

Mohave Valley Elementary School District

District subsidized its food service program with over \$167,000 that it could have spent on instruction, overpaid some employees, did not ensure all cash collected was deposited, and did not adequately protect its computerized data

Performance Audit

April 2021
Report 21-203

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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April 22, 2021

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Mohave Valley Elementary School District

Mr. Cole Young, Superintendent
Mohave Valley Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Mohave Valley Elementary 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 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

Mohave Valley Elementary School District

District subsidized its food service program with over \$167,000 that it could have spent on instruction, overpaid some employees, did not ensure all cash collected was deposited, and did not adequately protect its computerized data

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 subsidized its food service program in fiscal years 2017 through 2019 with over \$167,000 that it could have spent on instruction.
- District's decision to participate in the federal Community Eligibility Program (CEP) that provides free meals to all students caused food service program financial loss.
- District likely could have increased its revenues \$110,000 per year by participating in the standard National School Lunch Program (NSLP) instead of the CEP.
- District overpaid 4 employees a total of almost \$5,700 because its payroll process did not have a comprehensive secondary review.
- District did not ensure all cash collected was deposited and in a timely manner, leading to an increased risk of errors and fraud.
- District did not adequately protect its computerized data, which increased risk of unauthorized access to sensitive information, errors, fraud, and data loss.

Key recommendations

The District should:

- Analyze whether participation in the NSLP rather than the CEP would be financially beneficial, and take action to ensure its food service program revenues cover program costs.
- Strengthen its payroll process by having a second person review payroll information to ensure employees are paid accurately.
- Provide training on cash-handling requirements to employees, have an employee review supporting documentation for all cash collected, and deposit all cash at least weekly.
- Better protect its sensitive computerized data from unauthorized access, errors, fraud, and data loss by implementing and enforcing strong password requirements, reducing the number of users with administrator-level access, limiting users' access in its accounting system, removing all unnecessary network user accounts, and reviewing and testing its IT contingency plan.



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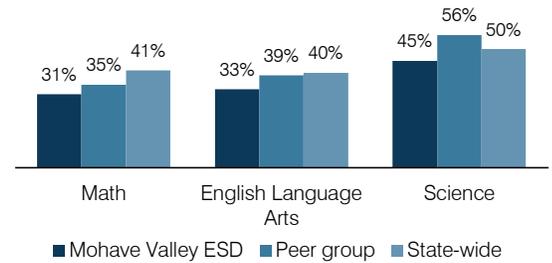
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Rural district in Mohave County
Grades: Kindergarten through 8th
Students attending: 1,001
Number of schools: 3
School letter grades: 1 B, 1 D¹

¹ One school did not receive a letter grade because it serves students in kindergarten through 2nd grade, and State assessments do not begin until 3rd grade.

Students who passed State assessments



Total operational spending—\$10.8 million (\$10,801 per pupil)

Instructional—50.1% (\$5,411 per pupil)

Noninstructional—49.9% (\$5,390 per pupil)

Operational overview	Measure	Mohave Valley ESD	Peer average
<p>Administration—higher spending and some weak controls</p> <p>The District's administrative spending was higher than peer districts', on average, because it was contractually obligated to pay health insurance costs for some retirees, and it had higher school administration staffing levels to help address student discipline issues. Since 2012, the District no longer offers paid retiree medical benefits to new employees, but it continues to pay those benefits for retirees who began working for the District prior to 2012. Also, District officials stated that having more school administration employees has resulted in fewer student suspensions and classroom disruptions. Although we did not have any findings related to the District's administration costs, we found that the District overpaid some employees, did not ensure all cash collected was deposited, misclassified expenditures, and did not adequately protect computerized data (see Finding 2, page 7, and Finding 3, page 9).</p>	Spending per pupil	\$1,367	\$1,141
<p>Plant operations—slightly higher spending but efficient</p> <p>The District's slightly higher plant operations spending was due partly to higher salary and benefit costs paid as part of its employee recruiting and retention efforts. The District also spent more on telecommunications services, including services to broadcast internet and wireless network signals to all District offices and classrooms, but recently it began reviewing options to lower these costs. Further, to help reduce spending, the District took appropriate action to limit spending on closed building space, such as providing only minimal utilities to buildings no longer in use. We did not report any findings in this area.</p>	Spending per square foot	\$6.91	\$6.68
	Spending per pupil	\$1,138	\$1,054

