

Naco Elementary School District

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

List of deficiencies

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 (COI) 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 governing board members or employees on what constitutes a substantial interest and that the COI statutes apply to all District governing board members and employees as a part of their employment.
2.	The District annually obtained COI forms that allowed governing board members and employees to make known and fully disclose a conflict of interest in any contract, sale, purchase, service, or decision, 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 and 38-503	The fiscal year (FY) 2023 COI forms were not provided for any board members or employees, and documentation was not provided to indicate if any board members or employees had any conflicts during FY 2023.
3.	The District maintained, for public inspection, a special file with all documents necessary to memorialize all governing board members and employees COI 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 contract, sale, purchase, service, or decision of the school district. A.R.S. §§38-502 and 38-503(B)	
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.	Notice of public hearing was not posted on Arizona Department of Education's (ADE) website.

Naco Elementary School District

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

List of deficiencies

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 Chart of Accounts .	The following transactions were not recorded in accordance with the USFR: <ul style="list-style-type: none"> • The District received interest from its pooled investments with the County Treasurer and the interest revenue was not allocated to the applicable District funds. • 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.” • The District inappropriately included proceeds from the sale of a school vehicle in the Maintenance and Operation (M&O) Fund rather than the School Plant Fund.
2.	The District documented and dated a monthly review of financial transactions the county school superintendent (CSS) initiated (i.e., revenue postings or journal entries) for propriety and researched and resolved any differences.	There were significant unexplained differences on the District’s monthly cash reconciliations with the CSS and CT’s records. Specifically, the District’s June 30, 2023, cash balance was not reconciled to the Cochise County Treasurer’s cash balance with a difference of \$280,433, which contributed to the auditor’s adverse opinion on the financial statements.
3.	The District reconciled cash balances by fund monthly with the CSS or county treasurer’s (CT) records, as applicable, and properly supported, documented, and dated the reconciliations.	
4.	The District reconciled total 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 miscellaneous receipts clearing bank account(s) in accordance with A.R.S. §15-341(A)(20).	Although the District has a current process in place to ensure deposits to the Miscellaneous Receipts Clearing bank account are transmitted to the Treasurer at least monthly, the District maintained an extra \$198.47 in the account from prior years’ activity.

Naco Elementary School District

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

List of deficiencies

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	Although the District has a current process in place to ensure deposits to the Food Service Clearing bank account were transmitted to the Treasurer, they were not always transmitted at least monthly. In addition, the District maintained an extra \$69.42 in the account.
3.	The extracurricular activities fees tax credit (tax credit) monies were included in the Auxiliary Operations Fund and/or separately accounted for in an Extracurricular Activities Fees Tax Credit Fund. A.R.S. §15-341(A)(19) and (20).	For 2 of 5 tax credit deposits selected, documentation was not provided to support the deposit.
4.	The District used the electronic payments clearing bank account in accordance with A.R.S. §15-1221.	Although the District is clearing its payroll clearing bank account monthly for current activities, the account had a balance of just over \$37,000 as of January 2024 from prior years' activity.
5.	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.	The District paid \$90 in bank charges from the Payroll Direct Deposit account, and the bank charges were not reimbursed from an appropriate District fund or bank account.

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 did not prepare a formal capital assets listing that included current year additions. In addition, the District has not recorded certain general fixed assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets, which contributed to the auditor's adverse opinion on the financial statements.
2.	The District recorded additions including financed assets on the capital assets list and reconciled capitalized acquisitions to capital expenditures at least annually.	
3.	The District reconciled the current year's June 30 capital assets list to the previous year's June 30 list.	

Naco Elementary School District

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

List of deficiencies

4.	The District's stewardship list for items costing at least \$1,000 but less than the District's capitalization threshold, including financed assets, included all required information.	For 1 of 5 items tested from the stewardship list, the item could not be located on the District's premises.
5.	The District's capital assets and stewardship items were identified as District property, properly tagged, and included on the corresponding list.	For 2 of 15 assets tested, the asset was not properly tagged.
6.	The governing board or authorized designee approved stewardship and capital asset items disposed of during the FY, and the District removed the assets from the corresponding list and disposed of them in accordance with A.A.C. R7-2-1131.	Documentation to support if the District had any stewardship and capital asset items disposed of in the fiscal year was not provided.

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, 15-304, 15-907, and 15-916.	For 3 of 25 general expenditures reviewed, the purchase orders were placed after invoice date. Further, the District did not ensure that sufficient cash was available in cash-controlled funds as the following funds had negative cash balances as of June 30, 2023: 071—English Language Learner (\$1,385) 510—Food Service (\$18,796) 850—Student Activities (\$649)
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.	Although the District correctly paid the amount invoiced for the health insurance costs in FY 2024 as of February 2024, the District did not document in its policies or employee contracts or pay agreements the health insurance cost to withhold from employees. As a result, we could not confirm whether the District was contributing the correct portion towards its employees' health insurance. Specifically, we noted that the District inconsistently withheld insurance cost for employees with the same elected coverage resulting in it paying more of the costs, and in some cases all of the costs, for some employees' coverage.

