

# Isaac 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 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 maintain documentation as evidence that it provided guidance to 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 for fiscal year (FY) 2024.
2.	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	The District did not maintain COI forms for FY 2024. However, for the 1 conflict of interest form located, there was space for a conflict to be fully disclosed. The form was not fully completed and the District did not follow up to determine the nature of the conflict.
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(A) and (B)	

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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 budget included all funds as required by A.R.S. §15-905 and followed the form's Budget—Submission and Publication Instructions.	The following items were noted during review of the District's budgets: <ul style="list-style-type: none"><li>• The District did not provide a link on its website to the Arizona Department of Education's (ADE) website where the District's adopted expenditure budget could be viewed.</li><li>• The notice of a public hearing was not posted 10 days prior to the meeting date in accordance with ADE Submission and Publication Deadlines for the adopted expenditure budget.</li><li>• The District did not submit the signed covered page of the adopted budget to the ADE within 5 days of electronic budget submission.</li></ul>
2.	The District revised its budget on or before December 15, if ADE notified the District that its M&O or UCO Fund budgeted expenditures exceeded the general budget limit (GBL) or unrestricted capital budget limit (UCBL). A.R.S. §15-905(E).	The District did not complete a December budget revision after receiving notice that the M&O budget was in excess of the ADE calculated 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.	<p>During review of the District's accounting records, the audit firm noted the following items:</p> <ul style="list-style-type: none"> <li>• For 2 of 50 disbursements reviewed, the District used object code 6737—Technology-Related Hardware and Software less than \$5,000 rather than object code 6739—Technology-Related Hardware and Software more than \$5,000.</li> <li>• For 1 of 50 disbursements reviewed, the District used object code 6731—Furniture and Equipment less than \$5,000 rather than object code 6733—Furniture and Equipment more than \$5,000.</li> <li>• For 1 of 50 disbursements reviewed, the District used object code 6330—Other Professional Services rather than object code 6450—Construction Services.</li> <li>• The District incorrectly coded short-term subscription-based information technology agreements to objects 6737—Technology-Related Hardware and Software less than \$5,000 and 6340—Technical Services instead of object 6655—Short-term Noninstructional Software Subscription.</li> <li>• The District recorded revenues in the Insurance Proceeds Fund to object code 1990—Miscellaneous rather than object code 5300—Proceeds From the Disposal of Real or Personal Property.</li> <li>• The District recorded a refund for a duplicate payment as state revenue rather than reducing the original expenditure.</li> <li>• The District made numerous journal entries to unallowable account codes prior to the completion of the original AFR, however, these were subsequently corrected.</li> </ul>

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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.	<p>Journal entries for the Title I Grants to Local Educational Agencies program and the American Rescue Plan - Elementary and Secondary School Emergency Relief (ARP ESSER) grant within the Education Stabilization Fund were made to correct consistent, pervasive, and material grant overexpenditures. In particular, for ARP ESSER, the District posted 533 adjusting journal entries totaling in excess of \$25 million during FY 2024 moving expenditures to and from the grant, and at times, not identifying specific underlying transactions during such movement. The volume and dollar value of the entries indicate a severe internal control deficiency.</p> <p>In addition, the audit firm noted the following errors during its review of the District's records:</p> <ul style="list-style-type: none"> <li>• For 7 of 25 journal entries reviewed, the District did not maintain supporting documentation.</li> <li>• For 8 of 25 journal entries reviewed, the journal entry was not approved by someone other than the preparer.</li> <li>• The District made numerous journal entries to move expenditures between funds without adequate supporting documentation.</li> </ul>
3.	The District reconciled cash balances by fund monthly with the County School Superintendent (CSS) or county treasurer's records, as applicable, and properly supported, documented, and dated the reconciliations.	The District was not timely disposing of reconciling items noted on the cash reconciliations that required adjustments to the accounting records. For example, reconciling items from as far back as October 2023 were not cleared until August 2024. Additionally, the District was not timely posting necessary transfers between treasurer funds.
<p><b>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.</b></p>		
<p><b>Question</b></p>		<p><b>Deficiency</b></p>
1.	The District used an M&O Fund revolving bank account in accordance with A.R.S. §15-1101.	The District did not maintain a check register for the M&O Fund revolving bank account and, as a result, could not produce bank reconciliations for the account.

