

Maricopa County Regional 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	The District did not obtain COI forms from administrative employees involved with procurement.
2.	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.	Governing board approval of a fiscal year (FY) 2023 salary schedule was not noted. Further, it does not appear that hourly and supplemental pay, such as stipends paid to employees, were approved in a public meeting.
3.	The governing board obtained voter approval to construct buildings and purchase or lease school sites, unless otherwise exempted by A.R.S. §15-342(25).	Contrary to A.R.S. §41-5741(F), the District expended \$6.4 million of the proceeds from the sale of land funded by the School Facilities Division (SFD) New School Facilities Fund on a building without SFD approval.
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.	A public hearing notice was not submitted at least 10 days prior to the governing board meeting where the required December budget revision was to be approved.

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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.	Lease principal and interest payments were recorded to object code 6441—Library Books instead of 6832—Other for principal payments on long-term obligations other than bonds and 6842—Other for interest payments on long-term obligations other than bonds, accordingly. In addition, the principal and interest payments were not recorded to function 5000—Debt Service. Additionally, the District did not use the correct unit code and funding source.
2.	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 researched and resolved any differences.	Personnel of the Maricopa CSS’s Office have access to enter and post journal entries directly into the District’s accounting records. These entries were not reviewed and approved by District personnel prior to being posted to the accounting records.
3.	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.	Cash for the accommodation school district and juvenile detention education program were reconciled in total; however, these 2 entities should have separate bank balance ledgers to ensure there is no commingling of funding and that activity within the fiscal year is accurately reported between each entity.
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).	The miscellaneous receipts clearing bank account was not cleared to the Treasurer on a monthly basis. Further, the District cleared \$12,000 from the miscellaneous receipts clearing account in FY 2024 but the monies were incorrectly recorded to Fund 500—School Plant, object code 1990—Miscellaneous revenue rather than Fund 526—Extracurricular Activities Tax Credit, object code 1790—Extracurricular Activities Tax Credit as this bank account was used to record tax credit donations for the accommodation schools.

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2.	The District paid bank charges from only the Maintenance and Operation (M&O) Fund revolving bank account, Food Service Fund revolving bank account, Auxiliary Operations Fund bank account, and Auxiliary Operations Fund revolving bank account(s) or, if not, the bank charges were reimbursed from an appropriate District fund or bank account.	The District incurred bank fees in the Miscellaneous Receipts Clearing, Employee Insurance, Federal Tax, and Electronic Payments Clearing accounts that were not reimbursed from an allowable source.
3.	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.	The District did not retain support for the following deposits made to local bank accounts: (1) Credits from insurance vendors to the Insurance/FSA/COBRA (employee insurance) bank account in the amount of \$11,971.64. (2) Tax credit donations in the amount of \$1,000 to the Electronic Donations (miscellaneous receipts clearing) bank account.
4.	The District's deposits were made in a timely manner and supported by deposit slips or other deposit transmittal documentation.	For 6 of 8 cash receipts tested, the District did not deposit the monies in a timely manner.
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.	Bank reconciliations were prepared monthly for each bank account; however, the reconciliations were not signed and dated to document when they were prepared.

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.	For 2 assets selected from the corresponding listing and 5 assets selected from the floor, the tag number or asset could not be identified. Fifteen assets were tested in total.

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2.	The governing board or authorized designee approved stewardship and capital asset items disposed of 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 did not maintain documentation of governing board approval for the sale of a school building that occurred during FY 2023.
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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 separated responsibilities for expenditure processing among employees (i.e., voucher preparation, recordkeeping, and authorization).	The same District employee sets up vendors and pays invoices. A second employee does not review or verify accounts payable information within the enterprise resource planning (ERP) system once the vendor set up process is complete.
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 26 cash disbursements tested, the PO was approved and dated after the invoice date.
3.	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.	The District used \$2,266.42 in Gifts and Donations Fund monies for food purchases for staff and a holiday party and did not have a board policy related to providing food and beverages at district events. In addition, for 1 of 25 disbursements reviewed in the amount of \$122, the invoice, service receipt date, and check cut to the vendor were not retained. Further, no supporting documents were on file for \$7,847.44 in disbursements reviewed as part of the special audit reconstruction. Finally, the District provided services to the County Juvenile Detention Education Program without an agreement in place and costs were not remunerated. A financial reconstruction performed by a certified public accountant showed the District owes the Juvenile Detention Education Program \$134,243.

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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'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.	The District has vehicles that can be used by employees to conduct district business and fuel cards to purchase fuel for District vehicles. The District does not utilize logs within each vehicle to track dates, drivers, locations, and odometer readings. As a result, fuel purchases made with the fuel cards cannot be analyzed in conjunction with mileage driven.
2.	The District paid credit card and p-card statements before the due date to avoid finance charges and late fees.	The District incurred \$75 in late fees from the M&O Fund for the late filing of use tax.
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 1 of 3 purchases tested where written quotes were required, the District did not obtain written quotes.
2.	The District prepared the applicable written determinations as required by the specific procurement rule(s). A.A.C. R7-2-1004.	For 9 of 17 due diligence eligible contracts reviewed, the District was unable to locate documentation of compliance with the requirements of A.A.C. R7-2-1004 which requires written determination, including how the determination was made, for any purchases made from a purchasing cooperative.
3.	The District followed A.R.S. §15-213, and A.A.C. R7-2-1093 for the use of multi-term contracts.	For 3 of 6 written quote procurement selections with multi-term contracts, the District was unable to locate documentation that the terms and conditions of renewal or extension were included in the original solicitation and monies were available for the first fiscal year at the time of contracting.
4.	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 maintain documentation that employees received training on the acceptance of gifts.

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5.	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 was unable to locate current cooperative purchasing agreements for each cooperative used.
6.	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 13 of 17 due diligence eligible contracts reviewed, the District was unable to locate documentation that due diligence procedures were performed for purchases made with cooperatives and lead districts.
7.	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 4 of 5 vendors designated by the District as sole source, the District did not maintain documentation to support the governing board approval of the sole source status.

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.	The same District employee sets up employees and pays employees. A second employee does not review or verify payroll information within the ERP system once the employee set up process is complete.
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.	The sick leave accrual rate did not always agree with the District's policy. One employee accrued 4 more hours than documented within the District's policy. Further, the performance auditors noted District's compensated absences schedule was not updated with current year leave activity and balances from the leave system, resulting in a \$4,611 overstatement of sick leave and a \$13,091 overstatement of vacation leave balances accrued based on their recalculation.

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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)	The FY 2023 AFR was not published to the District’s website by November 15.
2.	Detailed source documents were traceable to the District's trial balance that was used to prepare the financial statements.	The District did not record a liability of \$7,577,183 for the repayment of the full sale price of land originally purchased with monies from SFD pursuant to A.R.S. §41-5741(F). This uncorrected misstatement was the auditor’s basis for issuing a qualified opinion on the financial statements. In addition, since the net pension/other post-employment benefits activity was combined with the Juvenile Detention Education Program, there is the potential that a misstatement could occur in recording the activity.
3.	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 have its average teacher salary information available on its website.

Student attendance reporting—The District should report accurate student membership and attendance information to the Arizona Department of Education (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	Membership was understated by 28 days.

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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 had 2 users with full access to the financial software when their job function did not require it.
2.	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 formal data security agreements in place with 3rd parties accessing the District's systems.
3.	The District enforced data security policies related to passwords and user authentication that aligned with credible industry standards.	The District does not currently have a formal password policy and does not require multifactor authentication for users with full access.
4.	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 does not currently have a formal disaster recovery plan in place.