

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 AG Opinion I84-018	Four student activity fundraising events held before March 2022 were not provided to the Governing Board for approval.

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 §III Chart of Accounts.	<p>The following expenditures were not coded in accordance with the USFR:</p> <ul style="list-style-type: none"> • Conference registration fees of \$3,680 were coded to Object 6580—Travel and should have been coded to Object 6300—Purchased Professional and Technical Services. • Educational curriculum software costing \$6,918 was coded to Fund 001—Maintenance and Operation (M&O) and Object 6330—Other Professional Services and should have been coded to Object 6643—Instructional Aides and paid from Fund 610—Unrestricted Capital Outlay (UCO). <p>The following revenues were not coded in accordance with the USFR:</p> <ul style="list-style-type: none"> • Small school equalization grant was coded to Object 4300—Restricted Revenue Received Directly from the Federal Government and should have been coded to Object 2200—Restricted County Revenues.

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 a Food Service Fund clearing bank account(s) in accordance with USFR page X-F-5 and Arizona Attorney General Opinion I60-35.	A total of \$2,726 in food service local sales was deposited to the food service clearing account during fiscal year (FY) 2022. It was noted that monies deposited to the food service clearing account were not cleared to the County during the months of August, December, March, and May during FY 2022.
2.	The District used an Auxiliary Operations Fund bank account in accordance with A.R.S. §15-1126	The District is using its Auxiliary Operations checking account to operate a United States Postal Service (USPS) post office. The District should provide documentation demonstrating its authority to operate a USPS post office, including its authority to utilize Auxiliary Operations accounts for such purposes.
3.	The extracurricular activities fees tax credit monies were included in the Auxiliary Operations Fund and/or separately accounted for in an Extracurricular Activities Fees Tax Credit Fund.	The District inappropriately comingled district monies, including extracurricular activities fees tax credit, with a legally separate nonprofit 4-H club administered by District officials and those officials did not adequately document sources and uses of the club account monies to support whether District officials properly spent public monies.

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4.	The District separated responsibilities for cash-handling and recordkeeping among employees (i.e., receiving, depositing, and recording revenues), to safeguard monies.	<ul style="list-style-type: none"> The District did not restrict access to cash and credit cards. The District locked cash in its safe, but the safe's combination was not restricted. The District did not separate cash receipt responsibilities to ensure the same person is not responsible for collecting, recording, depositing, and reconciling cash receipts.
5.	The Auxiliary Operations Fund bank or treasurer account deposits included all monies raised in connection with the activities of school bookstores and athletics. A.R.S. §15-1126	<ul style="list-style-type: none"> One of five auxiliary deposits, that was for 4th of July event ticket sales, was not reconciled to the number of tickets sold. The District did not have a process in place to review and reconcile cash receipts issued to actual cash collected and deposited and recorded revenues to ensure all cash collected was deposited and the related revenue recorded in the accounting records.
6.	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.	
7.	The District's deposits were made in a timely manner and supported by deposit slips or other deposit transmittal documentation.	<p>The following deposits were not made at least weekly:</p> <ul style="list-style-type: none"> Three of five food service deposits were made ranging from 11 to 24 days after the meal date. Three of five auxiliary operation collections were deposited ranging between 25 and 38 days after the event date.
8.	The District safeguarded unused checks.	<ul style="list-style-type: none"> The District did not restrict access to unused checks. The District locked unused checks in its safe, but the safe's combination was not restricted. The District did not restrict employees from signing checks payable to themselves.
9.	All District bank accounts were reconciled monthly by an employee not involved with cash-handling or issuing checks, and reconciliations were reviewed, signed, and dated by an employee independent of the cash-handling process.	The District did not reconcile bank accounts to evidence of transactions. In addition, the District did not always follow its process for signing checks because some checks were issued with only 1 signature.

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 District assigned its accounts payable (AP) specialist to oversee almost all aspects of the purchasing process. The AP specialist manually filled out paper purchase order forms based on verbal requests for goods and services from District staff members, signed the purchase order forms, and signed the business manager's initials with his approval. She also had the ability to ask the County to add new vendors into the District's financial system without secondary approval and picked up warrant payments from the County to send to vendors.
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.	Fund 515— Civic Center had a negative cash balance of \$11,500. In addition, it was noted that Fund 001— M&O had a budgetary over expenditure of \$3,170.

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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.	<ul style="list-style-type: none"> • The District did not always ensure authorized signers reviewed each check and supporting documentation before signing checks. • The District did not require donations to be presented at a public meeting for potential acceptance by the governing board. • The District did not ensure that accepted donations were deposited with the County Treasurer in the District's Gifts and Donations Fund. • The District did not track donations to ensure they are used only for allowable donor-restricted purposes.
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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 ensured different employees were responsible for issuing cards; requesting, authorizing, and executing purchases; and payment processing.	The District did not clearly define separation of responsibilities for credit cards and instead assigned an accounts payable specialist to solely manage its credit cards.
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.	The District did not require training for credit card users on policies and procedures for card use and did not require card users to sign agreements acknowledging understanding of district policies. In addition, the District did not restrict access to the safe, which held many District cards.
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.	The District did not have established procedures to reconcile receipts to card statements at least monthly to ensure all purchases were for an authorized District purpose.
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.	The District could not always provide itemized receipts or the District purpose for credit card purchases.
6.	The District paid credit card and p-card statements before the due date to avoid finance charges and late fees.	The District incurred \$43.75 in credit card late fees during fiscal year 2022.

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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 District did not separate responsibilities over its payroll process. The District's payroll clerk often filled out and approved employees' time sheets, processed payroll, and distributed payments without a detailed review and approval from the business manager or another member of the District's business office staff.
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)	A fingerprint clearance card was not provided for one teacher.
3.	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 District lacked a formal, documented vacation and sick leave-tracking process and was unable to support leave taken by employees in fiscal year 2020.
4.	Attendance records were prepared for each pay period for each employee subject to the Fair Labor Standards Act (FLSA) and were approved by the employee and the employee's supervisor.	Employee timesheets were not always approved by the employee's supervisor.
5.	The District's payroll was properly reviewed and approved before processing and distribution to employees.	The District could not support almost \$3,900 in payments made to 3 out of the 4 employees reviewed. Additionally, 7 of 9 personnel action forms were not reviewed and approved by an authorized official.

Information technology—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.	Employees' accounting system access did not support separation of responsibilities as access provided allowed initiation and completion of payroll and purchasing transactions by one person without independent review and approval.
2.	The District assessed security risks for its systems and data and provided employees annual security awareness training.	The District did not require security awareness training for any of its employees.
3.	The District immediately and appropriately modified terminated or transferred employees' or vendors' access to all District systems.	The District did not have a process to ensure initially assigned employee access was appropriate and employees' access was changed if their assigned duties changed, resulting in the broad access and increasing the District's risk of errors and fraud.

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4.	The District enforced data security policies related to passwords and user authentication that aligned with credible industry standards.	The District's network password requirements as of June 2021 were not aligned with credible industry standards, such as those developed by the National Institute of Standards and Technology.
5.	The District had recovery 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.	In FY 2021, the District did not have a written, up-to-date IT contingency plan, increasing its risk of interrupted operations and data loss.

Transportation support— The District should accurately report its transportation miles and eligible student riders to 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	Transportation mileage reported on TRAN55-1 was not fully documented. The roll-up schedule for the total mileage for one bus reported 9,482 miles and the daily logs totaled 8,954, a difference of 528 miles.