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2.	The District used miscellaneous receipts clearing bank account(s) in accordance with A.R.S. §15-341(A)(20).	The District did not clear its miscellaneous receipts clearing bank account on a monthly basis. A check written in February 2024 cleared the account activity from November 2023. A check written in March 2024 cleared the account activity from January to February 2024. Additionally, the District did not maintain a check register for the miscellaneous receipts clearing bank account and, as a result, could not produce bank reconciliations for the account.
3.	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 clear Food Service clearing bank account receipts on a monthly basis. A check written in September 2023 cleared the account activity from July 2023. Additionally, the District did not maintain a check register for the Food Service Fund clearing bank account and, as a result, could not produce bank reconciliations for the account.
4.	The Student Activities Fund monies were deposited in a bank or treasurer account designated as the Student Activities Fund account.	For all 5 student activities cash receipts reviewed, the District did not retain a cash register receipt to the support the cash received.
5.	The District used the federal payroll tax withholdings bank account in accordance with USFR page VI-H-6.	The District did not maintain a check register for the federal payroll tax withholdings bank account and, as a result, could not produce bank reconciliations for the account.
6.	The District used the State income tax withholdings bank account in accordance with A.R.S. §15-1222.	The District did not maintain a check register for the State income tax withholdings bank account and, as a result, could not produce bank reconciliations for the account.
7.	The District used the employee insurance programs withholdings bank account(s) in accordance with A.R.S. §15-1223.	The District did not maintain a check register for the employee insurance programs withholdings bank accounts and, as a result, could not produce bank reconciliations for the accounts.
8.	The District used the electronic payments clearing bank account in accordance with A.R.S. §15-1221.	The District did not maintain a check register for the electronic payments clearing bank account and, as a result, could not produce bank reconciliations for the account.
9.	The District's deposits were made in a timely manner and supported by deposit slips or other deposit transmittal documentation.	For 3 of 5 student activities cash receipts reviewed, the District did not deposit cash received in a timely manner. Additionally, for 1 of 5 student activities cash receipts reviewed, the District did not retain the deposit slip. Therefore, it was unable to be determined if the cash received was deposited timely.

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10.	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 audit firm could not determine if the District had cash-handling duties adequately separated, since bank reconciliations were not prepared for several bank accounts.
<p><b>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.</b></p>		
<b>Question</b>		<b>Deficiency</b>
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 identify parcels separately in its capital assets listing. Therefore, for the 3.42 acres sold during FY 2024, the land was not removed from the asset listing upon sale.
2.	The District recorded additions including financed assets on the capital assets list and reconciled capitalized acquisitions to capital expenditures at least annually.	The District did not properly record construction in progress projects. Three projects were completed by fiscal year end but were still classified as in progress. Additionally, the District did not properly perform a reconciliation of its capital outlay.
3.	The District's capital assets and stewardship items were identified as District property, properly tagged, and included on the corresponding list.	<p>The audit firm noted the following errors during review of the Districts asset listings:</p> <ul style="list-style-type: none"> <li>• For 2 of 5 items selected from the District's premises, the assets could not be located on the capital asset listing or stewardship listing.</li> <li>• For 1 of 5 stewardship items selected from the District's listings, the asset could not be located on school property.</li> <li>• For 1 of 5 capital asset items selected from the District's listings, the asset could not be located on school property.</li> </ul>
4.	The District reconciled the current year's June 30 capital assets list to the previous year's June 30 list.	The District did not properly reconcile the current year's June 30 capital assets to the previous year's June 30 list.
5.	The governing board or authorized designee approved stewardship and capital asset disposals during the fiscal year, and the District removed the assets from the corresponding list and disposed of them in accordance with Arizona Administrative Code (A.A.C.) R7-2-1131.	For all 5 property disposals reviewed, the District did not maintain supporting documentation.

