

Saddle Mountain Unified School District

District's lack of compliance with important requirements and standards put public monies and sensitive information at an increased risk of errors, fraud, unauthorized access, and data loss and put student safety while being transported at risk

Performance Audit

December 2020

Report 20-211

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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December 29, 2020

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Saddle Mountain Unified School District

Dr. Paul Tighe, Superintendent
Saddle Mountain Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Saddle Mountain Unified School District*, conducted pursuant to Arizona Revised Statutes §41-1279.03. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the District agrees with all the findings and recommendations and plans to implement or implement modifications to all the recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey A. Perry, CPA, CFE
Auditor General

Saddle Mountain Unified School District

District's lack of compliance with important requirements and standards put public monies and sensitive information at an increased risk of errors, fraud, unauthorized access, and data loss and put student safety while being transported at risk

Audit purpose

To assess the District's spending on administration, plant operations and maintenance, food service, and transportation and its compliance with certain State requirements.

Key findings

- District spent less per pupil on administration than peer districts but did not follow its own policies and procedures and lacked some controls, which increased risk of errors and fraud and led to improper payments.
- District's excessive access to sensitive computerized data and other information technology (IT) deficiencies increased risk of unauthorized access, errors, fraud, and data loss.
- District spent less on transportation than peer districts but did not timely maintain its school buses and sometimes transported students in unallowable vans, putting student safety at risk.
- District's spending on plant operations and food service was similar to/lower than peer districts' spending, on average, and we did not report any findings in these areas.

Key recommendations

The District should:

- Identify and correct all overpayments made to employees and develop and implement a process to ensure employees are paid accurately.
- Review its purchasing, cash-handling, and credit card policies and procedures with staff and monitor that they follow them.
- Limit users' access to accounting system and periodically review users' access.
- Review industry password standards at least annually and implement and enforce strong network password requirements.
- Immediately disable accounts associated with terminated employees.
- Conduct security awareness training on a regular basis.
- Review IT contingency plan annually.
- Develop and implement a formal bus preventative maintenance policy and ensure that required maintenance is identified and completed in accordance with its policy.
- Stop using vans to transport students.



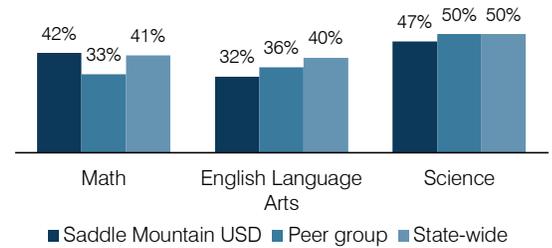
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Rural district in Maricopa County
 Grades: Kindergarten through 12th
 Students attending: 1,910
 Number of schools: 3
 School letter grades: 3 Bs
 Graduation rate: 98%

Students who passed State assessments



Total operational spending—\$16.5 million (\$8,660 per pupil)

Instructional—54.7% (\$4,735 per pupil)

Noninstructional—45.3% (\$3,925 per pupil)

| Operational overview | Measure | Saddle Mountain USD | Peer average |
|--|--------------------------|---------------------|--------------|
| <p>Administration—lower spending but improvements needed</p> <p>The District spent less per pupil on administration than its peer districts, on average, primarily because it served more students, and therefore, its administrative costs were spread across more students. However, the District's lack of compliance with important requirements and standards put public monies and sensitive information at an increased risk of errors, fraud, unauthorized access, and data loss (see Finding 1, page 2).</p> | Spending per pupil | \$867 | \$1,190 |
| <p>Plant operations—similar/lower spending</p> <p>The District's plant operations spending was similar to the peer districts' average per square foot and much lower per pupil primarily because it maintained 29 percent fewer square feet per student than the peer districts, on average. We did not report any findings in this area.</p> | Spending per square foot | \$5.70 | \$5.67 |
| | Spending per pupil | \$1,041 | \$1,416 |
| <p>Food service—lower spending</p> <p>The District spent less per meal on food service than its peer districts, on average. We did not report any findings in this area.</p> | Spending per meal | \$3.24 | \$3.60 |
| <p>Transportation—lower spending but improvements needed</p> <p>The District spent less per mile and per rider on its transportation program than its peer districts averaged. However, the District did not timely perform bus preventative maintenance in accordance with the State's <i>Minimum Standards for School Buses and School Bus Drivers</i> and sometimes transported special education students in unallowable passenger vans, putting student safety at risk (see Finding 2, page 7).</p> | Spending per mile | \$3.10 | \$3.26 |
| | Spending per rider | \$1,118 | \$1,447 |



District’s lack of compliance with important requirements and standards put public monies and sensitive information at an increased risk of errors, fraud, unauthorized access, and data loss

In fiscal year 2019, the District did not follow its own policies and procedures and lacked some controls, which increased its risk of errors and fraud and led to improper payments. Additionally, the District’s excessive access to its sensitive computerized data and other information technology (IT) deficiencies increased its risk of unauthorized access, errors, fraud, and data loss.