Operational overview	Measure	Mohave Valley ESD	Peer average
<p>Food service—lower cost per meal, but District used monies it likely could have spent on instruction to subsidize its food service program</p> <p>The District's food service spending per meal and per pupil were not substantially different from peer districts' averages. However, the District subsidized its food service program in fiscal years 2017 through 2019 with over \$167,000 that it could have spent on instruction (see Finding 1, page 3).</p>	Spending per meal	\$2.86	\$3.16
	Spending per pupil	\$638	\$599
<p>Transportation—lower spending and efficient practices</p> <p>The District's transportation spending was lower per mile and per rider than the peer districts' averages, and the District employed some efficient practices, such as filling buses to an average of 87 percent of seat capacity and having bus drivers work in other parts of the District or clock out and go home in between routes. We did not report any findings in this area.</p>	Spending per mile	\$2.64	\$3.70
	Spending per rider	\$1,014	\$1,127



District subsidized its food service program in fiscal years 2017 through 2019 with over \$167,000 that it could have spent on instruction

District food service program spending outpaced revenues, resulting in District subsidizing the program in fiscal years 2017 through 2019

As shown in Table 1, at the end of fiscal year 2014, the District had a \$167,000 balance in its food service fund. Monies in the food service fund are meant to pay the expenses of operating a food service program, and the fund typically consists of revenues from federal National School Lunch Program (NSLP) meal reimbursements and monies received directly from students or employees who purchase meals. Because the District’s food service spending outpaced its revenues in fiscal years 2015 through 2018, the District depleted its food service fund balance by the end

Table 1
District’s food service program expenses outpaced revenues, drawing down fund balance and resulting in using other funds’ monies
Fiscal years 2014 through 2019
(Unaudited)

Fiscal year	Beginning fund balance	Revenues	Expenses	Ending fund balance	Change in fund balance	Expenses paid by M&O and other funds
14	\$157,381	\$702,381	\$692,155	\$167,607	\$ 10,226	\$ 0
15	167,607	603,076	665,663	105,020	(62,587)	0
16	105,020	557,051	625,793	36,278	(68,742)	0
17	36,278	551,785	588,445	(382)	(36,660)	44,927
18	(382)	542,211	593,224	(51,395)	(51,013)	95,195
19	(51,395)	680,154	628,759	0	51,395	26,957

Source: Auditor General staff analysis of fiscal years 2014 through 2019 District-reported accounting data and annual financial and fund balance reports.

of fiscal year 2017, and in fiscal years 2017 through 2019, the District used about \$167,000 from its Maintenance and Operation Fund (M&O) and other funds to cover food service program spending. Generally, districts should aim to operate self-supporting food service programs that do not require subsidies from monies that could be spent on instruction. Further, if a district maintains a positive food service fund balance, the fund balance can be used in future years to pay for things like new kitchen equipment or equipment repairs or to help the program remain self-supporting if food prices increase or other unexpected costs arise. If the District had reduced its food service program spending or increased its revenues in fiscal years 2015 through 2018, it likely would not have needed to use monies from its M&O and other funds for its food service program and instead could have spent these monies on its instructional program, such as to increase teacher salaries or purchase instructional materials.

District’s decision to participate in federal program that provides free meals to all students caused food service program financial loss

District participated in the Community Eligibility Program (CEP) since fiscal year 2015 so all students receive free meals—Like most school districts in Arizona, the District participates in NSLP,

through which it provides free or reduced-priced meals to students from families with incomes below certain thresholds by identifying those students through a household application or direct certification process.¹ However, beginning in fiscal year 2015, the District chose to participate in a special provision of the NSLP, CEP, through which it provides free meals to all students, regardless of their families' income. District officials indicated that they wanted to ensure all District students received free breakfasts and lunches. As of February 2021, the District was still participating in CEP.

