



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

December 30, 2024

Arizona State Board of Education
1700 W. Washington St.
Executive Tower Ste. 300
Phoenix, AZ 85007

Subject: Isaac Elementary School District—Not in Compliance with the USFR

Dear Members of the State Board:

In accordance with Arizona Revised Statutes (A.R.S.) §15-271, we are notifying you that Isaac Elementary School District (District) has not corrected its deficiencies with the *Uniform System of Financial Records for Arizona School Districts* (USFR). Accordingly, we request that the Arizona State Board of Education (State Board) take appropriate action as prescribed in A.R.S. §15-272.

In July 2024, we notified the District that it had not complied with the USFR based on our review of its fiscal year (FY) 2023 financial audit reports and USFR Compliance Questionnaire (Questionnaire). The District was given 90 days to correct its deficiencies included in the attached list. In October 2024, the District provided the required corrective action plan (CAP) for our review. Based on assertions in the District's CAP and discussions with District management, we determined that the District has not made enough progress in correcting its deficiencies to warrant a status review, and it is still in noncompliance with the USFR.

Further, the District may have overspent both its Maintenance and Operation and Unrestricted Capital Outlay Funds' budget limits by several million dollars, which could make it eligible for receivership status in accordance with A.R.S. §15-103. However, the District submitted an unreliable and inaccurate FY 2024 annual financial report (AFR) to the Arizona Department of Education (ADE), preventing the Maricopa County School Superintendent's Office and ADE from determining the overexpenditure amounts. The District's AFR appears unreliable and inaccurate since the District improperly moved several million dollars in expenditures into the School Plant, Civic Center, Community School, and Indirect Costs Funds, which did not have sufficient cash to support the spending, causing those funds to report deficits of \$10.1 million, \$2.0 million, \$1.7 million, and \$2.2 million, respectively, per the District's AFR. District management is currently reviewing and correcting the inaccurate reporting and will submit a revised AFR to ADE in January 2025.

My Office's Annual School District Financial Risk Analysis has identified the District as 1 of Arizona's highest-risk districts since December 2020, indicating a high risk of insolvency due to

its General Fund deficits, unfunded operating budget limit reserve, decreasing capital budget limit reserve, decreasing weighted student counts, and frozen primary property tax rate.

We will continue to meet with District management to discuss specific USFR requirements of each applicable deficiency area and the District's planned corrective actions. When the District can demonstrate that it has corrected its deficiencies, it should notify my Office and we may perform a status review to determine if the District is no longer in noncompliance with the USFR, and we will inform you of the results. The District's FY 2024 financial audit reports and Questionnaire are due by March 31, 2025. Once those reports are submitted, we will also review them and provide an update on the District's compliance status to the State Board.

If you have questions concerning this matter, please call Meghan Hieger, Director, or Chris Votroubek, Manager, within our Accountability Services Division at (602) 977-2796.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

cc: Governing Board

Dr. Mario Ventura, Superintendent

Ms. Lynn Lang, Chief Financial Officer

Ms. Nancy Santos, Business Manager

Isaac Elementary School District

The Honorable Steve Watson, Maricopa County School Superintendent

The Honorable John M. Allen, Maricopa County Treasurer

Members of the State Board of Education

Arizona State Board of Education

Mr. Art Harding, Chief Operations Officer

Ms. Nicole von Prisk, Deputy Associate Superintendent, Grants Management

Arizona Department of Education