Issue 1: District did not follow its own policies and procedures and lacked some controls, which increased risk of errors and fraud and led to improper payments

District did not pay employees according to the terms of their employment—

In fiscal year 2019, the District did not pay 3 employees we sampled according to the terms of their contracts and/or payroll action requests (PARs). Specifically, our review of a sample of 30 employees who received payments in fiscal year 2019 found that the District paid one employee \$472 more than what was agreed to in their contract because District staff made a calculation

error, overpaid another employee by \$464 because it paid the employee for more hours than what was approved in the employee’s PAR, and overpaid a third employee by \$11 because the District did not properly reduce the employee’s pay for unpaid leave. These overpayments occurred because the District did not have a secondary reviewer consistently ensure contract amounts were accurately entered in the accounting system, District staff did not consistently match the amounts and number of hours employees were paid to their contracts and PARs, and similarly they did not verify that the system was properly set up for all employees to reduce payments for unpaid leave. According to the *Uniform System of Financial Records for Arizona School Districts* (USFR), employee contracts and PARs document agreed-upon terms of employment, including position, pay, and length of service. When a District does not properly review employee payments and other information in its accounting system or ensure payments are in accordance with employees’ contracts and/or PARs, the District increases its risk of violating agreed upon terms with its employees and potentially having fewer financial resources available.

District employees made some purchases without required prior approval and paid for some purchases without required evidence of having received the purchases—

Our sample of 30 fiscal year 2019 purchases found that District employees made 1 purchase that lacked evidence of prior supervisory approval and payments for 5 purchases without first obtaining evidence that the District had received the purchases and that billings were accurate. The USFR and the District’s purchasing policies require employees to make purchases only after receiving prior supervisory approval and authorization. Additionally, employees

District overpaid 3 of 30 sampled employees



One was overpaid
\$472



One was overpaid
\$464



One was overpaid
\$11

are required to obtain evidence that the District has received its purchases and verified that billings are accurate before paying vendors. These departures from purchasing requirements resulted from employees not following proper procedures. Although we did not identify any purchases in our sample that would indicate fraud, waste, or abuse, the District's employees not consistently following proper purchasing procedures puts it at risk for making and paying for purchases that were not allowable, that it did not have money for, or that it had not received.

Cash collection process at one district school was insufficient to ensure that all cash collected was deposited—Our review of District documentation for cash collected at 2 of the District's 3 schools found that staff at 1 school did not include cash receipt forms with the documentation they submitted to the designee for review. In fiscal year 2019, the District collected cash at its school sites for various purposes, including student fees, club activities, and athletic event ticket sales.¹ The USFR and District policies require that schools submit daily sales reports, cash collection forms, and cash receipt forms to a designee who then should review the documentation and verify that the appropriate amount of cash was collected and deposited. We reviewed all 215 cash receipt forms at the school for \$10,183 in deposits the District made during April 2019 from this 1 school but were unable to confirm all monies collected had been deposited because the school's documentation was insufficient and did not identify which cash receipts were associated with which deposits. Without the cash receipt forms, it is impossible for the reviewer to verify that all cash collected was deposited, exposing the District to an increased risk of errors and fraud.

District paid late fees and finance charges on its credit cards, which is a wasteful spending of monies that could have been used for other purposes, and misclassified credit card transactions in its accounting system—In fiscal year 2019, the District paid \$545 in late fees and finance charges on its credit cards. These fees and charges resulted from credit card users often not timely submitting supporting documentation for credit card purchases to business office staff, even though the District requires users to submit all itemized receipts the business day after the purchase. Therefore, business staff did not have enough time to review the supporting documentation to ensure purchases were appropriate and items were received before the credit card payments were due. However, the USFR requires that credit card balances be paid in full each billing cycle and in a timely manner to avoid late fees and finance charges. Paying late fees and finance charges results in wasteful spending of public monies that could have been used for other purposes, such as instruction.