District did not analyze financial impact of participating in CEP

Ideally, participation in CEP would reduce districts' operating costs enough to compensate for lost revenue from those students who would have previously paid for their meals. The idea behind this is that, under CEP, districts are not allowed to determine students' eligibility for free or reduced-price meals by collecting and evaluating household income applications, and instead must determine students' eligibility for CEP only through direct certification (see textbox for differences in certification procedures for CEP and the standard NSLP). Therefore, this could reduce a district's costs associated with determining program eligibility. However, before deciding to participate in CEP, the District did not perform an analysis to determine the financial impact of the change, which should have included comparing revenues the District received through the standard NSLP to what it anticipated receiving through CEP, and analyzing whether there are cost savings by no longer collecting and evaluating NSLP applications. However, as shown in Table 1 on page 3, in fiscal year 2015 when the District first began participating in CEP, its revenues decreased almost \$100,000, or over 14 percent, from the prior year, despite expenses decreasing by only 4 percent. The food service program's self-generated revenues continued to decline each year between fiscal years 2016 and 2018, before increasing in 2019.² District officials indicated that they have not analyzed whether the District should continue participating in CEP or return to the standard NSLP.

Differences in eligibility criteria between CEP and standard NSLP

CEP

- At least 40 percent of a school's/district's total student body must be identified through the direct certification process as automatically eligible.
- Reimbursements are made based on the percentage of students identified through direct certification multiplied by 1.6. This determines the percentage of meals served that will be reimbursed at the federal FREE rate.
- The remaining percentage of meals served are reimbursed at the federal PAID rate.

Standard NSLP

- Schools perform the direct certification process to determine students automatically eligible for NSLP (same as CEP).
- For those students who are not directly certified, families must fill out applications used for determining eligibility based on household income and family size.
- Students' eligibility for free or reduced-price meals is based on the following:
 - **Free meals:** Students who are directly certified, or students whose families' incomes are at or below 130 percent of federal poverty guidelines.
 - **Reduced-price meals:** Students whose families' incomes are between 130 and 185 percent of federal poverty guidelines.

District likely could have increased its revenues \$110,000 per year by participating in the standard NSLP instead of CEP

Similar to the standard NSLP, through CEP, districts receive a federal reimbursement for each meal they serve, but the reimbursement methods differ between the 2 programs. Through the standard NSLP, districts receive 1 of 3 federal reimbursement rates for each meal served, and the reimbursement rates differ based on whether the meal was served to a student who qualified for a free, reduced-price, or paid meal. Through CEP, districts receive federal reimbursements based on the percentage of students they identified through direct certification

¹ Direct certification is the process of determining the students eligible for free meals by matching student data directly with State or local agency data to identify students living in households that participate in the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), Food Distribution Program on Indian Reservations (FDPIR), or children who are migrant, homeless, or in foster care or Head Start programs. Students directly certified will automatically receive free meal benefits without submitting a household application.

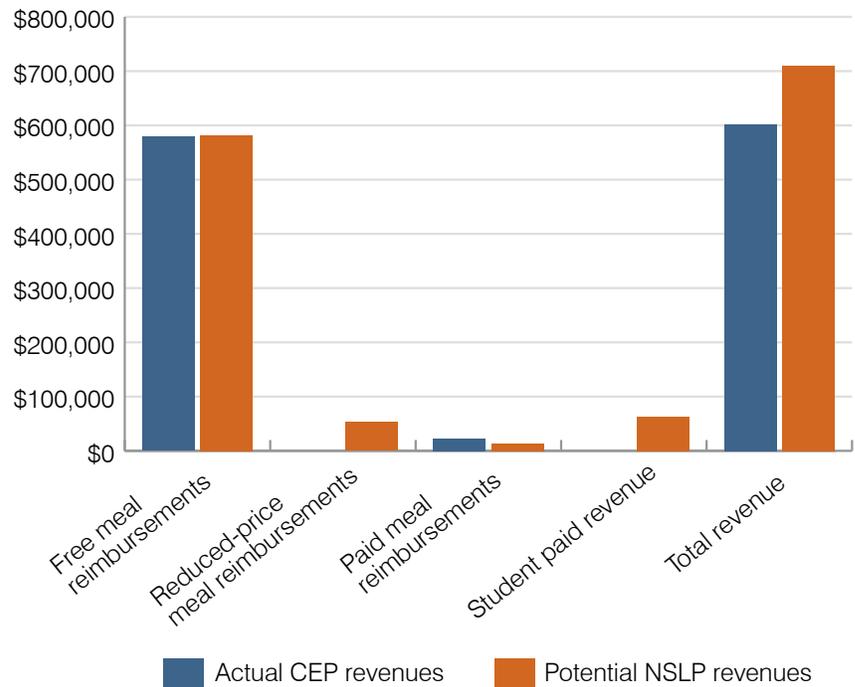
² The District's revenues increased significantly in fiscal year 2019 because it took some steps to try to lower the costs of its program and increase revenues. See page 5 for more information.

multiplied by 1.6. This percentage is then applied to the number of meals a district served to get the number of meals that will be reimbursed at the federal CEP free rate. The remaining meals served will be reimbursed at the federal CEP paid rate.

