

McNary Elementary School District

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

List of deficiencies for the year ended June 30, 2024

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 held governing board meetings in accordance with A.R.S. §§38-431 to 38-431.09, and prepared and retained written minutes and/or recordings.	A record of how each member voted was not documented within the governing board meeting minutes. The minutes only reflected the vote of the individuals who proposed the motion and seconded the motion (which is a majority of the board).
2.	The District annually provided governing board members and employees guidance on what constitutes a substantial interest and that the conflict-of-interest statutes apply to all District governing board members and employees as a part of their employment. A.R.S. §§38-502, A.R.S. 38-503, and 38-509	The District did not have documentation to demonstrate that annual guidance was provided 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 a part of their employment.
3.	The District annually obtained conflict-of-interest 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	For 5 of 40 current employees reviewed, the employee did not complete a conflict-of-interest form. In addition, the business manager's and superintendent's conflict-of-interest forms did not disclose that they were relatives.
4.	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.	The governing board minutes did not document the approval of salary schedules or other applicable documentation to support pay rates.
5.	The governing board appointed a student activities treasurer and, if applicable, assistant student activities treasurers. A.R.S. §15-1122	The District appointed the superintendent as student activities treasurer on August 30, 2023. However, the District did not appoint a second authorized signer for the student activities bank account as required by A.R.S. §15-1122.

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6.	The governing board received monthly Student Activities Fund Reports of Cash Receipts, Disbursements, Transfers, and Cash Balances that were accurately prepared. A.R.S. §15-1123	For 2 of 4 months reviewed, the District did not present a report of student activities cash receipts, disbursements, transfers, and cash balances to the governing board. Additionally, for the other 2 months selected, the student activities fund reports did not include updated financial activity as the District had not posted April transactions to its accounting records.
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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 District completed its revised expenditure budget before May 15 and filed it electronically with the Superintendent of Public Instruction by May 18. A.R.S. §15-905(I).	The District did not document within the governing board minutes that final budget revisions were approved at a Governing Board meeting held before May 15.

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.	<p>The District did not code the following transactions in accordance with the USFR Chart of Accounts:</p> <ul style="list-style-type: none">• The District coded postage to object 6310—Official/Administrative Services rather than 6532—Other Communications Services.• The District coded the April 2024 credit card balance payment to function 2610—Operation of Buildings and object 6610—General Supplies rather than to the applicable function and object codes for each purchase.• The District coded student food associated with travel to object 6580—Travel rather than to object 6890—Miscellaneous Expenditures.• The District coded a travel purchase to object 6610—General Supplies rather than to object 6580—Travel.

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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 an Maintenance & Operation (M&O) Fund revolving bank account in accordance with A.R.S. §15-1101.	For 3 of 4 purchases made from the M&O Fund revolving bank account, the District did not retain documentation to support the transactions totaling \$328. In addition, the District did not maintain the account at the imprest amount the governing board established and did not have a formal process for how and when to replenish the account to the approved imprest amount.
2.	The District used the Student Activities Fund bank account(s) in accordance with A.R.S. §15-1122.	<p>The District did not retain supporting documentation for the disbursements as follows:</p> <ul style="list-style-type: none">• For 3 of 6 disbursements reviewed, the District did not maintain approval for the purchases by the student council in its meeting minutes.• For 2 of 6 disbursements, the District did not retain receipts or other supporting documentation for the transactions. In addition, the District did not complete the checkbook register stub to identify the information on the completed check for 1 of these disbursements.• For 1 of 6 disbursements, the purchase exceeded the amount authorized by the students in the meeting minutes by \$8.27.• For 1 of 6 disbursements, the supporting documentation included a receipt for the purchase of food for \$24.61. However, the District did not retain documentation that the student council authorized the purchase of food for this disbursement in its meeting minutes.• For 1 of 6 disbursements, the District made a cash withdrawal from the bank rather than disbursing the monies by check as required by A.R.S. §15-1122. In addition, the District's supporting documentation did not account for all monies withdrawn from the bank. The District's superintendent accepted responsibility for \$150 missing from the account and should repay the amount to the applicable student club.

