

Fountain Hills Unified 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 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 annually provide guidance to all employees on what constitutes a substantial interest, nor did they ensure employees are reminded annually of conflicts of interest policies and require employees to complete conflict of interest statements on an annual basis.
2.	The District annually obtained conflict-of-interest (COI) forms that adequately allowed governing board members and employees to fully disclose a conflict of interest in any contract, sale, purchase, or service, and prior to accepting the forms, management reviewed the information to ensure governing board members and employees properly completed the form and sufficiently disclosed the required information. A.R.S. §38-502	Governing board members did not report any conflicts. In addition, employees did not complete annual conflict of interest forms.
3.	The District maintained, for public inspection, a special file with all documents necessary to memorialize all conflict-of-interest disclosures. A.R.S. §38-509	
4.	Employees or governing board members with reported conflicts, except as provided in A.R.S. §15-323, refrained from voting upon or otherwise participating in any manner in that purchase. A.R.S. §§38-502 and 38-503(B)	
5.	The governing board established written personnel and payroll policies and approved employee contracts, wage agreements, salary and wage schedules, and any other agreed-upon terms of employment.	For 1 of 22 employees reviewed, the District did not retain the employee's contract.
6.	The governing board approved student clubs' and organizations' fund-raising events. A.R.S. §15-1121 and AG Opinion I84-018	For all 5 student activities receipts reviewed, the governing board did not approve the fundraising events.
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.	The District did not post the notice of public hearing for the December revised budget at least 10 days before the meeting to adopt the 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 recorded the following transactions which were not coded in accordance with the USFR Chart of Accounts:</p> <ul style="list-style-type: none"> • The District recorded bond payments of \$1.0 million to object 5600—Other Long-Term Debt Proceeds rather than 6831—Bond-principal payments. • The District recorded \$114,925 of interest expenditures as interest revenue in the Debt Service Fund. • The District recorded \$10,977 of cash in bank in Fund 525—Auxiliary Operations; however, amount does not reconcile to the book balance reported on the monthly cash reconciliation for June 2022. • The District recorded \$24,612 to federal revenue instead of other local revenue in Fund 525—Auxiliary Operations. • The District recorded \$371 to state revenue instead of other local revenue in Fund 550—Insurance Proceeds. • The District recorded \$24,751 of revenue for Fund 378—Impact Aid in Fund 001—Maintenance & Operation (M&O). • The District recorded \$47,251 of revenue for Fund 378—Impact Aid in Fund 204-ESEA federal revenue. • The District recorded \$46,110 of revenue for Fund 374—E-rate in Fund 375—E-Rate on behalf of District. • The District recorded an insurance payment as a negative revenue in the Fund 540—Fingerprint Fund rather than in Fund 550—Insurance Proceeds. • The District recorded negative expenditures in the following funds: Fund 220—IDEA Part B, Fund 336—ESSER II, Fund 530—Gifts and Donations. • The District recorded \$187,030 of expenditures related to a Building Renewal Project to Fund 610—Unrestricted Capital Outlay in the prior year. When the project was reimbursed, the related revenues were recorded in Fund 691—Building Renewal Grant causing a fund surplus. • The District recorded \$30,720 of revenue in Fund 020—Instructional Improvement that based on supporting documentation appears to be intended for the Town of Fountain Hills. The District should research and return the funds if appropriate.
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 20 of 25 journal entries reviewed, the District could not provide support for the journal entry. In addition, for 15 of 25 journal entries reviewed, the District could not provide support showing that the entry was approved by an authorized person.

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3.	The District transferred monies only between funds listed in the USFR §III Chart of Accounts—Authorized Transfers.	The District performed an unallowable transfer in the amount of \$1,382 between Funds 001—M&O, 527—Extracurricular Tax Credit Fees, 532—McDowell Mountain Gift & Donations, 533—Middle School Gift & Donations.
4.	The District documented and dated a monthly review of financial transactions the county school superintendent (CSS) initiated (i.e., revenue or journal entries) for propriety and researched and resolved any differences.	The District does not document the review of transactions initiated by the CSS's Office.
5.	The District reconciled cash balances by fund monthly with the CSS or county treasurer's records, as applicable, and properly supported, documented, and dated the reconciliations.	The District does not review the monthly cash reconciliations prepared by the CSS's Office.
6.	The District reconciled revenues, expenditures, expenses, and cash balances (as applicable) by fund, program, function, and object code at least at fiscal year-end with the CSS, and the reconciliation was reviewed and properly supported.	