In fiscal year 2019, the District received the CEP free reimbursement rate of \$3.39 per lunch for 118,110, or 76 percent of the lunches it served and received the CEP paid reimbursement rate of \$0.39 for the other 37,856, or 24 percent, of the lunches served. However, some of the 24 percent of lunches reimbursed at the federal full pay rate were served to students who may have qualified for free or reduced-price meals under the standard NSLP.

Additionally, the District lost out on the revenues it used to collect through meals served to students whose families qualified for reduced-price meals or whose families did not qualify them for NSLP (full pay students). We reviewed the District's students' eligibility for free, reduced-price, or full pay meals for fiscal year 2014, the last year the District participated in the standard NSLP and found that if students' eligibility rates were similar in fiscal year 2019, the District could have received the federal free or reduced-price meal reimbursement rate for an additional 9 percent of meals served. In addition, in this scenario, the District could have collected revenues for the remaining 15 percent of meals directly from students whose families did not meet the NSLP eligibility requirements. As shown in Figure 1, we estimated that, had the District participated in the standard NSLP rather than CEP in fiscal year 2019, it potentially could have received an additional \$110,000 in revenues.

Figure 1
Actual CEP revenues vs. potential NSLP revenues
Fiscal year 2019
 (Unaudited)



Source: Auditor General staff analysis of fiscal years 2014 and 2019 District-reported NSLP claims.

District should reassess its participation in CEP

Recognizing that its food service program expenditures were outpacing revenues, the District took some steps to try to lower the costs of its program and increase revenues. Specifically, to lower its costs, the District outsourced the operation of its food service program to a food service management company in fiscal year 2018, and to help increase revenues by increasing participation, the District began serving breakfast in the classroom in fiscal year 2019. The District's cost per meal decreased 12 percent between fiscal years 2018 and 2019 and its revenues increased by 25 percent, signaling that these steps may be having their intended effect. However, given the fact that it subsidized the program in fiscal years 2017 through 2019 with over \$167,000 in monies that it otherwise likely could have spent on instruction, the District should reassess its decision to participate in CEP rather than the standard NSLP. The District should also consider whether participating in one of the other NSLP special provisions would be more financially beneficial to the District. For example, NSLP Provisions 2 and 3 require districts to serve free meals to all students for a 4-year period, and districts are reimbursed based on eligibility determinations and meal counts from the first year of participation (base year). Because student eligibility is only determined during the base year and is used for the remaining 3 years, these provisions also have the potential

for reducing the District's costs of collecting and evaluating students' NSLP eligibility similar to CEP. Further, as stated earlier, if the District's students' eligibility rates for free and reduced-price meals now are similar to students' eligibility rates in fiscal year 2014, the District could potentially increase its revenues by participating in the standard NSLP program.

Recommendation

1. The District should analyze whether participation in the standard National School Lunch Program or one of its other special provisions rather than participating in the Community Eligibility Program would be more financially beneficial to the District, and take action accordingly to help ensure that its food service program revenues cover the costs of the program.

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



District overpaid some employees, did not ensure all cash collected was deposited, and misclassified expenditures

District overpaid 4 employees a total of almost \$5,700 because its payroll process did not have a comprehensive secondary review

Our review of fiscal year 2019 payroll records for 35 District employees identified 4 employees whom the District overpaid a total of \$5,689, with individual overpayments ranging from \$350 to \$4,342. The overpayments were due to employee error, such as calculating and/or entering incorrect pay rates and salary amounts into the payroll system, and were not identified during another employee's secondary review. The *Uniform System of Financial Records for Arizona School Districts* (USFR), which all school districts must follow, requires districts to implement review procedures at appropriate points in the payroll process to compensate for employees performing all or large portions of the payroll process and to ensure the accuracy of payroll records. Most of the District's payroll process was performed by 1 person, and a second District office employee reviewed payroll by reconciling total payroll hours. However, this review was not comprehensive enough to identify these types of payroll errors and the resulting overpayments made to the 4 employees.