Naco Elementary School District

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

List of deficiencies

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 (Districts authorized by A.R.S. §15-914.01 to participate in the accounting responsibility program should perform the duties as described in A.R.S. §15-304.)	Documentation to support if the District prepared an Advice of Encumbrance for FY 2023 was not provided.
----	--	--

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 the Arizona Department of Administration (ADOA) 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 hotel reimbursements reviewed, the hotel rates exceeded the maximum reimbursement rates established by the Director of the ADOA. In addition, for 2 of 5 milage reimbursements reviewed, the employee was under reimbursed due to calculation errors.

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.	Signed Credit Card user agreements were not provided for all 5 card users selected to review.
2.	The District recovered cards immediately from terminated employees.	A former employee, who has a District credit card, terminated employment with the District at the end of FY 2023, and the card was never returned to the District. It was noted that the District closed the account.
3.	The District ensured someone other than a card user reconciled credit card and p-card supporting documentation and billing statements.	Credit card statements were reconciled by a card user, and documentation was not provided to support the reconciliations were reviewed by a secondary employee.

Naco Elementary School District

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

List of deficiencies

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 1 of 2 purchases reviewed within the written quote range, the District obtained quotes for a new vehicle but purchased a used vehicle.
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 A.A.C. R7-2-1003	The District did not document that it 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.
3.	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. A.A.C. R7-2-1191 through R7-2-1195	The cooperative purchasing agreements were not provided for purchases from 2 vendors that were under purchasing cooperative contracts.
4.	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. A.A.C. R7-2-1191(D)	Documentation to support the District performed due diligence was not provided for 2 purchasing cooperative contracts used.
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.	Documentation to support performance-based compensation for 5 teachers selected was not provided.
2.	The District's CSF monies were used to supplement, rather than supplant, existing funding from all other sources (see CSF FAQ 3).	For 1 of 5 teachers tested, it appears the District's CSF monies were used to supplant, rather than supplement, existing funding from all other sources.

Naco Elementary School District

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

List of deficiencies

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 payroll-processing responsibilities (i.e., adding new employees, adjusting pay, payroll preparation, payroll authorization, and warrant distribution) were separated among employees.	The business manager had access to make changes in the District's payroll system without any oversight.
2.	The District's individual personnel files included all appropriate supporting documentation, as listed on USFR pages VI-H-2 through 4.	One of 25 employees reviewed did not have a Form I-9 on file.
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.	Two employees had improper payouts that did not follow District policies for disposition of accrued time upon separation of employment. In addition, the compensated absence report for FY 2023 was not provided, which contributed to the auditor's adverse opinion on the financial statements.
4.	The District's payroll reports were properly reviewed and approved before processing and distribution to employees.	Four of 25 employees reviewed had contract amounts that did not agree with the actual amounts paid out in FY 2023.
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.	Budgeted expenditures reported on the AFR agreed with the District's most recently revised adopted expenditure budget.	Budgeted expenditures reported on the AFR for funds 374—E-Rate, and 300-399—Other Federal Projects did not agree to the District's most revised budget.
2.	The District completed and submitted all parts of the AFR reporting package, including the school-level reporting AFR, using its accounting data in the files and reported additional information required in the forms, such as revenue and expenditure amounts that were not automatically pulled from its accounting and student count data, and maintained applicable supporting documentation. A.R.S. §15-904(F)	As the District posted multiple journal entries after the FY 2023 AFR was issued, various revenue and expenditure amounts reported in the AFR did not agree with the District's accounting records.

Naco Elementary School District

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

List of deficiencies

3.	The District properly prepared the Food Service page of the AFR and reported expenditures from the M&O Fund 001 and Capital Fund 610 that agreed with the District's accounting records.	Food service expenditures on the Food Service page of the AFR for the fund 001—M&O did not agree with trial balance.
----	--	--

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 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	Membership reported on the AzEDS AMD15 report did not agree to the District's computerized attendance system records.

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 maintained adequate separation of duties in its IT systems that prevented 1 employee from completing a transaction without additional review and approval procedures.	Three business office employees and 2 consultants have full unrestricted access to the District's financial system.
2.	The District assessed security risks for its systems and data, implemented appropriate controls to address risks, and provided employees/contractors annual security awareness training.	Documentation was not provided to support the District provided employees/contractors annual security awareness training.
3.	The District scheduled and performed data backup-control procedures for all critical systems at least daily, or more frequently, to ensure uninterrupted operations and minimal loss of data.	Documentation to support if the District performed data backup-control procedures for all critical systems was not provided.
4.	The District enforced data security policies related to passwords and user authentication that aligned with credible industry standards.	The District's security policy (password policy) was not provided.
5.	The District had incident response 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.	Documentation to support if the District had an incident response and contingency planning documents was not provided.

Naco Elementary School District

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

List of deficiencies

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 24 eligible route miles on the FY 2023 TRAN55-1 report. However, the supporting documentation calculated 3,152 miles, resulting in a difference of 2,428 miles. In addition, the District reported 30.00 eligible students on the TRAN55-1. However, the supporting documentation calculates to 11.6 eligible students, a difference of 18.40 students. Further, as of September 13, 2024, the District had not submitted the FY 2024 TRAN 55-1 report, which was due in March 2024.