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.	Rather than writing a check directly from the miscellaneous receipts clearing account to the County Treasurer, the District is transferring money to the M&O Revolving Account, and then writing a check to the County Treasurer. In addition, the District also made a total of \$25,763 in payroll-related payments from the M&O Revolving Account. Also, the District deposited \$46,111 in grant payments from Universal Service Administrative Company (USAC) to the M&O revolving account instead of the miscellaneous clearing account.
2.	The District used miscellaneous receipts clearing bank account(s) in accordance with A.R.S. §15-341(A)(20).	
3.	The District used a Food Service Fund revolving bank account in accordance with A.R.S. §15-1154.	The Food Service Fund revolving bank account did not have a limit.
4.	The District used an Auxiliary Operations Fund bank account in accordance with A.R.S. §15-1126.	The District's Auxiliary Operations Fund bank account checks were signed by two employees who were not designated by the governing board.
5.	The District used the employee insurance programs withholdings bank account(s) in accordance with A.R.S. §15-1223.	The District did not maintain a reconciliation for the employee insurance programs withholdings account.
6.	The District paid bank charges from only the M&O Fund revolving bank account, Food Service Fund revolving bank account, Auxiliary Operations Fund bank account, and Auxiliary Operations Fund revolving bank account(s) or, if not, the bank charges were reimbursed from an appropriate District fund or bank account.	Bank charges were not only paid from M&O Fund revolving, Food Service Fund revolving, Auxiliary Operations Fund, or Auxiliary Operations Fund revolving bank accounts, as allowed by USFR. Bank fees were charged to the Food Service clearing account and miscellaneous receipts clearing account and those fees were not later reimbursed from an authorized account.

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7.	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 three of five student activities receipts, four of five miscellaneous cash receipts, and three of five auxiliary operations cash receipts reviewed, the District did not provide documentation to support the amount of cash received and when the cash was received, so it is unknown if the receipts were deposited timely.
8.	The District's deposits were made in a timely manner and supported by deposit slips or other deposit transmittal documentation.	
9.	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.	Reconciliations were not signed and dated by the individual reviewing the reconciliations.

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 recorded additions including financed assets on the capital assets list and reconciled capitalized acquisitions to capital expenditures at least annually.	The capital asset balance on the reconciliation does not agree to the additions listing by \$49,479.
2.	The District's capital assets and stewardship items were identified as District property, properly tagged, and included on the corresponding list.	For one of five stewardship items selected and one of five capital asset items selected from the listing, the item could not be found on the premises. For one of five stewardship items selected and one of five capital asset items selected from the listing, the item was found on the premises, but the item was not tagged. For all five items selected from the premises, the items could not be found on the stewardship listing.

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.	For 3 of 26 disbursements reviewed, the purchase order was prepared after the goods or services were ordered.
2.	The District's Student Activities Fund disbursements and transfers of monies among student clubs were issued only when cash was available in the student club account and properly authorized by or on behalf of the student members of a particular club and documented in the club minutes.	The District paid two employees from the Student Activities Fund and did not maintain documentation that these salaries were approved by the students in the club.

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3.	The District prepared an Advice of Encumbrance for levy funds based on the list of liabilities for goods or services received but not paid for by June 30, including payroll, and filed it with the CSS by July 18. A.R.S. §15-906	The District did not prepare an Advice of Encumbrance.
<p>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.</p>		
	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.	The District did not require training for all credit card users and employees involved with processing transactions.
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.	For one of five credit card purchases of \$10, the District did not retain valid receipts or transaction logs, so it is unknown if the purchase was authorized.
3.	The District paid credit card and p-card statements before the due date to avoid finance charges and late fees.	Credit card statements were not always paid timely to avoid finance charges and late fees resulting in finance charges of \$114.
<p>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.</p>		
	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 all ten vendors reviewed with whom purchases between \$10,000 and \$100,000 were made, the District did not obtain written quotes.
2.	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 R7-2-1003	The District did not provide training or guidance related to restrictions on soliciting, accepting, or agreeing to accept any personal gift or benefit with a value of \$300 or more.
3.	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.	Due diligence was not performed on cooperative or lead district contracts.
4.	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. R7-2-1004	The District did not maintain written determinations for cooperative purchases.
5.	For any purchase of services from governing board members or goods or services from District employees, regardless of the expenditure amount, the District followed the School District Procurement Rules, except as authorized by A.R.S. §15-323.	The District spent \$48,668 with a vendor during the fiscal year (FY) in which it appears a District employee had a substantial interest in the business. This employee did not complete a conflict-of-interest form, nor did the District follow the procurement procedures required.