Additionally, the District had misclassified an additional \$870 as late fees and finance charges on its credit cards within its accounting system. We determined this amount was actually related to credit card transactions that District staff had not properly recorded in the accounting system. The misclassification occurred because the District was unsure what the charges were for, so they included them with the late fees. This resulted in the District overstating the late fees and finance charges it paid in fiscal year 2019 and understating the correct classification of the purchases by \$870. The USFR requires districts to record expenditures in the proper classifications in accordance with the Uniform Chart of Accounts for school districts.

Recommendations

The District should:

1. Identify and correct all overpayments made to employees.
2. Develop and implement a process to ensure employees are paid accurately by having a second employee check that the first employee entered employees' contract or hourly pay amounts accurately in the accounting system, that employees are not paid for more hours than approved on their contracts/PAR, and that employees' pay is accurately reduced for any unpaid leave.
3. Review its purchasing policies and procedures with appropriate staff and monitor that they follow them to ensure that all purchases and payments are properly approved prior to being made.
4. Review its purchasing policies and procedures with appropriate staff and monitor that they follow them to

¹ The term "cash" used throughout this report includes cash (coins and dollars), checks, and any other form of payment, such as money orders.

ensure that the District pays vendors only after verifying that all purchases have been received and billings are accurate.

5. Review its cash-handling policies and procedures with school staff and monitor that they follow them to ensure that the District is depositing all cash collected.
6. Review its credit card policies and procedures with school staff and monitor that they follow them to ensure that staff submit all supporting documentation for credit card purchases in a timely manner so that the District can pay credit card balances on time and in full each month.
7. Review the Uniform Chart of Accounts for school districts and implement its guidance to accurately classify all credit card transactions when reporting its spending.

District response: As outlined in its [response](#), the District agrees with the finding and recommendations and will implement the recommendations.

Issue 2: District's excessive access to sensitive computerized data and other IT deficiencies increased risk of unauthorized access, errors, fraud, and data loss

District assigned some employees too much access to its accounting system—Our March 2020 review of access levels for 10 of the District's 25 accounting system users found that 7 users' access allowed them to be able to initiate and complete payroll and/or purchasing transactions without another employee reviewing and approving the transactions. In addition, the District granted administrator-level access to its accounting system to a business office employee, which gave the employee full control over accounting system settings, such as the ability to add new users and modify the level of access users have in the accounting system, including granting themselves full access to view and edit all data on the accounting system. Users with broad or administrator-level access could process false invoices; change employee pay rates, including their own; or add and pay nonexistent vendors or employees without detection. According to credible industry standards developed by the National Institute of Standards and Technology (NIST), users should be assigned only the access necessary to accomplish assigned tasks. Further, the USFR requires that districts limit users' access to information and restrict the types of access to only what is necessary for them to carry out their assigned duties. Although we did not identify any improper transactions, 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.

District inappropriately granted most employees administrative privileges on their District computers—Based on interviews with District officials, the District granted most employees local administrative privileges on their District computers to make it easier for employees to install applications and software and make software updates, but the District did not monitor what the employees installed on their computers. Credible industry standards, such as those developed by NIST, state that organizations should enforce software installation policies through organization-defined policies and monitor compliance. By allowing users to have administrative privileges, the District is not able to maintain control over the types of software installed, such as malicious or inappropriate software. Additionally, the District is exposed to an increased risk of security breaches and ransomware because the elevated privileges of administrator accounts provide wider system access, allowing malicious software, such as ransomware, to have a stronger impact on each system, potentially granting unauthorized access to and loss of sensitive data, and disruption of District operations.

District's network passwords did not meet credible industry standards, putting District operations at risk—The District's network password requirements as of April 2020 were not aligned with credible industry standards, such as those developed by NIST. As a result, the District increased its risk that unauthorized individuals could access its network and disrupt operations. District officials indicated that the District did not follow industry standards for password requirements because they thought that more robust password requirements would result in additional requests for password resets by staff who forgot their passwords, and IT staff had limited time available to respond to password reset requests.

Terminated employees had access to the District's network and student information system—

Our April and May 2020 reviews of District network and student information system (SIS) user accounts found that 9 network user accounts and 11 SIS user accounts were linked to terminated employees 1 month to almost 1 year post termination. Credible industry standards, such as those developed by NIST, state that upon termination of employment, access to information systems should be disabled. The District allowing terminated employees access to the District's network and SIS increased the risk of unauthorized individuals accessing sensitive information, including student information such as health records, grades, and addresses. These accounts were still active because the District did not have a process to ensure that terminated employees' access was removed in a timely manner.

