

Naco 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 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	Documentation was not provided that the District annually provided guidance to all employees on what constitutes a substantial interest and that the conflict-of-interest statutes apply to all District employees as a part of their employment. It was noted that all employees were required to complete a conflict-of-interest form at time of hire indicating if they did or did not have a conflict of interest.
2.	The governing board appointed a student activities treasurer and, if applicable, assistant student activities treasurers. A.R.S. §15-1122	Documentation was not provided that the governing board appointed a student activities treasurer.

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 following requirement was not in compliance with the budget Submission and Publication Instructions: <ul style="list-style-type: none"> The notice of the public hearing and board meeting regarding the adopted budget was not published, electronically transmitted to the Arizona Department of Education (ADE) or mailed.
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 ADE notified the District that the budget exceeded either limit, the District followed the requirements of A.R.S. §15-905(E).	The District received the BUDG25 Expenditure Analysis dated October 28, 2021, that per ADE calculations, the M&O and UCO budgets were in excess of the general budget limit and the District was required by December 15, 2021, to have reduced the M&O budget of \$3,989,170 to \$3,557,309 and the UCO budget of \$572,129 to \$262,129. However, a budget revision was not submitted until May 16, 2022.

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.	The following transactions were not recorded in accordance with the USFR. <ul style="list-style-type: none"> The District received \$1,383 in interest from its pooled investments with the County and all the interest revenue was applied to Funds 001—M&O and 100—ESEA Title I. Classroom Site Fund (CSF) revenues of \$22,443.16 were recorded to Funds 001—M&O and 610—UCO as Additional State Aid and should have been recorded to Fund 010—CSF. Two deposits noted as Summer Food School Program Grant were deposited to Funds 530—Gifts and Donations and 531—Undesignated in the amounts of \$2,274 and \$11,840, respectively and should

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		<p>have been recorded to Fund 510—Food Service.</p> <ul style="list-style-type: none"> • It was noted that \$227,393 in health insurance expenditures were recorded to expenditure Function Code 1000—Instruction and should have been allocated to different function codes based on each employee's job functions and led to a qualified opinion on the District's fiscal year (FY) 2022 financial statements. • An expenditure for Lighting Assessment was recorded to "Object 6430—Repairs and Maintenance Services", and it should have been recorded to "Object 6330—Other Professional Services". • An expenditure for HVAC units and installation was recorded to "Object 6430—Repairs and Maintenance Services", and it should have been recorded to "Object 6733—Furniture and Equipment". • Due to an error in processing automated journal posting related to withholdings of health insurance, the District carried forward \$525,290 in negative liabilities and added \$60,022 in negative liabilities during FY 2022. It could not be determined if the liabilities should have been recorded as health insurance expense and led to a qualified opinion on the District's FY 2022 financial statements. • The District held 8 payroll withholding checks totaling \$187,162 for health insurance during the year. The District redeposited the checks on 08/31/22 and posted them as a credit against health insurance expense to Fund 001—M&O and Function 1000—Instruction for FY 2022. It was noted the credit to health insurance should have been posted to the same funds and functions as the original posting of the check from payroll. For example, it was noted that for one payroll insurance withholding check only 24% of the check was applied as an expense to Fund 001—M&O and Function 1000—Instruction.
2.	<p>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.</p>	<ul style="list-style-type: none"> • Supporting documentation was not provided for 14 of the 20 adjusting journal entries selected for review. As such it could not be determined if the journal entries were signed, dated, and approved by someone other than the preparer. • The District posted multiple adjusting journal entries after issuing the Annual Financial Report (AFR) resulting in numerous differences between the AFR submitted to ADE and the District's accounting records for FY 2022.
3.	<p>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.</p>	<p>The Cochise County School Superintendent's (CSS) Office provided a June 30, 2022, reconciliation to the County Treasurer's cash balances that was dated completed as of September 12, 2022. The District reported a cash balance of \$664,488 as of June 30, 2022. To agree with the County Treasurer's reconciled balance of \$786,654, it was noted that the reconciliation provided an unreconciled variance of \$122,166 with the County Treasurer for the FY ending June 30, 2022, indicating that the District's cash with the county was understated by \$122,166. This deficiency led to a qualified opinion on the District's FY 2022 financial statements.</p>