District did not ensure all cash collected was deposited and in a timely manner, exposing it to increased risk of errors and fraud

The District's 3 schools received cash receipts for various purposes, such as athletics, student activities, and fundraisers. Because of the high risk associated with cash transactions, the USFR requires districts to establish and maintain effective controls to safeguard cash. However, our review of all fiscal year 2019 junior high school cash collections totaling \$37,723 found that the District did not maintain effective controls to safeguard its cash, exposing it to an increased risk of errors and fraud. Specifically:

- **District did not issue receipts for all monies collected**—According to the USFR, sequentially numbered receipts should be prepared for each cash payment received by a school district. However, junior high school staff did not issue receipts to club sponsors for \$5,879 of the \$37,723 collected in fiscal year 2019 through student activity fundraiser sales of items, such as bottled water and snacks, and sales of school dance tickets. Issuing receipts to club sponsors is important so that they can keep track of the club's deposits and withdrawals to know how much money the club has. Further, although the junior high school staff retained documentation for most of the individual sales of these items, they did not retain documentation for \$1,194 in fundraiser sales, so the District was unable to show that the appropriate amounts of monies were deposited into the clubs' accounts.
- **District did not ensure all monies collected were deposited**—The USFR requires districts to retain source documents to support all cash collections, such as prenumbered cash receipt forms and validated bank deposit receipts. However, the District did not maintain supporting documentation for 16 cash collections totaling \$313. Therefore, the District was unable to show whether all monies that should have been collected were in fact collected and deposited.

- **District did not always deposit monies in a timely manner**— According to the USFR, cash should be deposited at least weekly. However, our review found that 127 cash collections totaling \$5,177 (of the \$37,723 in total we reviewed) were deposited between 8 and 18 days after being collected. The longer a district holds on to its cash before depositing it at a bank, the greater its risk of theft, loss, or misuse.

According to the District's junior high school officials, they were not aware of the USFR requirements for cash collections, and no one at the District or junior high school monitored to ensure school staff were following District policies and USFR requirements. When we brought the deficiencies to their attention, junior high school officials said they understood the importance of following the requirements and agreed to implement improved processes to ensure USFR compliance.

District misclassified 6 percent of its operational expenditures

In fiscal year 2019, District administrative staff did not adhere to expenditure classification guidance included in the Uniform Chart of Accounts for school districts for 6 percent, or about \$619,000, of the District's \$10.8 million in operational spending. Specifically, District staff did not accurately classify these expenditures in the correct operational categories, such as instruction, administration, plant operations, transportation, and food service. As a result, the District's *Annual Financial Report* and supporting accounting data did not accurately present the District's spending in these operational categories to the public and decision makers who may rely on the report and data to know how the District spent its public monies in these areas. When we corrected these classification errors, the District's instructional spending increased by 0.5 percentage points to 50.1 percent of its total operational spending. The dollar amounts used for analysis and presented in this report reflect the necessary adjustments. When we brought the misclassifications to business staff's attention, they said they continued to classify expenditures the way the prior employee had and did not realize they were not classifying expenditures accurately.

Recommendations

The District should:

2. Pay its employees the accurate amount each pay period based on their pay rate and hours worked.
3. Strengthen its payroll process by having a second person review payroll information, such as pay rates and salary amounts entered into the payroll system, and review all payroll amounts and supporting documentation each pay period to ensure that all employees are paid accurately.
4. Provide training on USFR cash-handling requirements to all employees involved in cash collection, deposit, and review.
5. Have an employee(s) review supporting documentation for all cash collected to ensure that pre-numbered receipts are issued; all documents, such as detailed cash collection reports and validated bank deposit receipts, are retained; and the District collected and deposited all monies it should have.
6. Implement procedures to ensure that all cash is deposited at least weekly as required by the USFR.
7. Ensure staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and upon notification of changes, and implement its guidance to accurately account for and present the District's spending.

