

## Heber-Overgaard Unified 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 obtained conflict-of-interest (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	<p>The District provided conflict-of-interest forms that were missing required information or had been completed inaccurately. Specifically, 2 employees who disclosed substantial interests on their disclosure forms did not provide enough information to fully disclose their conflicts. Additionally, 1 of the 2 employees, and an additional employee, who disclosed conflicts of interest on their forms erroneously signed the statement of no conflict on their form, attesting they did not have a conflict to disclose.</p> <p>Further, the conflict-of-interest forms only contained documentation of the superintendent's review and not the 2 administrative employees who are also expected to review. Lastly, the superintendent's conflict-of-interest form included disclosed conflicts but there was no evidence that it was reviewed by another individual</p>
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 was unable to provide documentation that the signed cover pages of the budgets were submitted to the Arizona Department of Education (ADE) within 5 days of electronic submission. In addition, notice of a public hearing for the adopted budget was not posted 10 days prior to the meeting to adopt the budget.

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2.	The District revised its budget on or before December 15, if ADE notified the District that its Maintenance & Operations (M&O) or Unrestricted Capital Outlay Fund budgeted expenditures exceeded the general budget limit or unrestricted capital budget limit. A.R.S. §15-905(E).	The District did not complete a December budget revision after receiving notice from ADE that the M&O budgeted expenditures exceeded the general budget limit.
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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 Chart of Accounts.	The review noted \$16,054 of Summer Food Service revenue for fiscal year 2025 that was recorded in fiscal year 2024.
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 1 of 25 journal entries reviewed, the District was unable to provide supporting documentation. Additionally, for 5 of 25 journal entries reviewed, the journal entry was not approved by a second, authorized person.
3.	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 properly researched and resolved any differences.	The District was unable to provide documentation that transactions initiated by the CSS were periodically reviewed for propriety.
4.	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.	Reconciliations between the District and CSS were not dated or signed to indicate who completed or reviewed the reconciliation.

**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).	Monies deposited in the miscellaneous receipts clearing bank account were not always remitted at least monthly to the county treasurer.
2.	An employee not involved with cash-handling or issuing checks reconciled all District bank accounts monthly, and an employee independent of the cash-handling process reviewed, signed, and dated the monthly bank reconciliations.	The reconciler and reviewer did not always date when the bank reconciliation or review was performed.

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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 had security controls in place to help prevent theft, loss, unauthorized use, or damage to District property.	For 5 of 20 district vehicles reviewed, several errors were identified: <ul style="list-style-type: none"><li>• 1 vehicle's usage log reviewed, the same beginning odometer readings were recorded for multiple trips.</li><li>• 2 other vehicles, District staff traveled more than 1,900 miles but had not documented the purpose of the travel on the vehicle's usage logs</li></ul>
2.	The District's capital assets and stewardship items were identified as District property, properly tagged, and included on the corresponding list.	For 3 of 10 items selected from the capital asset and stewardship listings, the items could not be located on the District premises. Additionally, for 1 of 10 items selected from the capital asset and stewardship listings, the item was located but did not have a district tag.
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 4 of 50 disbursements reviewed, the purchase order was reviewed and approved after the issuance and receipt of goods or services.
2.	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.)	The District did not submit the Advice of Encumbrance to the CSS until August 8th.

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3.	The District properly prepared the Career Technical Education District (CTED) Supplanting worksheet and adequately supported that monies received from a CTED were used only for career and technical education and to supplement, rather than supplant, the District's base year career and technical education courses. A.R.S. §15-393	The District appears to have supplanted vocational education expenditures with CTED monies.
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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 did not always pay credit card statements timely, resulting in finance charges and late fees of \$1,367.

**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 3 of 5 purchases reviewed in the written quote range, the District did not obtain 3 written quotes.
2.	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. Arizona Administrative Code (A.A.C.) R7-2-1191(D)	For all 6 cooperative purchases reviewed, the District did not provide documentation of due diligence procedures.
3.	The District prepared written determinations for any specified professional services, construction, construction services, or materials purchased through a school purchasing cooperative. A.A.C. R7-2-1004 and A.R.S. §15-213(B)	For 1 of 6 cooperative purchases reviewed, the District did not maintain documentation of written determinations.

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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.	The District did not appropriately retain files for all 5 employees reviewed.
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 13 employee files tested, the District did not have an up-to-date fingerprint clearance card for 1 employee. Additionally, the District did not maintain an accurate and complete list of employee fingerprint clearance card information as the District's list did not include 3 employees and 6 employee's files had incorrect card expiration dates.
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.	For 2 of 5 employee files reviewed, leave units earned/used on the District's compensated absences listing could not be agreed to supporting documentation from the District's financial accounting software.
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 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)	The District did not include activity from the Student Activities Fund in the AFR.

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2.	The District followed the AFR—Review, Submission, and Publication Instructions.	The following exceptions were noted: <ul style="list-style-type: none"><li>• The District's website did not include a link to the AFR.</li><li>• The District did not submit the AFR to the CSS.</li><li>• The District did not submit the School Level Report to the ADE by October 15</li><li>• The District did not provide a copy of the signed cover page of AFR to ADE.</li></ul>
3.	Detailed source documents were traceable to the District's trial balance that was used to prepare the financial statements.	Actual revenues and expenditures reported on the AFR did not agree to the District's accounting records for several funds.
4.	The District submitted the School District Employee Report (SDER) to ADE, and it was accurate and timely for ADE to calculate the Teacher Experience Index. A.R.S. §15-941 and School Finance Reports	The District was unable to provide the original SDER that was submitted to ADE. Therefore, it could not be determined if the information was accurate.
5.	The District submitted its prior year's audit reports and USFR Compliance Questionnaire to the CSS and ADE. A.R.S. §15-914(D)	The District did not submit its prior year audit reports and USFR Compliance Questionnaire to the CSS or ADE.

**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	The membership information for 1 grade at 1 school could not be agreed to the ADM15 report.

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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.	The District did not develop and implement policies and procedures to assign and periodically review system access for employee accounts. Specifically, 9 users had more access than needed to perform their job duties and could initiate and complete purchasing and/or payroll transactions without an independent review and approval.
2.	The District immediately and appropriately modified terminated or transferred employees', contractors', or vendors' access to all District systems.	The District did not establish written policies and procedures to ensure that terminated employees' network access is promptly removed. Further, the District did not identify and remove 1 active network user account associated with a terminated employee. The account was associated with an individual who had not been employed by the District for approximately 1 month at the time the inappropriate access was identified.
3.	The District's computer network, system software and hardware was physically protected from unauthorized access, theft, and environmental hazards.	The District did not have inspection policies or procedures or a process for regular inspections of IT areas.
4.	The District enforced data security policies related to passwords and user authentication that aligned with credible industry standards.	The District's password requirements were not consistent with credible industry password standards. Additionally, the District did not enforce its own policy to change passwords on shared network accounts when users with access left District employment.
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.	The District's IT contingency plan was incomplete and was missing key components recommended by credible industry standards. Specifically, the plan did not identify all critical systems and the order in which they should be restored, and did not include individual responsibilities during a disaster, plans for business continuity, or detailed restoration steps. Additionally, the plan was not reviewed and approved by appropriate District staff.

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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	The District did not submit the number of miles and eligible students transported to ADE.