District has not conducted security awareness training for staff for at least 3 years, increasing vulnerability of employees to cyberattacks—

According to District officials, the District does not conduct security awareness training for all staff on a regular basis. In fact, the District did not conduct this training in fiscal years 2018, 2019, or 2020. However, according to NIST, basic security awareness training should be provided to system users regularly. Security awareness training is important as a common method for cyberattacks is the use of social-engineering techniques to trick employees into giving up sensitive information or downloading dangerous software onto workstations. Providing security awareness education and training would help to ensure the District's employees understand the meaning of information security, the risks associated with information security, the importance of complying with information security policies, and their individual information security responsibilities.

District contingency plan was incomplete—

We reviewed the District's information technology (IT) contingency plan and found that it was missing some key components (see textbox), such as those developed by NIST. Specifically, the plan did not identify all critical systems that should be included in the contingency plan, indicate the order in which those critical systems should be restored, include procedures for the District to continue operating in the event of a system outage, or include detailed procedures to facilitate restoration on the critical assets identified in the plan. Having an incomplete IT contingency plan exposes the District to an increased risk of being unable to restore the District's systems in the event of a system outage. District officials indicated that they were unaware of industry standards related to contingency plans. In addition to reviewing its plan, the District should test the plan at least annually to ensure it is effective, which should include testing the District's ability to restore electronic data files for critical systems from backups.

District's contingency plan missing key pieces

-  Identify all critical systems.
-  Indicate system restoration order.
-  Outline individual responsibilities.
-  Contain plan for business continuity.
-  Include detailed restoration steps.
-  Test and update plan annually.

Recommendations

The District should:

8. Limit users' access in the accounting system to only those accounting system functions needed to perform their job duties, including removing the administrator-level access from the business office employee.
9. Develop and implement a process to assign access to new users in the accounting system to ensure it is necessary for job duties.
10. Develop and implement a process to periodically review users' access in the accounting system to ensure it is necessary for job duties.
11. Review and reduce the number of users with administrative privileges to the District's computers.

12. Develop and implement an alternative process for staff to install and update applications that does not require local administrative privileges.
13. Review industry password standards at least annually, and implement and enforce strong network password requirements to decrease the risk of unauthorized persons gaining access to sensitive District information.
14. Immediately disable or remove all network and SIS accounts associated with terminated employees.
15. Develop and implement a process to ensure that terminated employees have their network and SIS access promptly removed to reduce the risk of unauthorized access.
16. Require all employees to participate in a security awareness training if they have not done so in the past year.
17. Establish and implement a District policy to conduct security awareness training on a regular basis, at least annually.
18. Review its IT contingency plan to ensure it is complete; test its plan at least annually to identify and remedy any deficiencies, which should include testing the District's ability to restore electronic data files for critical systems from backups; and document the test results.

District response: As outlined in its [response](#), the District agrees with the finding and recommendations and will implement the recommendations.



District did not timely maintain school buses and sometimes transported students in unallowable vans, putting student safety at risk

District did not timely perform required school bus preventative maintenance

School districts are required by the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards) to systematically perform and maintain records of school bus preventative maintenance, such as brake and tire inspections, safety feature inspections, and oil changes to help ensure school bus passengers' safety and welfare, as well as extend the useful life of buses. The District does not have a formal school bus maintenance policy, but District officials stated that they try to follow bus manufacturer guidelines and perform school bus preventative maintenance every 10,000 miles or at least once a year. However, our review of the District's fiscal years 2019 and 2020 bus preventative maintenance records for the 20 school buses the District regularly used found that 16 of the buses exceeded the District's informal preventative maintenance goal. For example, the District operated 3 of the 16 buses for 660 or more days and 1 bus for over 17,000 miles before performing preventative maintenance. Although the District tracks when preventative maintenance is completed to identify when each bus' next preventative maintenance is due, as indicated by the large time and mileage gaps between bus services for some buses, the District's process is not sufficient to ensure that the District is systematically performing bus preventative maintenance and meeting bus manufacturer guidelines. By not timely performing required school bus preventative maintenance, the District is putting rider safety at risk and compromising the useful lives of its buses.