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



District did not adequately protect its computerized data, which increased risk of unauthorized access to sensitive information, errors, fraud, and data loss

District's network passwords did not meet credible industry standards

The District's network password requirements as of June 2020 were not aligned with credible industry standards, such as those developed by the National Institute of Standards and Technology (NIST). As a result, the District increased its risk that unauthorized individuals could access sensitive District information and disrupt operations. District officials indicated that they were unaware of industry standards related to password requirements.

District allowed too many network users to have administrator-level access

Our June 2020 review of District user access reports found that 6 network user accounts had administrator-level access, which grants users with access to these accounts full control over all computer network settings, such as the ability to add new users and modify the level of access users have in the network. Users with administrator-level access can also grant themselves full access to view and edit all data on the network, which increases a district's risk of errors and fraud. Our review of the 6 network user accounts with administrator-level access found that 5 accounts did not require this level of access. Therefore, the District was not abiding by the principle of least privilege, which is that users should have the least amount of access in a system necessary to complete their job responsibilities. District officials were unaware that these accounts had administrator-level access. By allowing too many users to have this access level, the District also increased its risk of security breaches because hackers typically target administrator accounts for their greater access privileges, which could result in unauthorized access to and loss of sensitive data or disruption of District operations.

District assigned some employees too much access to its accounting system

Our March 2020 review of access levels for the District's 8 accounting system users found that 3 users' access allowed them to be able to initiate and complete payroll and purchasing transactions without another employee reviewing and approving the transactions. Although we did not identify any improper transactions in the items we reviewed, granting such broad access increased the District's risk that these users could commit errors or fraud without being detected. For example, these users could process false invoices; change employee pay rates, including their own; or add and pay nonexistent vendors or employees without an independent review and approval, which the USFR requires. In addition, the District granted one of its business office employee's administrator-level access to the accounting system, which, as discussed earlier, gave the employee full control over accounting system settings, including the ability to grant themselves full access to view and edit all accounting system data. District officials had not reviewed the access levels granted to its employees in the accounting system to ensure employees could not complete transactions without reviews and approvals.

District allowed user accounts that no longer needed it to have access to District network

According to the District's March 2020 network user access report, at least 13 network user accounts had access to the District's network that no longer needed it, including some system accounts that the District no longer used and accounts for vendors. The District was not regularly performing detailed reviews of user accounts and assessing their need for network access to ensure that access was disabled when it was no longer needed. Not disabling network access or removing accounts promptly once they were no longer needed exposed the District to an increased risk of unauthorized access to its systems.

District contingency plan was incomplete

The District's information technology (IT) contingency plan as of March 2020 was missing some key components to align it with credible industry standards, such as those developed by NIST. Specifically, the District's plan did not identify all critical systems, the order in which they should be restored, or criticality of the systems; clearly outline who is responsible for which activities during a system outage or attack; contain contingencies for continued business operations during a system outage; and contain detailed procedures for restoring critical systems and equipment. The District was unaware of all the key components that make up a comprehensive and detailed contingency plan. Also, the District has not tested its contingency plan, and the plan did not include a process for regularly testing backups to ensure they are reliable in the event the District needs to use them to restore operations.

Recommendations

8. The District should better protect its sensitive computerized data from unauthorized access, errors, fraud, and data loss by:
 - a. Reviewing industry password standards at least annually and implementing and enforcing strong network password requirements consistent with credible industry standards.
 - b. Reviewing and reducing the number of users with administrator-level access to its network.
 - c. Limiting users' access in the accounting system to only those accounting system functions needed to perform their job duties, including transferring administrator-level access to someone outside of the business office.
 - d. Immediately removing all unnecessary user accounts currently in its network and implementing additional procedures to regularly review users' network access and disable it when it is no longer needed and regularly review accounts to identify those that are no longer needed and promptly remove them.
 - e. Reviewing its IT contingency plan to ensure it is complete, testing it at least annually to identify and remedy any deficiencies, and documenting the results of the tests.