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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 miscellaneous receipts clearing bank account(s) in accordance with A.R.S. §15-341(A)(20).	<p>The District did not issue checks from the Miscellaneous Receipts Clearing bank account to the County Treasurer monthly and at fiscal year-end. The District's Miscellaneous Receipts Clearing account had a cash balance of \$27,560.22 carry forward from FY 2021 to FY 2022. During FY 2022, 15 deposits totaling \$4,160 were deposited into the account, and six checks written to the County were issued in two separate months (October 2021 and June 2022) totaling \$26,618.75. The Miscellaneous Receipts Clearing account had a balance of \$5,101.47 as of June 30, 2022, that was not recorded as revenue in FY 2022.</p> <p>In addition, it was noted three checks written in October 2021, totaling \$24,114, were recorded to FY 2021, and the remaining checks were recorded to FY 2022.</p>
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 District did not issue checks from the Food Service Clearing bank account to the County Treasurer monthly and at fiscal year-end as checks were only written in 4 months (July 2021, November 2021, March 2021, and June 2021) while the District had deposits in the account for 11 months (August 2021 to June 2022). In addition, the Food Service Clearing account had a balance of \$1,965.29 as of year-end that was not recorded as revenue in FY 2022.
3.	The Auxiliary Operations Fund bank or treasurer account deposits included all monies raised in connection with the activities of school bookstores and athletics. A.R.S. §15-1126	<p>The following items were noted regarding five Auxiliary deposits totaling \$2,645 that were selected for review:</p> <ul style="list-style-type: none"> • No documentation was provided for two of the deposits. • Two deposits were only supported with a cash summary report with dates ranging from 4/1/22 to 4/29/22 while the deposits were made 6/30/22. • One deposit was only supported with a handwritten report with the total cash received for 12 days ranging from 7/10/20 to 5/21/21 while the deposit was made 6/28/22.
4.	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.	<p>For 15 local deposits selected for review, it was noted that supporting documentation was not provided for seven of the deposits that totaled \$7,736. In addition, documentation was not provided for three deposits totaling \$11,431 that were recorded to Fund 510—Food Service as federal revenue.</p>

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5.	The District's deposits were made in a timely manner and supported by deposit slips or other deposit transmittal documentation.	For 15 local deposits selected for review: <ul style="list-style-type: none"> • Documentation was not provided to determine if 10 deposits were made timely. • One deposit for \$5,676 was deposited 90 days after being received. • One deposit was for 8 payroll withholding checks for health insurance totaling \$187,162 that were held by the District during the year. It was noted the checks were held ranging from 126 to 336 days after the checks were issued from payroll.
6.	The District's deposits with the county treasurer were reconciled.	County receipts were not provided for 10 of 15 local deposits selected for review.

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's capital assets and stewardship items were identified as District property, properly tagged, and included on the corresponding list.	One of five items selected from the stewardship list was not located. It was noted the item was disposed of in prior years.

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.	<p>The District did not ensure that sufficient cash was available in cash-controlled funds, resulting in a negative cash balance in the following cash-controlled funds as of June 30, 2022:</p> <table data-bbox="1279 889 1795 1029"> <thead> <tr> <th>Fund</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>510—Food Service</td> <td>\$(186)</td> </tr> <tr> <td>525—Auxiliary Operations</td> <td>\$(171)</td> </tr> <tr> <td>850—Student Activities</td> <td>\$(1,941)</td> </tr> </tbody> </table>	Fund	Amount	510—Food Service	\$(186)	525—Auxiliary Operations	\$(171)	850—Student Activities	\$(1,941)
Fund	Amount									
510—Food Service	\$(186)									
525—Auxiliary Operations	\$(171)									
850—Student Activities	\$(1,941)									
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.	<p>The District's auditors noted the following:</p> <ul style="list-style-type: none"> • For one of 30 expenditures reviewed, the invoice amount of \$87,323.03 did not agree to the check amount of \$89,606.57. • Purchases orders, invoices, and receiving reports were not provided for two of 30 expenditures selected for review. • The District recorded health insurance expense of \$370,884 for FY 2022. Per review of the health insurance invoices, it appeared the District should have recorded health insurance expense totaling \$454,525, indicating health insurance was underreported by \$83,641. This deficiency led to a qualified opinion on the District's FY 2022 financial statements. 								