District sometimes transported special education students in unallowable vans with fewer safety features than school buses

When a certified bus driver was not available, the District transported special education students between schools in 2 12- and 15-passenger vans that are not allowed for student transportation due to safety risks associated with them. The National Highway Traffic Safety Administration and the Arizona Department of Public Safety have cautioned school districts against using such vans for student

Safety risks associated with 2 unallowable passenger vans District used to transport special education students



Photos courtesy of Saddle Mountain USD.

- They are more prone to rollover accidents than school buses.
- They rarely have certain safety features, such as emergency exits and traffic control signals, which school buses are required to have.
- They do not receive annual inspections from the Department of Public Safety.
- Drivers operating vans do not have to meet any certification requirements, such as drug and alcohol testing or physical examinations.

transportation because of safety issues. These vans are more prone to rollover accidents and rarely have certain safety features, such as emergency exits and traffic control signals, which school buses are required to have. Further, under federal law, school districts are prohibited from purchasing such vans for student transportation unless they meet motor vehicle standards prescribed for school buses.² The District's vans do not meet these standards. Moreover, drivers operating these vans do not have to meet any certification requirements, such as drug and alcohol testing or physical examinations, and District officials indicated that they neither require nor have a process for determining whether their van drivers meet these certification requirements.

Recommendations

The District should:

19. Develop and implement a formal preventative maintenance policy that stipulates the number of miles a bus can travel or the amount of time that can elapse before a bus will receive preventative maintenance.
20. Revise its process for tracking when buses are due for preventative maintenance and ensure that required preventative maintenance is identified and completed in accordance with the State's Minimum Standards and the District's formal preventative maintenance policy.
21. Stop using its 12- and 15-passenger vans for student transportation.
22. Identify and implement ways to transport all students using vehicles that meet all required safety standards, such as developing a list of substitute certified bus drivers so that the District can transport all students in its school buses.

District response: As outlined in its [response](#), the District agrees with the finding and recommendations and will implement the recommendations.

² 49 U.S. Code §30112.



SUMMARY OF RECOMMENDATIONS

Auditor General makes 22 recommendations to the District

The District should:

1. Identify and correct all overpayments made to employees (see Finding 1, pages 2 through 4, for more information).
2. Develop and implement a process to ensure employees are paid accurately by having a second employee check that the first employee entered employees' contract or hourly pay amounts accurately in the accounting system, that employees are not paid for more hours than approved on their contracts/PAR, and that employees' pay is accurately reduced for any unpaid leave (see Finding 1, pages 2 through 4, for more information).
3. Review its purchasing policies and procedures with appropriate staff and monitor that they follow them to ensure that all purchases and payments are properly approved prior to being made (see Finding 1, pages 2 through 4, for more information).
4. Review its purchasing policies and procedures with appropriate staff and monitor that they follow them to ensure that the District pays vendors only after verifying that all purchases have been received and billings are accurate (see Finding 1, pages 2 through 4, for more information).
5. Review its cash-handling policies and procedures with school staff and monitor that they follow them to ensure that the District is depositing all cash collected (see Finding 1, pages 2 through 4, for more information).
6. Review its credit card policies and procedures with school staff and monitor that they follow them to ensure that staff submit all supporting documentation for credit card purchases in a timely manner so that the District can pay credit card balances on time and in full each month (see Finding 1, pages 2 through 4, for more information).
7. Review the Uniform Chart of Accounts for school districts and implement its guidance to accurately classify all credit card transactions when reporting its spending (see Finding 1, pages 2 through 4, for more information).
8. Limit users' access in the accounting system to only those accounting system functions needed to perform their job duties, including removing the administrator-level access from the business office employee (see Finding 1, pages 4 through 6, for more information).
9. Develop and implement a process to assign access to new users in the accounting system to ensure it is necessary for job duties (see Finding 1, pages 4 through 6, for more information).
10. Develop and implement a process to periodically review users' access in the accounting system to ensure it is necessary for job duties (see Finding 1, pages 4 through 6, for more information).
11. Review and reduce the number of users with administrative privileges to the District's computers (see Finding 1, pages 4 through 6, for more information).
12. Develop and implement an alternative process for staff to install and update applications that does not require local administrative privileges (see Finding 1, pages 4 through 6, for more information).