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



SUMMARY OF RECOMMENDATIONS

Auditor General makes 8 recommendations to the District

The District should:

1. Analyze whether participation in the standard National School Lunch Program or one of its other special provisions rather than participating in the Community Eligibility Program would be more financially beneficial to the District, and take action accordingly to help ensure that its food service program revenues cover the costs of the program (see Finding 1, pages 3 through 6, for more information).
2. Pay its employees the accurate amount each pay period based on their pay rate and hours worked (see Finding 2, pages 7 through 8, for more information).
3. Strengthen its payroll process by having a second person review payroll information, such as pay rates and salary amounts entered into the payroll system, and review all payroll amounts and supporting documentation each pay period to ensure that all employees are paid accurately (see Finding 2, pages 7 through 8, for more information).
4. Provide training on USFR cash-handling requirements to all employees involved in cash collection, deposit, and review (see Finding 2, pages 7 through 8, for more information).
5. Have an employee(s) review supporting documentation for all cash collected to ensure that pre-numbered receipts are issued; all documents, such as detailed cash collection reports and validated bank deposit receipts, are retained; and the District collected and deposited all monies it should have (see Finding 2, pages 7 through 8, for more information).
6. Implement procedures to ensure that all cash is deposited at least weekly as required by the USFR (see Finding 2, pages 7 through 8, for more information).
7. Ensure staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and upon notification of changes, and implement its guidance to accurately account for and present the District's spending (see Finding 2, pages 7 through 8, for more information).
8. Better protect its sensitive computerized data from unauthorized access, errors, fraud, and data loss by:
 - a. Reviewing industry password standards at least annually and implementing and enforcing strong network password requirements consistent with credible industry standards (see Finding 3, pages 9 through 10, for more information).
 - b. Reviewing and reducing the number of users with administrator-level access to its network (see Finding 3, pages 9 through 10, for more information).
 - c. Limiting users' access in the accounting system to only those accounting system functions needed to perform their job duties, including transferring administrator-level access to someone outside of the business office (see Finding 3, pages 9 through 10, for more information).
 - d. Immediately removing all unnecessary user accounts currently in its network and implementing additional procedures to regularly review users' network access and disable it when it is no longer needed and

regularly review accounts to identify those that are no longer needed and promptly remove them (see Finding 3, pages 9 through 10, for more information).

- e. Reviewing its IT contingency plan to ensure it is complete, testing it at least annually to identify and remedy any deficiencies, and documenting the results of the tests (see Finding 3, pages 9 through 10, for more information).



Objectives, scope, and methodology

We have conducted a performance audit of Mohave Valley Elementary 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 35 of the 182 individuals who received payments in fiscal year 2019 through the District's payroll system and reviewed supporting documentation for 30 of the 2,812 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. 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	Between 23 and 27% Elementary school districts Towns and rural areas	10
Administration, plant operations and maintenance, and food service	District size District type Location	Between 600 and 7,999 students Elementary school districts Towns and rural areas	9
Transportation	Miles per rider Location	Between 240 and 335 miles per rider Towns and rural areas	19

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 ADE.

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 and school 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 all fiscal year 2019 credit card statements, fiscal year 2019 cash deposit documentation for cash receipts collected by the District’s junior high school, bus driver files for 10 of the District’s 17 drivers, and bus maintenance and repair records for 5 of the District’s 18 buses. We also reviewed the District’s contract 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, use of building space, building age, and meals served per student to peer districts’. Additionally, we reviewed the District’s bus route efficiency and reviewed the District’s revenues and expenditures associated with its food service program to determine whether the District was covering its

spending, including analyzing eligibility and reimbursement criteria/guidelines for the National School Lunch Program and its special provision, the Community Eligibility Program.

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



MOHAVE VALLEY SCHOOL DISTRICT #16

Creating school communities in which all students can learn, no exceptions!
SMALL. SAFE. Neighborhood Schools!

April 7, 2021

Lindsey Perry
Arizona Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ. 85018

Ms. Perry:

Mohave Valley Elementary School District has received and reviewed the Performance Audit report conducted during the 2020-2021 school year. The recommendations made will assist our efforts to enhance and improve our internal operating procedures. After the opportunity to reflect and engage in the findings, Mohave Valley Elementary School District agrees with the findings and recommendations resulting from the audit and plans to expedite and implement the said recommendations. We continually strive to perform at the highest levels of academic and fiscal management.

Mohave Valley Elementary School District would like to thank the audit team for their insight, professionalism, and courtesy throughout the audit process, along with the opportunity to engage in discussions and collaboration.

If you have any questions, please feel free to contact me or Mrs. Jenette King, Business Manager.

