

# Isaac Elementary School District

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

List of deficiencies for the year ended June 30, 2023

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	Although the District's COI forms contained space for a conflict to be fully disclosed, 1 employee's form was not fully completed and the District did not follow up to determine the nature of the conflict. In addition, a District employee did not disclose an existing conflict of interest; therefore, a form was not on file for 1 conflicted purchase.
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 did not properly code the following transactions: <ul style="list-style-type: none"><li>• For 4 of 50 disbursements, the District used object code 6731—Furniture and Equipment rather than object code 6610—General Supplies.</li><li>• For 1 of 50 disbursements, the District used object code 6330—Other Professional Services rather than object code 6450—Construction Services.</li><li>• The District recorded inflows 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>• For 4 of 11 expenditures paid during the encumbrance period, the expenditures should have been recorded in fiscal year 2024 rather than fiscal year 2023.</li><li>• Numerous transactions were recorded to object code 6200, which is not a valid object code, as further detailed codes are required.</li><li>• The District recorded preschool tuition of \$44,364 to Fund 290—Medicaid Reimbursement rather than Fund 520—Community School.</li><li>• The District did not record a short-term software subscription to object code 6655.</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.	For 7 of 20 journal entries reviewed, it was determined the journal entry was not approved by someone other than the preparer.
3.	The District reconciled cash balances by fund monthly with the County School Superintendent 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. In particular, the following activity was noted on the cash reconciliation but was not recorded in the District's accounting records: \$253,883 of interest income, \$17,522 of state equalization revenue, \$702,810 of property tax revenue, \$330,701 of Classroom Site Fund revenue, \$596,298 of costs incurred due to negative cash balances. Audit adjustments were required to properly state cash balances for unposted activity. In addition, the District was not timely posting necessary transfers between treasurer funds.

**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 District did not clear the miscellaneous receipts clearing account on a monthly basis. A check written in February 2023 cleared the account activity from July to December 2022.
2.	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.	For all 5 student activities cash receipts reviewed, the District did not retain a pre-numbered receipt to support the cash received. In addition, for 1 of 5 student activities cash receipts reviewed, the District did not prepare a sales summary to reconcile sales to the amount of cash collected.
3.	The District's deposits were made in a timely manner and supported by deposit slips or other deposit transmittal documentation.	For 2 of 5 student activities cash receipts reviewed, the District did not deposit cash received in a timely manner.
4.	The District retained supporting documentation for disbursements from bank accounts.	For 2 of 5 disbursements from the Maintenance and Operation Fund revolving bank account reviewed, the District did not maintain supporting documentation.

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**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 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.	Several errors were noted in the original capital asset listing received from the District: <ul style="list-style-type: none"><li>• \$1,359,088 of current year additions were not properly set up within the financial system and did not appear on the capital asset listing as a result.</li><li>• Depreciation expense was not initially computed on several current year additions.</li><li>• The District did not accurately categorize its additions, therefore, the allocation of depreciation to the different functions was not accurate.</li></ul>
2.	The District's capital assets and stewardship items were identified as District property, properly tagged, and included on the corresponding list.	The District's auditors noted the following errors during review the District's asset listings: <ul style="list-style-type: none"><li>• For 4 of 5 items selected from the District's premises, the assets could not be located on the capital asset listing.</li><li>• For 1 of 5 stewardship items selected from the District's listings, the tag number on the item was incorrect.</li><li>• For 3 of 5 stewardship items selected from the District's listings, there was no tag on the item.</li><li>• For 1 of 5 stewardship items and 2 of 5 capital assets selected from the District's listings, the items were not located in the building/room identified on the listings.</li><li>• For 1 of 5 capital assets items selected from the District's listings, the item was not able to be located on school property.</li><li>• For 2 of 5 capital assets items selected from the District's listings, the assets description was incorrect.</li></ul>

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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'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.	<p>The District did not have a process in place to appropriately monitor and timely reconcile grant activity within the accounting system. As a result, the District:</p> <ul style="list-style-type: none"> <li>Recorded expenditures of \$366,316 in the Education Stabilization Fund that were not incurred prior to the end of the fiscal year.</li> <li>Reported \$317,543 of expenditures in the Emergency Connectivity Program grant fund that were in excess of the approved grant amount.</li> <li>Recorded costs to 5 inactive grant funds totaling \$138,695.</li> <li>Moved \$9,812,251 of expenditures between grant funds without identifying specific underlying transactions to support that the movement was allowable.</li> </ul>
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 paid credit card and p-card statements before the due date to avoid finance charges and late fees.	The District did not pay credit card statements in a timely manner. This resulted in late fees and finance charges of \$450.
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 10 purchases reviewed in the written quote range, the District could not provide documentation that 3 written quotes were obtained. For 1 of 10 purchases reviewed in the written quote range, it was determined that the lowest quote was not selected, and written documentation did not exist for not choosing the lowest quote.
2.	The District properly procured expenditures that individually or cumulatively totaled over \$100,000.	The District inappropriately obtained written quotes for 2 purchases in excess of \$100,000, rather than issuing an invitation for bid or request for proposal. For 1 of these purchases, the lowest quote was not selected.

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3.	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 Arizona Administrative Code (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.
4.	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.
5.	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 showing that due diligence was performed for all 12 cooperative purchases reviewed.
6.	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)	The District did not maintain written determinations for all 12 cooperative purchases reviewed.

**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-2 through 4.	For 2 of 10 personnel files reviewed, background investigations were not included in the files.

**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 followed the AFR—Review, Submission, and Publication Instructions.	Although a submission attempt was made by the due date, there were errors and the AFR was not ultimately submitted to the Arizona Department of Education (ADE) until November 14, 2023. In addition, the District did not provide the AFR to the CSS.

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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 (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 1 of 5 AOI students reviewed, the District did not maintain verifiable documentation of Arizona residency upon enrollment. For the student in question, the District provided residency documentation for another state.
2.	The District ensured the student's name in the student management system matched the name on the legal document on file. A.R.S §15-828(D).	For 1 of 10 entries reviewed, the District did not maintain the student's legal document on file; therefore, it could not be determined whether the student's name in the student management system matched.
3.	The entry date in the computerized attendance system agreed to the entry form and was entered into the attendance system within 5 working days after the actual date of the student's enrollment. A.R.S §15-828.	For 1 of 10 entries reviewed, the date per the enrollment form (9/30/22) did not agree to the date in the computerized attendance system (10/3/22).
4.	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 10 entries reviewed, the District did not maintain verifiable documentation of Arizona residency upon enrollment.
5.	The District reported student withdrawal dates to ADE within 5 working days and maintained documentation that supported the date of data entry.	For 1 of 10 withdrawals reviewed, the date per the withdrawal form (8/25/22) did not agree to the date in the student information system (9/30/22).
6.	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 6 of 10 students withdrawn for having 10 consecutive unexcused absences reviewed, the student was not absent for 10 consecutive unexcused days before being withdrawn. In addition, for 1 of 10 students withdrawn for having 10 consecutive unexcused absences reviewed, the student was not withdrawn as of their last day of actual attendance or excused absence.

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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's IT systems generated electronic audit trail reports or change logs with information about electronic transactions that the District reviewed or analyzed regularly to determine transactions' propriety.	The District could not provide support showing there was an audit trail change log report from the District's student information system nor that it was reviewed or analyzed regularly.
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. In addition, the District was unable to provide support showing that the plan was tested at least annually to identify internal and external vulnerabilities.