13. Review industry password standards at least annually, and implement and enforce strong network password requirements to decrease the risk of unauthorized persons gaining access to sensitive District information (see Finding 1, pages 4 through 6, for more information).
14. Immediately disable or remove all network and SIS accounts associated with terminated employees (see Finding 1, pages 4 through 6, for more information).
15. Develop and implement a process to ensure that terminated employees have their network and SIS access promptly removed to reduce the risk of unauthorized access (see Finding 1, pages 4 through 6, for more information).
16. Require all employees to participate in a security awareness training if they have not done so in the past year (see Finding 1, pages 4 through 6, for more information).
17. Establish and implement a District policy to conduct security awareness training on a regular basis, at least annually (see Finding 1, pages 4 through 6, for more information).
18. Review its IT contingency plan to ensure it is complete; test its plan at least annually to identify and remedy any deficiencies, which should include testing the District's ability to restore electronic data files for critical systems from backups; and document the test results (see Finding 1, pages 4 through 6, for more information).
19. Develop and implement a formal preventative maintenance policy that stipulates the number of miles a bus can travel or the amount of time that can elapse before a bus will receive preventative maintenance (see Finding 2, pages 7 through 8, for more information).
20. Revise its process for tracking when buses are due for preventative maintenance and ensure that required preventative maintenance is identified and completed in accordance with the State's Minimum Standards and the District's formal preventative maintenance policy (see Finding 2, pages 7 through 8, for more information).
21. Stop using its 12- and 15-passenger vans for student transportation (see Finding 2, pages 7 through 8, for more information).
22. Identify and implement ways to transport all students using vehicles that meet all required safety standards, such as developing a list of substitute certified bus drivers so that the District can transport all students in its school buses (see Finding 2, pages 7 through 8, for more information).



Objectives, scope, and methodology

We have conducted a performance audit of Saddle Mountain Unified School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness primarily in fiscal year 2019 in the 4 operational areas bulleted below because of their effect on instructional spending, as previously reported in our annual report, *Arizona School District Spending*. This audit was limited to reviewing instructional and noninstructional operational spending (see textbox). Instructional spending includes salaries and benefits for teachers, teachers' aides, and substitute teachers; instructional supplies and aids such as paper, pencils, textbooks, workbooks, and instructional software; instructional activities such as field trips, athletics, and co-curricular activities, such as choir or band; and tuition paid to out-of-State and private institutions. Noninstructional spending reviewed for this audit includes the following:

Operational spending

Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with acquiring capital assets (such as purchasing or leasing land, buildings, and equipment), interest, and programs such as adult education and community service that are outside the scope of preschool through grade 12 education.

- **Administration**—Salaries and benefits for superintendents, principals, business managers, and clerical and other staff who perform accounting, payroll, purchasing, warehousing, printing, human resource activities, and administrative technology services; and other spending related to these services and the governing board.
- **Plant operations and maintenance**—Salaries, benefits, and other spending related to equipment repair, building maintenance, custodial services, groundskeeping, and security; and spending for heating, cooling, lighting, and property insurance.
- **Food service**—Salaries, benefits, food supplies, and other spending related to preparing, transporting, and serving meals and snacks.
- **Transportation**—Salaries, benefits, and other spending related to maintaining buses and transporting students to and from school and school activities.

Financial accounting data and internal controls—We evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2019 payroll and accounts payable transactions in the District's detailed accounting data for proper account classification and reasonableness. Additionally, we reviewed detailed payroll and personnel records for 30 of the 289 individuals who received payments in fiscal year 2019 through the District's payroll system and reviewed supporting documentation for 30 of the 5,189 fiscal year 2019 accounts payable transactions. After adjusting transactions for proper account classification, we reviewed fiscal year 2019 spending and prior years' spending trends across operational categories to assess data validity and identify substantial changes in spending patterns. We also evaluated other internal controls that we considered significant to the audit objectives. This work included reviewing the District's policies and procedures and, where applicable, testing compliance with these policies and procedures; reviewing controls over the District's relevant computer systems; and reviewing controls over reporting various information used for this audit. We reported our conclusions on any significant deficiencies in applicable internal controls and the District's needed efforts to improve them in our report findings.

