Isaac Elementary School District

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

List of deficiencies for the year ended June 30, 2025

	Question	Deficiency
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.		
1.	The budget included all funds as required by Arizona Revised Statue (A.R.S.) §15-905 and followed the form's Budget—Submission and Publication Instructions.	The District did not post a hearing notification for its revised budget adoption.
2.	The District revised its budget on or before December 15, if Arizona Department of Education (ADE) notified the District that its Maintenance & Operation (M&O) or Unrestricted Capital Outlay Fund (UCO) budgeted expenditures exceeded the general budget limit (GBL) or unrestricted capital budget limit (UCBL). A.R.S.§15-905(E).	The District did not submit a December budget revision after ADE notified the District that its M&O Fund budgeted expenditures exceeded the GBL.
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 District's auditors noted the following: • The District coded conference registration fees of $942.80 to object code 6580—Travel rather than to object code 6300—Purchased Professional and Technical Services. • The District coded proceeds from the sale of property to object code 1910—Rentals rather than object code 5300—Proceeds From the Disposal of Real or Personal Property. • The District coded the additional one-time funding to object codes 4500—Restricted Revenue Received from the Federal Government through the State and 3110—State Equalization Assistance, rather than 3100—Unrestricted. • The District recorded proceeds from the lease-leaseback transaction to object code 1990—Miscellaneous, rather than to object code 5500—Lease Proceeds. • The District coded its property insurance to object code 6260—Workers' Compensation, rather than to object code 6521—Current Year Insurance.

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's deposits were made in a timely manner and supported by deposit slips or other deposit transmittal documentation.	For 2 of 35 cash receipts (both student activities) tested, the District did not deposit the monies in a timely manner, with days to deposit ranging from 11 to 13 days.

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'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.	The District did not provide a stewardship listing that tracked assets by cost, location, tag number, and acquisition date.
2.	The District’s capital assets and stewardship items were identified as District property, properly tagged, and included on the corresponding list.	For 4 of 5 stewardship items selected, the stewardship item could not be located on the District premises. In addition, for 2 of 5 items selected from the premises, those items' tag numbers could not be traced from the asset to the corresponding listing.
3.	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.	The District sold 2 parcels of land and the related assets and did not properly record the disposals on the capital assets listing.

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.	The District exceeded its M&O and UCO Fund budget limits by $1,753,207 and $3,396,855, respectively. The District's FY 2025 UCO Fund overexpenditure further decreased the District's ongoing UCO Fund budget deficit to a balance of $(19,654,606). Additionally, the District reported deficit cash balances in the following individual funds reported in the General Fund: • Indirect Costs Fund—$(520,126). • Energy and Water Savings Fund—$(735,676). The District's budgetary overexpenditures, related fund balance deficits, and significant lease liability that it entered to cover operating expenses caused District management to raise substantial doubts about the District's ability to continue as a going concern. Further, for 100 disbursements tested the auditor noted the following: • 2 purchases exceeded the purchase order amount. • 16 had purchase orders created after the purchase was made. • The District did not provide the purchase order for 1 disbursement.
2.	The District agreed invoice amounts to contract pricing and terms and conditions for expenditures made through written quotes or competitively awarded contracts, including cooperative contracts.	For 2 of 23 written quotes tested, determined that the District's payments to the vendors exceeded the original quoted price.
3.	The District retained fully executed copies of each intergovernmental agreement (IGA) and payments for services were made or received, as applicable. A.R.S. §11-952	For 1 of 3 intergovernmental agreements tested, the District did not maintain the fully executed copy.

	Question	Deficiency
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. A.R.S. §15-342(5)	The District's audit firm noted the following: • For both mileage reimbursements tested, the District reimbursed at a rate of 62.5 cents per mile rather than the ADOA rate of 65.5 cents, resulting in an underpayment of $14.58. • For 1 of 5 hotel reimbursements tested, the District reimbursed a rate of $415.03 per night for 3 nights, rather than the ADOA rate of $182 per night, resulting in an overpayment of $699.10.
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 3 of 22 credit card purchases tested, the District did not maintain a signed user agreement for the employee making the purchase.
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 4 of 22 credit card purchases tested, the District did not maintain the invoices/receipts to support the transaction.
3.	The District paid credit card and p-card statements before the due date to avoid finance charges and late fees.	For 1 of 10 credit card statements reviewed, the District incurred finance charges of $460.98.
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 2 of 23 purchases within the written quotes threshold tested, the District did not select the lowest quote and did not maintain documentation to justify the selection. Additionally, for 10 of 23 purchases within the written quotes threshold tested, the District did not obtain 3 quotes or maintain documentation that quotes were not required.

