41-1750(G)	For 3 of 12 employees selected, the District could not provide a current valid Fingerprint Clearance Card.
3.	The District accurately calculated and in a timely manner remitted the alternative contribution rate (ACR) payments to Arizona State Retirement System (ASRS) for all applicable positions filled by ASRS retirees.	For 1 of 5 ACR employees selected, the ACR was not accurately calculated. The employee was withheld at 8.43% and the District could not provide documentation to support the withholding.
4.	The District calculated the accrual and use of vacation, sick leave, and compensatory time for all employees in accordance with District accrual rates for specified years of service, maximum amounts to be accrued, and disposition of accrued time upon separation of employment following District policies.	<ul style="list-style-type: none"> <li>• For 5 of 5 uses of leave selected, the District could not provide documentation of approval.</li> <li>• For the 1 payout of leave completed by the District during the fiscal year, the District could not provide documentation on the calculation of the balance and the related approval.</li> </ul>
5.	The District's payroll was properly reviewed and approved before processing and distribution to employees.	<ul style="list-style-type: none"> <li>• For 2 of 12 employees selected, the District paid hourly employees for 80 hours (40 hours per week), however, the timecards for the 2 employees indicated the employees only worked for 70.82 and 72.75 hours, resulting in the employees being overpaid \$243 for work performed.</li> <li>• One employee did not have Federal Insurance Contributions Act (FICA) or Medicare withheld and the District could not provide documentation to support why the required taxes were not withheld.</li> </ul>

**Financial reporting** - The District should accurately prepare its financial reports, including its Annual Financial Report (AFR), to provide the public and oversight bodies, including bond investors and district creditors, a transparent view of the District's financial position.

	Question	Deficiency
1.	The District reported revenue and expenditure amounts on the AFR that agreed with the District's accounting records and applicable supporting documentation.	Revenues reported for Fund 510—Food Service on the District's published annual financial report (AFR) were overstated by \$4,536 and expenditures reported for Fund 510 were overstated by \$4,536, when compared to district financial records.

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2.	The District prepared the AFR and AFR summary (if one was prepared) with all information as required by A.R.S. §15-904, and followed the AFR Review, Submission, and Publication Instructions	<ul style="list-style-type: none"> <li>The governing board minutes did not document the approval of the AFR on or before October 15.</li> <li>The AFR was submitted on June 5, 2023, to ADE and June 27, 2023, to the county school superintendent.</li> <li>The District did not send a copy of the signed cover page of their AFR to the ADE budget team until 22 days after original submission.</li> </ul>
3.	The District's website included its average teacher salary information required by A.R.S. §15-903(E) and a copy of or a link to the District's page from the most recent Arizona Auditor General District Spending Report.	The District's website did not include average teacher salary information as required by A.R.S. §15-903(E).
4.	The District submitted the School District Employee Report (SDER) to ADE, and it was accurate and timely. A.R.S. §15-941 and School Finance Reports	The District did not retain documentation sufficient to enable the comparison of full-time equivalents and salaries between the SDER and District records.

**Student attendance reporting** - The District should report accurate student membership and attendance information to ADE to ensure it receives the appropriate amount of State aid and/or local property taxes.

	Question	Deficiency
1.	The entry date in the computerized attendance system agreed to the entry form and was entered into the attendance system within 5 working days after the actual date of the student's enrollment. A.R.S. §15-828.	For 5 of 5 student entries selected, the District could not provide computerized attendance records to support the student entry date.
2.	The District reported student withdrawal dates to ADE within 5 working days and maintained documentation that supported the date of data entry.	For 5 of 5 student withdrawals selected, the District could not provide computerized attendance records to support the student's withdrawal date.
3.	The District counted students withdrawn for having 10 consecutive unexcused absences in membership only through the last day of actual attendance or excused absence. A.R.S. §15-901(A)(1)	For 5 of 5 W4 withdrawals for having 10 consecutive unexcused absences, the District could not provide computerized attendance records to support the student's last day of attendance.

**Information technology (IT)** - The District should adopt an IT security framework that aligns with credible industry standards and through that framework the District should implement controls that provide reasonable assurance that its financial and student data is accurate, reliable, and secure.

	Question	Deficiency
1.	The District assessed security risks for its systems and data and provided employees annual security awareness training.	The District could not provide documentation that the District provided employees security awareness training at least annually.
2.	The District had vendor contracts or data-sharing agreements in place with any 3rd parties accessing or hosting District data that addressed controls to support security and processing integrity, and backup procedures if applicable, before data was accessed/shared.	The District could not provide agreements in place for major accounting focused software and IT services used during the fiscal year.
3.	The District enforced data security policies related to passwords and user authentication that aligned with credible industry standards.	The District did not appear to require multifactor authentication for major accounting-focused programs.

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4.	The District had recovery and contingency planning documents in place to restore or resume system services in case of disruption or failure that were reviewed and tested at least annually.	The District could not provide recovery and contingency planning documents.
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**Transportation support** - The District should accurately report its transportation miles and eligible student riders to ADE, to ensure the District receives the appropriate amount of State aid and/or local property taxes.

	Question	Deficiency
1.	The District accurately calculated and maintained documentation for miles and students reported on the Transportation Route Report submitted to ADE. A.R.S. §15-922	<ul style="list-style-type: none"> <li>• The District reported 10,554.7 eligible route miles to ADE, however district records indicate the District had 3,952 eligible route miles. District records also indicate 216.6 "other route miles", however, this was not reported on the TRAN55-1.</li> <li>• The District reported 74 eligible students to ADE, however district records indicate the District had 37 eligible students.</li> </ul>