Peer groups—We developed 3 peer groups for comparative purposes. To compare the District's student achievement, we developed a peer group using district poverty rates as the primary factor because poverty rate has been shown to be associated with student achievement. District type and location were secondary factors used to refine these groups. We used this peer group to compare the District's fiscal year 2019 student passage rates on State assessments as reported by the Arizona Department of Education (ADE). We also reported the District's fiscal year 2019 ADE-assigned school letter grades and graduation rate. To compare the District's operational efficiency in administration, plant operations and maintenance, and food service, we developed a peer group using district size, type, and location. To compare the District's transportation efficiency, we developed a peer group using a 5-year historical average of miles per rider and location. We used these factors because they are associated with districts' cost measures in these areas.

| Comparison areas | Factors | Group characteristics | Number of districts in peer group |
|--|--|--|-----------------------------------|
| Student achievement | Poverty rate District type Location | Less than 21% Unified school districts Towns and rural areas | 18 |
| Administration, plant operations and maintenance, and food service | District size District type Location | Between 600 and 1,999 students Unified and union high school districts Towns and rural areas | 31 |
| Transportation | Miles per rider Location | Between 336 and 450 miles per rider Towns and rural areas | 18 |

Source: Auditor General staff analysis of district poverty rates from the U.S. Census Bureau; location data from the National Center for Education Statistics; and district type, number of students, miles, and riders from the Arizona Department of Education.

Efficiency and effectiveness—In addition to the considerations previously discussed, we also considered other information that impacts spending and operational efficiency and effectiveness as described below:

- **Interviews**—We interviewed various District employees in the scoped operational areas about their duties. This included District administrators, department supervisors, and other support staff who were involved in activities we considered significant to the audit objectives.
- **Report reviews**—We reviewed various summary reports of District-reported data including its *Annual Financial Report*, District-wide building reports provided by the School Facilities Board, transportation route reports provided by ADE, transportation safety reports provided by the Department of Public Safety, and reports required for the federal school lunch program. Additionally, we reviewed food service-monitoring reports from ADE and District-submitted compliance questionnaire results that its contracted external audit firm completed.
- **Documentation reviews**—We reviewed various sets of District documentation including fiscal year 2019 credit card statements for 2 of the District's 4 credit cards, cash deposit documentation from April and May 2019 for 2 of the District's 3 schools, bank statements from fiscal year 2019 for all external bank accounts, bus driver files for 10 of the District's 21 drivers, and bus maintenance and repair records for 20 of the District's 24 buses. Additionally, we reviewed the District's October and November 2018 electric utility bills and its contract with and invoices from its food service management company.
- **Analysis**—We reviewed and evaluated fiscal year 2019 spending on administration, plant operations and maintenance, food service, and transportation and compared it to peer districts'. We also compared the District's square footage per student and meals served per student to peer districts'. Additionally, we reviewed the District's revenues and expenditures associated with its food service program to determine whether the

District was covering its spending and reviewed the District's bus route efficiency.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to the District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE



December 18, 2020

State of Arizona
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear, Ms. Perry,

Saddle Mountain Unified School District No. 90 has received and reviewed the FY19 Performance Audit Report. The District appreciates the thoroughness of the audit and agrees with the findings and recommendations and will take action to implement the improvements in internal controls and operations as outlined in the report.

Given the difficulties associated with COVID 19 pandemic, the District would like to compliment the efforts and patience exhibited by the Auditors under these difficult conditions.

Please find attached The District's response to each finding and recommendation.

Respectfully,

Kirk Waddle
Executive Director of Business Services
Saddle Mountain Unified School District No. 90

Finding 1: District's lack of compliance with important requirements and standards put public monies and sensitive information at an increased risk of errors, fraud, unauthorized access, and data loss

District Response: The District agrees with the finding.

Recommendation 1: The District should identify and correct all overpayments made to employees.

District Response: The District agrees with the recommendation and will implement a modification to the recommendation.

1. \$472 – This was an overpayment due to adding an annual increase to an extra day contract twice. Due to the small nature of the overpayment and the length of time since it occurred, the district will not recoup the expense.
2. \$462 – this was not an overpayment. The employee worked the hours for which he was paid. The initial estimate assumed the project would take 60 hours when in fact it took 90 hours. The original PAR formally authorized the 60 hours. When the employee was asked to work an additional 30 hours (3 days) a revised PAR was not created.
3. \$10.61 this was an overpayment but due to it being nearly three years ago and immaterial, no recoupment will be made. This error occurred due to the employee having two positions, one primary and one a supplemental at \$1.00 per hour for a shift differential. When docked for a day's pay for lack of available leave, the primary contract was docked correctly but the system did not dock the \$1.00 per hour shift differential from being paid on the same day.