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3.	The Student Activities Fund monies were deposited in a bank or treasurer account designated as the Student Activities Fund account.	For both deposits made to the District's bank accounts, the District did not maintain issued receipts, cash receipt summary reports, or a reconciliation of sales to amounts collected to support amounts received.
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.	
5.	The District's deposits were made in a timely manner and supported by deposit slips or other deposit transmittal documentation.	<p>The following issues were noted related to timely deposits:</p> <ul style="list-style-type: none">• For 5 of 7 local revenue deposits to the county treasurer, totaling \$2,194, cash was not deposited at least weekly. Cash was deposited between 28 to 54 days after initial collection.• For all 3 student activities deposits tested, totaling \$3,899, the District did not retain prenumbered deposit slips, treasurer's transmittal or other deposit transmittal documentation. As the District was unable to provide documentation, it could not be determined if monies were deposited in a timely manner.
6.	The District retained supporting documentation for disbursements from bank accounts.	The District did not always complete the stubs for each check written from its bank accounts and did not receive copies of canceled checks as part of its reconciliation process to verify that cashed checks were appropriate and unaltered. Additionally, for all 6 student activities disbursements tested, totaling \$4,137, the District did not retain supporting documentation, including original invoices, to support disbursements from the bank account.
7.	The District safeguarded unused checks.	The District did not void or destroy remaining check stock for the closed Food Service clearing bank account and kept the stock in a single binder with the check stock for its other open bank accounts. As a result, the District mistakenly wrote a check from the closed account's remaining check stock but noted the error before the vendor attempted to process the check.

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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 and authorizing expenditures, except as authorized in A.R.S. §§15-207, 15-304, 15-907, and 15-916.	For 5 of 40 expenditures tested, totaling \$157,342, the District issued purchase orders after receipt of the invoice. Purchase orders were dated 1 to 43 days after the invoice date.
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.	For 6 purchases examined the following were noted: <ul style="list-style-type: none">• For 2 of 6 purchases, the receiving report included quantities ordered and was not signed and dated by the receiver.• For 5 of 6 purchases, the purchase requisition was not signed and/or dated by the requestor and/or the approver.• For 1 of 6 purchases, the purchase order was not signed and dated by the approver.• For 1 of 6 purchases, the purchase was paid from a sales quotation, rather than from an invoice.• For 1 of 6 purchases, the purchase did not appear to be for an allowable District purpose. The District purchased \$590 worth of gift cards for a student costume contest. However, the District did not maintain supporting documentation that the District consulted with its legal counsel prior to making the purchase to determine that the gift card distribution would not constitute a gift of public monies. In addition, the District did not retain documentation of how the gift cards were distributed.
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.	For all 6 student activities disbursements tested, totaling \$4,137, the District could not provide evidence that the disbursement was authorized by members of the applicable club or sponsor.

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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 purchases reviewed, the District allowed employees in travel status to purchase meals using the District's credit card rather than submitting the purchase through its travel reimbursement process. In addition, the credit card receipt included unallowable alcoholic beverages. Further, the employee used a credit card issued to the District's Superintendent. Additionally, for 1 of 5 travel reimbursements tested, totaling \$97, the District reimbursed the employee directly for fuel, opposed to the required mileage rate.
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 ensured different employees were responsible for issuing cards; requesting, authorizing, and executing purchases; and payment processing.	The District did not implement adequate review procedures to ensure that relatives were not reviewing and approving each other's credit card transactions.
2.	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 have adequate controls over credit cards to track card usage and training. Specifically: <ul style="list-style-type: none">• For 1 of 5 credit card expenditures selected, the credit card user did not have a signed card user agreement. The user signed a credit card user agreement after the purchase.• Two credit card users did not have a signed credit card user agreement, and 5 credit card users did not have documentation that they attended the credit card training.• The District did not provide a copy of the most recent annual credit card training the District provided to employees.
3.	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 2 of 5 credit card expenditures selected, the District could not provide source documents, including receipts, to support the expenditures. For 4 of 5 credit card expenditures selected, the District did not retain support that clearly identified the employee making the purchase.