Sincerely,

Cole Young
MVESD Superintendent

Finding 1: District subsidized its food service program in fiscal years 2017 through 2019 with over \$167,000 that it could have spent on instruction

District Response: The District agrees with the finding.

Recommendation 1: The District should analyze whether participation in the standard National School Lunch Program or one of its other special provisions rather than participating in the Community Eligibility Program would be more financially beneficial to the District, and take action accordingly to help ensure that its food service program revenues cover the costs of the program.

District Response: The District agrees with the recommendation and has begun to have conversations with the Board to implement the recommendation.

The MVESD Governing Board highly values the opportunity to provide both a free breakfast and lunch to ALL of our students. The transitioning to CEP was a strategy to do this very thing. The Governing Board is aware that we have had to subsidize Food and Nutrition over the past several years as we have not been able to break even under CEP.

Currently, the District is in discussions with the Board concerning the pros and cons of the Community Eligibility Program (CEP). Financial data will be presented with an administrative recommendation to shift from CEP to Provision II once the appropriate data is collected. The goal, depending on the Board's approval, will shift the District to Provision II for the 2021-2022 school year.

Finding 2: District overpaid some employees, did not ensure all cash collected was deposited, and misclassified expenditures

District Response: The District agrees with the finding.

Recommendation 2: The District should pay its employees the accurate amount each pay period based on their pay rate and hours worked.

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

The District has implemented procedures to be sure internal controls are in place.

Recommendation 3: The District should strengthen its payroll process by having a second person review payroll information, such as pay rates and salary amounts entered into the payroll system, and review all payroll amounts and supporting documentation each pay period to ensure that all employees are paid accurately.

District Response: The District agrees with the recommendation and will implement the recommendation of a second-person review process.

Recommendation 4: The District should provide training on USFR cash-handling requirements to all employees involved in cash collection, deposit, and review.

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



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Recommendation 5: The District should have an employee(s) review supporting documentation for all cash collected to ensure that pre-numbered receipts are issued; all documents, such as detailed cash collection reports and validated bank deposit receipts, are retained; and the District collected and deposited all monies it should have.

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

Recommendation 6: The District should implement procedures to ensure that all cash is deposited at least weekly as required by the USFR.

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

Recommendation 7: The District should ensure staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and upon notification of changes, and implement its guidance to accurately account for and present the District's spending.

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

In the fiscal year 2019-2020 the District had been reviewing and correcting account codes to match that of the USFR guidance.

Finding 3: District did not adequately protect its computerized data, which increased the risk of unauthorized access to sensitive information, errors, fraud, and data loss

District Response: The District agrees with the finding.

District immediately has made changes to adequately protect its computerized data.

Recommendation 8: The District should better protect its sensitive computerized data from unauthorized access, errors, fraud, and data loss by:

Recommendation 8a: Reviewing industry password standards at least annually and implementing and enforcing strong network password requirements consistent with credible industry standards.

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

District intends to add a password filter into the Active Directory environment. The goal is to implement this safeguard no later than the end of the 20-21 school year.

Recommendation 8b: Reviewing and reducing the number of users with administrator-level access to its network.

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

The district has resolved this issue based on the information provided during the preliminary audit finding's discussion.

Recommendation 8c: Limiting users' access in the accounting system to only those accounting system functions needed to perform their job duties, including transferring administrator-level access to someone outside of the business office.

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

The District has resolved this issue based on the information provided during the preliminary audit finding's discussion.

Recommendation 8d: Immediately removing all unnecessary user accounts currently in its network and implementing additional procedures to regularly review users' network access and disable it when it is no longer needed and regularly review accounts to identify those that are no longer needed and promptly remove them.

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

The District has resolved this issue based on the information provided during the preliminary audit finding's discussion.

The District now reviews user accounts at the beginning of every month to ensure all accounts that needed to be removed/disabled are double-checked to ensure accuracy and timeliness.

Recommendation 8e: Reviewing its IT contingency plan to ensure it is complete, testing it at least annually to identify and remedy any deficiencies, and documenting the results of the tests.

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

During fiscal year 2021 the district was in the middle of implementing a backup plan and test restoration of random backup every three months.

The District is currently documenting the process of the contingency plan and looks to finalize the document prior to the start of the 21-22 school year.