Recommendation 2: The District should develop and implement a process to ensure employees are paid accurately by having a second employee check that the first employee entered employees' contract or hourly pay amounts accurately in the accounting system, that employees are not paid for more hours than approved on their contracts/PAR, and that employees' pay is accurately reduced for any unpaid leave.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation 3: The District should review its purchasing policies and procedures with appropriate staff and monitor that they follow them to ensure that all purchases and payments are properly approved prior to being made.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation 4: The District should review its purchasing policies and procedures with appropriate staff and monitor that they follow them to ensure that the District pays vendors only after verifying that all purchases have been received and billings are accurate.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation 5: The District should review its cash handling policies and procedures with school staff and monitor that they follow them to ensure that the District is depositing all cash collected.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation 6: The District should review its credit card policies and procedures with school staff and monitor that they follow them to ensure that staff submit all supporting documentation for credit card purchases in a timely manner so that the District can pay credit card balances on time and in full each month.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation 7: The District should review the Uniform Chart of Accounts for school districts and implement its guidance to accurately classify all credit card transactions when reporting its spending.

District Response: The District agrees with the recommendation and will implement the recommendation.

Note that the incorrect coding occurred to ensure payment was made and no additional finance charges were incurred. The original error was a keypunch error that short paid an invoice charge to the bankcard. The District's accounts payable department could not locate the short payment and so a decision was made by the director to pay the amount and it was coded to "finance charges" and included in administrative costs so that it was highlighted. The original vendor was paid in full by the bank card. The charge to "finance charges" was a conscious decision to curtel any additional interest charges.

Recommendation 8: The District should limit users' access in the accounting system to only those accounting system functions needed to perform their job duties including removing the administrator-level access from the business office employee.

District Response: The District agrees with the recommendation and will implement the recommendation.

The administrative-level access will be moved to the superintendent so that assignment of roles will not be made by a business office employee.

Recommendation 9: The District should develop and implement a process to assign access to new users in the accounting system to ensure it is necessary for job duties.

District Response: The District agrees with the recommendation and will implement the recommendation.

A process already exists however, this function will be assigned to the superintendent and taken from the Executive Director of Business Services so that it no longer resides in the business office.

Recommendation 10: The District should develop and implement a process to periodically review users' access in the accounting system to ensure it is necessary for job duties.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation 11: The District should review and reduce the number of users with administrative privileges to the District's computers.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation 12: The District should develop and implement an alternative process for staff to install and update applications that does not require local administrative privileges.

District Response: The District agrees with the recommendation and will implement a modification to the recommendation.

Because it is required to have local administrative privileges to install software, this will require the limited technology staff to install all software.

Recommendation 13: The District should review industry password standards at least annually and implement and enforce strong network password requirements to decrease the risk of unauthorized persons gaining access to sensitive District information.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation 14: The District should immediately disable or remove all network and SIS accounts associated with terminated employees.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation 15: The District should develop and implement a process to ensure that terminated employees have their network and SIS access promptly removed to reduce the risk of unauthorized access.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation 16: The District should require all employees to participate in a security awareness training if they have not done so in the past year.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation 17: The District should establish and implement a District policy to conduct security awareness training on a regular basis, at least annually.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation 18: The District should review its IT contingency plan to ensure it is complete; test its plan at least annually to identify and remedy any deficiencies, which should include testing the District's ability to restore electronic data files for critical systems from backups; and document the results of the test.

District Response: The District agrees with the recommendation and will implement the recommendation.

Finding 2: District did not maintain school buses and sometimes transported special education students in unallowable vans, putting student safety at risk

District Response: The District agrees with the finding.

Recommendation 19: The District should develop and implement a formal preventative maintenance policy that stipulates the number of miles a bus can travel or the amount of time that can elapse before a bus will receive preventative maintenance.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation 20: The District should revise its process for tracking when buses are due for preventative maintenance and ensure that required preventative maintenance is identified and completed in accordance with the State's Minimum Standards and the District's formal preventative maintenance policy.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation 21: The District should stop using its 12- and 15-passenger vans for student transportation.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation 22: The District should identify and implement ways to transport all students using vehicles that meet all required safety standards, such as developing a list of substitute certified bus drivers so that the District can transport all students in its school buses.

District Response: The District agrees with the recommendation and will implement the recommendation.

The District used the vans in question only as an exception. The District has not been able to hire or find substitute CDL drivers in this rural community. The majority of special needs students are transported on the dedicated special needs buses (yellow) that have lifts and accommodations for wheel chairs. The district has recently increased wages to be able to attract drivers with CDL licenses to enable us to utilize the full-size yellow special needs buses.