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List of deficiencies for the year ended June 30, 2022

3.	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.	Student club minutes authorizing the expenditures were not provided for four of five Student Activities expenditures reviewed. It was also noted the Student Activities Fund had a negative cash balance of \$1,941 as of June 30, 2022.
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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 paid credit card and p-card statements before the due date to avoid finance charges and late fees.	The District incurred \$751.18 in credit card late fees and finance charges during FY 2022.

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 two purchases in the written quote range, documentation was not provided that written quotes were obtained or the purchases were otherwise exempt from requiring written quotes (i.e. sole source, cooperative purchase, etc.)
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	Documentation was not provided that 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 was provided to employees who supervise or participate in contracts, purchases, payments, claims or other financial transactions.

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 enrolled employees who met the ASRS membership criteria, withheld employee contributions, and in a timely manner remitted employee and District contributions in accordance with the ASRS Employer Manual.	For one of ten employees selected for review, the Arizona State Retirement Rate (ASRS) was withheld at the rate of 12.70% instead of the set rate of 12.41%. This resulted in the District over remitting ASRS payments of \$599.78 (\$279.89 for employee withholding and \$279.89 for District contribution) for the employee for FY 2022.
2.	The District's payroll was properly reviewed and approved before processing and distribution to employees.	The salary amounts paid in FY 2022 per the payroll journal report did not agree to the contract amount for 1 of 10 employees selected for review. This resulted in an under payment of \$90 to the employee.