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4.	The District paid credit card and p-card statements before the due date to avoid finance charges and late fees.	The District incurred \$260.73 in late fees, interest, finance charges, and over-limit fees on its charge accounts.
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 5 of 7 vendors with total expenditures within the written quotation range, the District could not provide documentation that 3 written quotes were obtained.
2.	The District properly procured expenditures that individually or cumulatively totaled over \$100,000.	For both vendors with expenditures exceeding \$100,000 that were selected, the District could not provide documentation that procurement procedures were conducted.
3.	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 Arizona Administration Code (A.A.C.) R7-2-1003	The District did not provide training or guidance related to the restrictions on soliciting, accepting, or agreeing to accept any personal gift or benefit with a value of \$300 or more to employees, their supervisors, and others who participate in the planning, recommending selecting, or contracting for materials, services, goods, construction, or construction services of a school district or school purchasing cooperative.
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)	The District did not have a process to perform due diligence to support the use of cooperative contracts.
5.	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)	The District did not have a process to document written determinations for purchases made from a purchasing cooperative, such as the reasons for determining to use the cooperative, including how the determination was made, the rationale for the vendor selected, and how it is advantageous to the District.
6.	The District's governing board approved all sole-source procurements before any purchases were made, and the written determinations were retained in the procurement files. A.A.C. R7-2-1053 and R7-2-1086	For the 1 sole source procurement identified, the District could not provide documentation that the governing board approved all sole-source procurements before any purchases were made, and that the written determinations were retained in the procurement files and contained all required elements to support the sole source procurement.

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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.	For all 5 employees selected in our status review, the individuals' personnel file did not include completed background investigation and loyalty oath forms. Additionally, the District's auditors noted the District did not retain employment agreements to support the pay rate for 2 of 12 employees tested.
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 2 of 7 employees selected in our status review, the fingerprint clearance cards expired during the fiscal year (FY). Additionally, the District's auditors noted that for 1 of 12 employees tested, the fingerprint clearance card on file could not be agreed to the Arizona Department of Public Safety's database.
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 all 5 employees reviewed, the FY 2024 beginning leave balance did not agree to the employees' FY 2023 ending leave balance. In addition, 4 of the 5 employees' leave hours used did not agree to leave requests.
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'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 A.R.S. §41-1279.03(A)(9)	The District's website did not include a link to the District's page from the most recent Arizona Auditor General District Spending Report. In addition, the District did not post the dollar increase and percentage increase of its average teacher salary on its website, as required by A.R.S. §15-903(E).
2.	The District submitted the School District Employee Report (SDER) to Arizona Department of Education (ADE), and it was accurate and timely for ADE to calculate the Teacher Experience Index (TEI). A.R.S. §15-941 and School Finance Reports	The District did not submit the SDER report to ADE during FY 2024.

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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 2 of 4 students selected, the last day of attendance/excused absence did not agree with the withdrawal date. In addition, for 2 of 4 students selected, the withdrawal date was not on the 10th day of the unexcused absence.
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 assessed security risks for its systems and data, implemented appropriate controls to address risks, and provided employees/contractors annual security awareness training.	For 45 of 50 employees reviewed, the employee did not complete the District's security awareness training.
2.	The District enforced data security policies related to passwords and user authentication that aligned with credible industry standards.	The District did not require multifactor authentication for major accounting focused programs.
3.	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 could not provide recovery and contingency planning documents or evidence that such a plan was tested annually.
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 have a process to review information included on the TRAN55-1 report before submission to ADE. In addition, the District submitted the FY 2024 TRAN55-1 report using FY 2023 miles and had been submitting the reports using miles from the prior year for the past 9 years. Further, the District does not have an adequate process to accurately report eligible students in accordance with ADE's Transportation Guidelines.