

Hyder Elementary 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 governing board approved student clubs' and organizations' fund-raising events. A.R.S. §15-1121 and Attorney General Opinion I84-018	One of 5 student activities fundraising events was not approved by the Governing Board.
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.	A bus purchase was coded to Function 2600—Operation and Maintenance of Plant instead of Function 2700—Student Transportation. Additionally, our June 2024 performance audit follow-up found that the District continued to incorrectly classify expenditures similar to what was identified in the January 2023 performance audit.
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 the Student Activities Fund bank account(s) in accordance with A.R.S. §15-1122.	For 2 of 5 student activities receipts tested, a reconciliation of cash collected to items sold was not maintained.
2.	The District separated responsibilities for cash-handling and recordkeeping among employees (i.e., receiving, depositing, and recording revenues), to safeguard monies.	While the District has begun developing policies and procedures for internal controls over cash handling, District officials reported they will not be implemented until November 2024. Additionally, while the District purchased a new safe to restrict access to cash and has begun developing procedures related to restricting and monitoring access to the safe, it has not yet included all the recommended items, such as maintaining a log of employees that access the safe, in these procedures.
3.	The District's deposits were made in a timely manner and supported by deposit slips or other deposit transmittal documentation.	For 6 of 20 cash receipts tested, the District did not deposit the monies in a timely manner.

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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.	While the District has begun developing policies and procedures for internal controls over cash handling, District officials reported they will not be implemented until November 2024.
5.	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 reconciliations.	

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 capital assets and stewardship items were identified as District property, properly tagged, and included on the corresponding list.	One of 5 equipment items selected from the premises could not be traced back to the asset 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 separated responsibilities for expenditure processing among employees (i.e., voucher preparation, recordkeeping, and authorization).	While the District has begun developing policies and procedures to separate expenditure processing responsibilities, including requiring a secondary approval for all vendor additions to its financial system, District officials reported they would not be implemented until November 2024. In July 2023, the District updated its purchasing process from a manual, paper-based process to an electronic process utilizing the accounting system for the creation and approval of purchase requisitions and purchase orders.
2.	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 1 of 30 disbursements tested, the purchase order was created after the invoice date.

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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 5 student activities disbursements tested, the District did not maintain the student club approval of the purchase.
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.	While the District has begun developing policies and procedures for internal controls over credit cards, District officials reported they would not be implemented until November 2024. Additionally, while the District purchased a new safe to restrict access to credit cards and has begun developing procedures related to restricting and monitoring access to the safe, it has not yet included all the recommended items, such as maintaining a log of employees that access the safe, in these procedures.
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.	
3.	The District's management periodically reviewed purchases for unauthorized vendors and purchases over approved limits and/or purchases that circumvent the procurement rules and District policies.	
4.	The District ensured someone other than a card user reconciled credit card and p-card supporting documentation and billing statements.	
5.	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.	
6.	The District paid credit card and p-card statements before the due date to avoid finance charges and late fees.	For 1 of 5 credit card statements reviewed, the District incurred \$21.12 in late fees and finance charges.

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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'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	Two of 19 vendors reviewed were incorrectly classified as sole source vendors.
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 payroll-processing responsibilities (i.e., adding new employees, adjusting pay, payroll preparation, payroll authorization, and warrant distribution) were separated among employees.	While the District has begun developing payroll policies and procedures to ensure proper separation of responsibilities; review, approval, and documentation of time sheets; and appropriate tracking of employee leave accrual, usage, and balances, District officials reported they will not be implemented until November 2024.
2.	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.	
3.	Attendance records were prepared for each pay period for each employee subject to the Fair Labor Standards Act and were approved by the employee and the employee's supervisor.	
4.	The District ensured any adjustments to pay for employees who received prorated wage payments during the year were based on each employee's official rate of pay.	For 1 of 3 hourly employees with prorated pay tested, an adjustment was not made in the pay period tested based on the actual hours worked and amount of leave taken.
5.	The District's individual personnel files included all appropriate supporting documentation, as listed on USFR pages VI-H-2 through 4.	For 2 of 10 employees tested, the District did not maintain a current contract or wage notice in their employee file.

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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.	Budgeted expenditures reported on the AFR agreed with the District's most recently revised adopted expenditure budget.	The budgeted expenditures for Funds 300-399—Other Federal Projects on the AFR did not agree with the final budget.
2.	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.	The District did not maintain current teacher salary information or a link to the most recent Arizona Auditor General District Spending Report on its website.
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.	While the District trains employees on cybersecurity topics during staff meetings held throughout the school year, District officials reported that it will not require all personal to participate in annual security awareness training until August 2024.
2.	The District enforced data security policies related to passwords and user authentication that aligned with credible industry standards.	The District's network password requirements were not aligned with credible industry standards. District officials reported that they will develop a process for annually reviewing industry password standards by August 2024.
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 formalized an IT contingency plan in February 2023. However, the plan is missing 1 key component because it does not rank the criticality of systems and the order in which critical systems should be restored, contrary to USFR requirements and credible industry standards. Additionally, the District has not tested the plan since it was developed and formalized.

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Transportation support - The District should accurately report its transportation miles and eligible student riders to the Arizona Department of Education (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 reported 56,231 miles and 94 eligible riders on its TRAN 55-1 report. However, the District's supporting mileage logs totaled 42,611 miles and the District did not maintain supporting documentation for its eligible rider count.