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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																																																																																
<p>1.</p>	<p>Budgeted expenditures reported on the AFR agreed with the District's most recently revised adopted expenditure budget.</p> <p>The budgeted expenditures as reported on the AFR did not agree with the most recently revised budget for the following funds:</p> <table border="1"> <thead> <tr> <th data-bbox="1268 386 1983 410">Fund</th> <th data-bbox="1983 386 2198 410">AFR Budget</th> <th data-bbox="2198 386 2413 410">Final Budget</th> <th data-bbox="2413 386 2628 410">Difference</th> </tr> </thead> <tbody> <tr> <td data-bbox="1268 410 1983 443">001—M&O</td> <td data-bbox="1983 410 2198 443">\$3,205,696</td> <td data-bbox="2198 410 2413 443">\$3,497,972</td> <td data-bbox="2413 410 2628 443">\$292,276</td> </tr> <tr> <td data-bbox="1268 443 1983 475">010—CSF</td> <td data-bbox="1983 443 2198 475">\$0</td> <td data-bbox="2198 443 2413 475">\$498,563</td> <td data-bbox="2413 443 2628 475">\$498,563</td> </tr> <tr> <td data-bbox="1268 475 1983 508">020—Instructional 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Children	\$202,901	\$202,000	\$901	140-150—ESEA Title II—Prof. Development and Technology	\$27,734	\$25,000	\$2,734	160—ESEA Title IV—21st Century Schools	\$16,860	\$10,000	\$6,860	190—ESEA Title III—Limited English & Immigrant Students	\$51,535	\$28,105	\$23,430	220—IDEA Part B	\$138,182	\$150,000	\$11,818	300-399—Other Federal Projects	\$488,092	\$1,750,000	\$1,261,908	465-499—Other State Projects	\$0	\$100	\$100	510—Food Service	\$227,600	\$50,000	\$177,600	525—Auxiliary Operations	\$0	\$1,000	\$1,000	526—Extracurricular Activities Fees Tax Credit	\$0	\$3,000	\$3,000	530—Gifts and Donations	\$0	\$13,000	\$13,000	555—Textbooks	\$0	\$400	\$400	570—Indirect Costs	\$0	\$2,000	\$2,000	610—UCO	\$258,200	\$317,929	\$59,729	691—Building Renewal Grant	\$0	\$25,000	\$25,000	850—Student Activities	\$0	\$1,000	\$1,000
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<p>2.</p>	<p>The District reported revenue and expenditure amounts on the AFR that agreed with the District's accounting records and applicable supporting documentation.</p> <p>Revenues as reported on the AFR did not agree with the District's accounting records for the following funds:</p> <table border="1"> <thead> <tr> <th data-bbox="1268 1149 1983 1174">Fund</th> <th data-bbox="1983 1149 2198 1174">AFR Revenues</th> <th data-bbox="2198 1149 2413 1174">District Records</th> <th data-bbox="2413 1149 2628 1174">Difference</th> </tr> </thead> <tbody> <tr> <td data-bbox="1268 1174 1983 1206">071—English Language Learner</td> <td data-bbox="1983 1174 2198 1206">\$11,755</td> <td data-bbox="2198 1174 2413 1206">\$11,853</td> <td data-bbox="2413 1174 2628 1206">\$98</td> </tr> <tr> <td data-bbox="1268 1206 1983 1239">100-130—ESEA Title I—Helping Disadvantaged Children</td> <td data-bbox="1983 1206 2198 1239">\$148,509</td> <td data-bbox="2198 1206 2413 1239">\$156,122</td> <td data-bbox="2413 1206 2628 1239">\$7,613</td> </tr> <tr> <td data-bbox="1268 1239 1983 1271">160—ESEA Title IV—21st Century Schools</td> <td data-bbox="1983 1239 2198 1271">\$10,175</td> <td data-bbox="2198 1239 2413 1271">\$11,016</td> <td data-bbox="2413 1239 2628 1271">\$841</td> </tr> <tr> <td data-bbox="1268 1271 1983 1304">220—IDEA Part B</td> <td data-bbox="1983 1271 2198 1304">\$86,494</td> <td data-bbox="2198 1271 2413 1304">\$102,946</td> <td data-bbox="2413 1271 2628 1304">\$16,452</td> </tr> <tr> <td data-bbox="1268 1304 1983 1336">300-399—Other Federal Projects</td> <td data-bbox="1983 1304 2198 1336">\$143,952</td> <td data-bbox="2198 1304 2413 1336">\$221,294</td> <td data-bbox="2413 1304 2628 1336">\$77,342</td> </tr> <tr> <td data-bbox="1268 1336 1983 1369">510—Food Service</td> <td data-bbox="1983 1336 2198 1369">\$194,696</td> <td data-bbox="2198 1336 2413 1369">\$198,644</td> <td data-bbox="2413 1336 2628 1369">\$3,948</td> </tr> </tbody> </table>	Fund	AFR Revenues	District Records	Difference	071—English Language Learner	\$11,755	\$11,853	\$98	100-130—ESEA Title I—Helping Disadvantaged Children	\$148,509	\$156,122	\$7,613	160—ESEA Title IV—21st Century Schools	\$10,175	\$11,016	\$841	220—IDEA Part B	\$86,494	\$102,946	\$16,452	300-399—Other Federal Projects	\$143,952	\$221,294	\$77,342	510—Food Service	\$194,696	\$198,644	\$3,948																																																				
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Naco Elementary School District

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

List of deficiencies for the year ended June 30, 2022

		Expenditures as reported on the AFR did not agree with the District's accounting records for the following funds:																												
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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 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 one of five students withdrawn for having 10 consecutive unexcused absences reviewed, the District counted membership through the last day of absence and should have only counted the membership through the last day of actual attendance or excused absences, resulting in membership being overstated by 10 days.
2.	The District uploaded membership and absence information to ADE that agreed to the District's computerized system records for the first 100 days of school. A.R.S.§15-901	The AzEd ADM15 report's membership and absence days did not agree to the District's computerized attendance system records. The AzEd ADM15 reported 28,142.5 membership days and the District's computerized records reported 27,987 membership days, a difference of 155.5 days.

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	On the TRAN55-1 for FY 2022, the District reported 4,053 miles for the first 100-days while the District's documentation calculated to 2,557 miles, a difference of 1,496 miles. It was also noted that the documentation provided did not separate eligible route miles from other miles. On the TRAN55-1 for FY 2022, the District reported 26 eligible students. The District's documentation provided only a total count of 4,504 bus riders and no calculation to support the 26 eligible students reported.