



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

September 18, 2024

Arizona State Board of Education
1700 W. Washington St.
Executive Tower Ste. 300
Phoenix, AZ 85007

Subject: Naco Elementary School District—Not in compliance with the USFR

Dear Members of the State Board:

In accordance with Arizona Revised Statutes (A.R.S.) §15-271, we are notifying you that Naco Elementary School District (District) has not corrected its deficiencies with the *Uniform System of Financial Records for Arizona School Districts* (USFR). Accordingly, we request that the Arizona State Board of Education (State Board) take appropriate action as prescribed in A.R.S. §15-272.

Specifically, in December 2022, we notified the District that it had not complied with the USFR based on our review of the District's financial audit reports and USFR Compliance Questionnaire (Questionnaire) for the year ended June 30, 2021. In October 2023, we further notified the District that it was still in noncompliance with the USFR based on our review of the District's financial audit reports and Questionnaire for the year ended June 30, 2022. The District had an additional 45 days to correct its deficiencies and submitted a corrective action plan (CAP) in December 2023.

Based on assertions in the District's December 2023 CAP and discussions with District management, we performed a status review of the District's internal controls to determine whether the District had made improvements to address its noncompliance with the USFR. In addition, we received the District's late financial audit reports and Questionnaire for the year ended June 30, 2023, in July 2024. Based on our review of the District's fiscal year 2024 procedures and related documents, interviews with personnel, and the fiscal year 2023 audit reports and Questionnaire, we determined that the District has not made adequate progress in correcting its deficiencies and remains in noncompliance with the USFR. As required, we are providing you a list of the most significant USFR deficiencies, including unrecorded general fixed assets, depreciation expense, and compensated absences, and significant unexplained variances in the District's reconciliation of cash balances with the County Treasurer's records, which were the basis for the District's auditor's adverse opinion on the District's fiscal year 2023 governmental activities, major funds, and aggregate remaining fund information.

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We have provided the District an updated CAP template to document corrective actions taken to comply with the USFR. In the next several weeks, we will schedule periodic meetings with District management to discuss specific USFR requirements of each applicable deficiency area and the District's planned corrective actions. When the District can show it has corrected its deficiencies, my Office will perform a status review to determine if the District is no longer in noncompliance with the USFR, and we will inform you of the results.

If you have questions concerning the District's noncompliance or our process, please call Meghan Hieger, Director, or Megan Smith, Manager, within our Accountability Services Division at (602) 977-2796.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

cc: Governing Board
Mr. Rusty Taylor, Superintendent
Ms. Kristen King, Business Manager
Naco Elementary School District
The Honorable Dr. Jacqui Clay, Cochise County School Superintendent
Mr. Sean Ross, Executive Director
Arizona State Board of Education
Mr. Art Harding, Chief Operations Officer
Ms. Nicole von Prisk, Deputy Associate Superintendent, Grants Management
Arizona Department of Education