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 provide 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 District did not provide documentation (cooperative purchasing agreements) to support which cooperatives it was a member of.
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 maintain documentation to support that due diligence was performed on any cooperative contracts during the fiscal year.
5.	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 both vendors included on the sole source listing, the District did not include the duration and estimated dollar volume of the procurement. Additionally, 1 vendor was treated as sole source, but was not included on any formally adopted sole source listings.

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-4 through 6.	For 1 of 25 employee files tested, the District did not maintain the employee's direct deposit form.
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 1 of 25 employee files tested, the District did not maintain a valid fingerprint clearance card on file (expired 8/9/24).

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.	The budgeted amount reported on the AFR for Fund 850—Student Activities did not agree with the most recently 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)	The District did not include revenues and expenditures for Fund 850—Student Activities on the AFR.
3.	Detailed source documents were traceable to the District's trial balance that was used to prepare the financial statements.	The District's auditors noted the following related to grant activity: • An audit adjustment of $791,486 was necessary to properly record prior year grant activity within the correct fund as grants were overspent in a prior period. • An audit adjustment of $33,346 was necessary to properly accrue E-rate revenue that was received within the encumbrance period for the period ending June 30, 2025. • ADE grant revenue for $425,823 needed to be accrued through an audit adjustment for revenue received within the encumbrance period, for activity occurring as of June 30, 2025. The District's auditors noted the following related to the general fund: • An audit adjustment was necessary to properly accrue $332,539 of State aid received within the encumbrance period. • A correcting audit adjustment of $476,970 was necessary to properly record cash and fund balance between the Classroom Site Fund and General Fund to reverse an entry that was made in error within the District's general ledger. • An audit adjustment was necessary to properly accrue interest expense of $375,000 for the lease payable. • An audit adjustment was necessary to properly accrue interest payable of $364,014 from the tax anticipation notes payable. • An audit adjustment of $405,429 was necessary to eliminate deficit liabilities that were not cleared out within the District's general ledger.

4.	The District's website home page included its average teacher salary information, separately from the budget, 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, required by A.R.S. §41-1279.03(A)(9).	The District did not include a link to the most recent Arizona Auditor General District Spending Report on its website.
5.	The District submitted its prior year's audit reports and USFR Compliance Questionnaire to the County School Superintendent (CSS) and ADE. A.R.S. §15-914(D)	The District did not submit the prior year audit reports and USFR Compliance Questionnaire to 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 maintained appropriate documentation and accurately reported students enrolled in its Arizona Online Instruction (AOI) program, including redetermining the actual full time equivalent (FTE) 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 all 10 students tested, the minutes on the system generated logs did not agree with the amounts reported to ADE.
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 had 5 users with full access to the accounting software when it was not required for their job function.
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.	The District did not maintain documentation to support that it provided security awareness training to all staff. Additionally, the District did not provide an information technology risk assessment for the fiscal year.
3.	The District had cloud computing, digital learning, and vendor contracts or data-sharing agreements in place with any 3rd parties accessing or hosting District data that addressed controls to support security and processing integrity, and backup procedures if applicable, before data was accessed/shared.	The District did not have data security agreements with all third party vendors accessing the District's systems.
4.	The District enforced data security policies related to passwords and user authentication that aligned with credible industry standards.	Multifactor authentication was not always enforced as required by credible industry standards.

5.	The District monitored and reviewed IT system-generated incident or error reports to identify network security threats or other unusual activity and addressed noted issues.	The District did not have procedures in place to ensure that IT system-generated electronic audit trail reports, change logs, and incident or error reports were being reviewed or analyzed.
6.	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 did not test its disaster recovery plan during the fiscal year. Additionally, the District did not provide any incident response documents.