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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.	<p>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.</p>	<p>The District did not have sufficient budget capacity in budget-controlled funds nor cash in cash-controlled funds prior to authorizing expenditures from them. Specifically, the District reported negative cash balances in the Indirect Costs and Energy and Water Savings Funds of \$971,437 and \$735,676, respectively.</p> <p>Additionally, the District did not properly manage its federal programs, which resulted in the District not receiving grant reimbursement and the District's grant budgets were not approved until well after the beginning of each grant's period of performance. Consequently, the District had to move its grant expenditures to other funds, including the M&amp;O and UCO Funds. With the additional expenditures moved to these funds, the budget for both funds were exceeded. The District overspent its FY 2024 M&amp;O and UCO Fund budget limits by \$5,372,861 and \$13,904,228, respectively, which caused the District to incur significant losses and corresponding significant deficit fund balances and District's management expressing substantial doubt about the District's ability to continue as a going concern.</p> <p>Further, for 1 of 50 disbursements reviewed, the purchase order was approved after the invoice date. Lastly, the District did not complete and submit the September 2023 Child Nutrition reimbursement request.</p>
2.	<p>The District retained fully executed copies of each intergovernmental agreement and payments for services were made or received, as applicable. A.R.S. §11-952</p>	<p>For all 5 intergovernmental agreements reviewed, the District did not maintain the fully executed copies on file.</p>

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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 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.	For 1 of 5 credit card transactions reviewed, the District did not maintain a signed card user agreement for the user. The user was a consultant.
2.	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 1 of 5 credit card transactions reviewed, the receipt was not maintained.
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 7 of 10 purchases reviewed in the written quote range, the District could not provide documentation that 3 written quotes were obtained. Additionally, for 4 of these vendors, the District was not able to provide supporting documentation, therefore, it is undetermined if a multi-year quote was issued.
2.	The District properly procured expenditures that individually or cumulatively totaled over \$100,000.	The District made purchases from 1 vendor in excess of \$100,000 where the District did not formally procure the services.
3.	The District maintained a list of prospective bidders. A.A.C. R7-2-1023	For the 1 request for proposal issued, the District did not maintain any documentation related to the proposal.
4.	The District published and, as applicable, provided other adequate notice of the issuance of solicitations. A.A.C. R7-2-1022, R7-2-1024(C), or R7-2-1042(C)	
5.	The District issued solicitations at least 14 days before the time and date set for bid opening or the closing date and time for receipt of bids or proposals. A.A.C. R7-2-1024(A) or R7-2-1042(B)	
6.	The District included all required content in the solicitation, as applicable. A.A.C. R7-2-1024(B) or R7-2-1042(A)	

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7.	The District recorded the time and date that sealed bids or proposals were received and stored bids or proposals unopened until the time and date set for opening. A.A.C. R7-2-1029 or R7-2-1045	For the 1 request for proposal issued, the District did not maintain any documentation related to the proposal.	
8.	If the District awarded multiple contracts, it established and followed procedures for the use and award of multiple contracts. A.A.C. R7-2-1031(D) and R7-2-1050(C)		
9.	The District evaluated bids/proposals and awarded contracts according to A.A.C. R7-2-1031, R7-2-1032, R7-2-1046(A)(1), or R7-2-1050 and retained documentation to support the award(s).		
10.	The District obtained signed procurement disclosure statements for all procurement consultants, members of a procurement advisory group, or evaluation committee involved in each specific procurement process. A.A.C. R7-2-1008		
11.	The District prepared the applicable written determinations as required by the specific procurement rule(s). A.A.C. R7-2-1004		
12.	The District followed A.R.S. §15-213, and A.A.C. R7-2-1093 for the use of multi-term contracts.		
13.	The District followed A.A.C. R7-2-1117 through R7-2-1123 for contracts for specified professional services.		
14.	The District's procurement files included the required information, as applicable. A.A.C. R7-2-1001(97)		
15.	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 was unable to provide support that 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.

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16.	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 District did not maintain current cooperative purchasing agreements for each cooperative that the District made purchases through.
17.	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)	For 2 of 12 cooperative purchases reviewed, the District did not maintain documentation showing that due diligence was performed.
18.	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 10 of 12 cooperative purchases reviewed, the District did not maintain written determinations.
19.	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 2 of 12 sole source purchases reviewed, the District did not prepare a sole source determination nor obtain governing board approval of the purchase.
<b>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.</b>		
	<b>Question</b>	<b>Deficiency</b>
1.	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.	The District did not initially prepare the FY 2024 compensated absence balances in accordance with District policies, which resulted in an overstatement of \$1.6 million. The schedules were subsequently corrected.