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Classroom site fund - 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 District was unable to provide a governing board approved performance pay plan.
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.	For all five employee personnel files reviewed, the personnel file did not include all appropriate supporting documentation. Files were missing a Form I-9, Form W-4 or A-4, Loyalty Oath, Fingerprint Certification Form, Background Investigation Form or Direct Deposit Authorizations.
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 one of five employee personnel files reviewed, the file did not contain a valid fingerprint clearance card.
3.	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.	Internal controls over the preparation of an accurate compensated absences schedule were not properly designed or implemented.
4.	The District's payroll was properly reviewed and approved before processing and distribution to employees.	For one of 22 employees reviewed, the employee was underpaid \$40 for the selected pay period.
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.	Actual revenues and expenditures reported on the AFR did not agree to the actual revenues and expenditures in the District's accounting records for three funds.
2.	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 a copy of or a link to the District's page from the most recent Auditor General's District Spending Report.

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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 District maintained appropriate documentation and accurately reported students enrolled in its AOI program, including redetermining the actual full time equivalent (FTE) for each student enrolled in an AOI Program following a student's withdrawal or after the end of the school year. A.R.S. §15-808	For all five AOI students reviewed, the District did not maintain FTE Enrollment Statements or re-determine the students' FTE at year-end or withdrawal.
2.	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 one of 10 entry records reviewed, the District did not enter entry information into the system within five working days. In addition, for two of 10 entry records reviewed, the entry date per the entry form does not agree to the computerized attendance system.
3.	The District reported student withdrawal dates to ADE within 5 working days and maintained documentation that supported the date of data entry.	For two of 10 withdrawals reviewed, the withdrawal date in the computerized attendance system did not agree to the date on the withdrawal form.
4.	The District prepared and retained the Official Notice of Pupil Withdrawal form for each withdrawal, and the forms were signed by a District administrator. A.R.S. §15-827	For one of 10 withdrawal records reviewed, the District was unable to provide the withdrawal form.
5.	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 six of 10 students withdrawn for having 10 consecutive unexcused absences reviewed, the District did not withdraw the student as of the last day of attendance.
Information technology - 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 maintained adequate separation of duties in its IT systems that prevented 1 employee from completing a transaction without additional review and approval procedures.	Individuals authorizing access to the District's system were also the individuals assigning the access. In addition, the District did not adequately limit access to applications or software based on the needs of the individual's job function.
2.	The District assessed security risks for its systems and data and provided employees annual security awareness training.	The District did not provide its employees an annual security awareness training.
3.	The District immediately and appropriately modified terminated or transferred employees' or vendors' access to all District systems.	The District did not always remove or modify user access for vendors and terminated or transferred employees.
4.	The District scheduled and performed data backup-control procedures for all critical systems at least systems at least daily, or more frequently, to ensure uninterrupted operations and minimal loss of data.	The District was unable to provide information related to backup procedures, so it is unknown whether the District scheduled and performed backup-control procedures for all critical systems frequently to ensure uninterrupted operations and minimal loss of data.

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5.	The District routinely completed software and application updates and patches when they became available.	The District was unable to provide support showing routinely completed software and application updates and patches when they became available and that systems were up to date to protect the integrity and reliability of the District's data.
6.	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 was unable to provide contracts or data-sharing agreements with third-party vendors. In addition, it is unknown whether the District appropriately reviewed data accessed or processed by vendors or third parties.
7.	The District enforced data security policies related to passwords and user authentication that aligned with credible industry standards.	The District was unable to provide support showing repeated failed sign-on attempt lockouts and screen locks were required, so it could not be determined whether the District had strong password and security policies in place. In addition, the District was unable to provide a list of users who have administrative or remote access to its IT systems, so it is unknown whether these accounts were required to have multifactor authentication.
8.	The District monitored and reviewed IT system-generated incident or error reports to identify security threats or other unusual activity and addressed noted issues.	The District was unable to provide the procedures in place and a sample error report related to incident or error reports to identify security threats or unusual activity, so it is unknown whether these reports are routinely reviewed and that necessary corrective actions were approved and completed.
9.	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 was unable to provide disaster recovery and contingency planning documents, so it is unknown whether the District had plans in place to restore or resume system services in case of disruption or failure. In addition, it is unknown whether the plan was reviewed and tested at least annually to identify internal and external vulnerabilities.

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	The District reported 27,351 total eligible students on the FY 2022 TRAN 55-1 report when supporting documentation shows there are only 273 eligible students.