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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
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)	<p>Actual expenditures reported on the AFR did not agree to the District's accounting records for the following:</p> <ul style="list-style-type: none"> <li>• Fund 001—Maintenance and Operations by \$414,772</li> <li>• Fund 100-130—ESEA Title I—Helping Disadvantaged Children Meet High Standards by \$101,359</li> <li>• Fund 160-169—ESEA Title IV—21st Century Schools by \$10,684</li> <li>• Fund 374—E-Rate (A.R.S. §15-1261) by \$6,583,569</li> <li>• Fund 300-399—Other Federal Projects by \$143,452</li> <li>• Fund 400-499—State Projects by \$42,996</li> <li>• Fund 610—Unrestricted Capital Outlay by \$7,368,152.</li> </ul> <p>Additionally, actual revenues reported on the AFR did not agree to the District's accounting records for Fund 001—Maintenance and Operations and Fund 691—Building Renewal Grant by \$104,488 and \$124,430, respectively. Further, expenditures reported on the school-level reporting AFR could not be agreed to the District's accounting records for Fund 001—Maintenance and Operations and Fund 610—Unrestricted Capital Outlay by \$1,577,519 and \$10,943,405, respectively.</p>
2.	The District followed the AFR—Review, Submission, and Publication Instructions.	The District submitted the initial AFR and AFR summary to the County School Superintendent on October 24th. Additionally, the District did not submit a signed cover page of the AFR to ADE. The District submitted the original AFR by October 15 to ADE but several versions were submitted after the District entered into receivership.
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.	The food service match reported on the AFR from the UCO Fund did not agree to the District's accounting records.

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4.	Detailed source documents were traceable to the District's trial balance that was used to prepare the financial statements.	<p>The District restated beginning balances by \$3.8 million for the correction of several errors. Additionally, beginning balances were not properly stated and required audit adjustments of an additional \$3.8 million before accounting for the prior period adjustment. Further, the District made a number of journal entries using the beginning fund balance object code 0330—Committed Fund Balance and these entries were deemed not proper.</p> <p>Specifically, for the restatement of beginning balances, the District:</p> <ul style="list-style-type: none"><li>• Reclassified prior year expenditures to the Federal and State Grants Fund from the General Fund related to a Coronavirus State and Local Fiscal Recovery Funds Grant.</li><li>• Reclassified prior year expenditures to the Federal and State Grants Fund from the General Fund and 2 nonmajor governmental funds related to an Education Stabilization Fund grant reimbursement previously forfeited.</li><li>• Reclassified prior year expenditures to the General Fund from the Federal and State Grants Fund for expenditures in excess of approved grant budgets and awards.</li></ul>
5.	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 did not include a copy of or a link to the District's page from the most recent Auditor General's District Spending Report.
6.	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's audit reports and USFR Compliance Questionnaire to the CSS and ADE.

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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 maintained appropriate documentation and accurately reported students enrolled in its Arizona Online Instruction (AOI) program, including redetermining the actual full time equivalent for each student enrolled in an AOI program following a student's withdrawal or after the end of the school year. A.R.S. §15-808	For 2 of 5 AOI students reviewed, the students' Intended Full Time Equivalency Enrollment Statements were not retained.
2.	The District obtained and maintained verifiable documentation of Arizona residency for enrolled students, including students in its AOI program. A.R.S. §15-802(B)(1) and ADE's Updated Residency Guidelines	For 1 of 5 AOI students reviewed, the District did not maintain documentation that the student was an Arizona resident.
3.	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 1 of 10 withdrawals for 10 consecutive unexcused absences reviewed, the student was not withdrawn on the last day of attendance or excused absence. Additionally, for 3 of 10 withdrawals for 10 consecutive unexcused absences reviewed, the District did not maintain documentation. Therefore, it could not be determined if the students were only counted in membership through the last day of actual attendance or excused 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 enforced data security policies related to passwords and user authentication that aligned with credible industry standards.	Multifactor authentication was not required nor enabled for some users who have remote or administrative access to critical IT systems.
2.	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 recovery and contingency planning documents did not include sufficient information in order to restore or resume system services in case of disruption or failure.