Joint Legislative Audit Committee

September 13, 2023—9:00 a.m.

Lindsey A. Perry
Auditor General

ARIZONA
Auditor General
Making a Positive Difference

ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE
OPEN TO THE PUBLIC

JOINT LEGISLATIVE AUDIT COMMITTEE

Date: **Wednesday, September 13, 2023**

Time: **9:00 A.M.**

Place: **SHR 109**

Members of the public may access a livestream of the meeting here:
https://www.azleg.gov/videoplayer/?clientID=6361162879&eventID=2023091001

AGENDA

Call to order - opening remarks

1. Arizona Auditor General (Office) process for assessing school district noncompliance with the Uniform System of Financial Records for Arizona School Districts and audit reporting requirements and Antelope Union High School District's noncompliance, letters dated February 21, April 18, and July 31, 2023
   - Presentation by the Office
   - Presentation by the Antelope Union High School District
   - Presentation by the Yuma County School Superintendent's Office
2. Office follow-up process for school district performance audits and presentation of 4 school district performance audit reports and most recent follow-up reports

   Santa Cruz Elementary School District Performance Audit, September 2019 report and 42-month follow-up report
   - Presentation by the Office
   - Presentation by the Santa Cruz Elementary School District

   Peach Springs Unified School District Performance Audit, January 2019 report and 54-month follow-up report
   - Presentation by the Office
   - Presentation by the Peach Springs Unified School District

   Topock Elementary School District Performance Audit, March 2020 report and 36-month follow-up report
   - Presentation by the Office
   - Presentation by the Topock Elementary School District

   Hackberry Elementary School District Performance Audit, October 2020 report and 24-month follow-up report
   - Presentation by the Office
   - Presentation by the Hackberry Elementary School District

3. Consideration and approval of changes to 2024-2025 performance audit and sunset review schedule
4. Consideration and approval of additions to 2024-2025 Committee of Reference (COR) assignments for sunset review hearings
5. July 2023 Follow-up—Special report on Arizona K-12 education COVID-19 federal relief spending in fiscal year 2022 and in total through June 30, 2022
    - Presentation by the Office
6. Next JLAC meeting

Adjourn

Members:

Senator Sonny Borrelli, Chair	Representative Matt Gress, Chair
Senator Eva Diaz	Representative Michael Carbone
Senator David C. Farnsworth	Representative Alma Hernandez
Senator Anthony Kern	Representative Beverly Pingerelli
Senator Juan Mendez	Representative Marcelino Quiñonez
Senator Warren Petersen, Ex-officio	Representative Ben Toma, Ex-officio

09/01/2023
hf

For questions regarding this agenda, please contact Senate Research Department.
Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting the Senate Secretary's Office: (602) 926-4231 (voice). Requests should be made as early as possible to allow time to arrange the accommodation.

LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: September 11, 2023

TO: Senator Sonny Borrelli, Chair
Representative Matt Gress, Vice Chair
Members, Joint Legislative Audit Committee (JLAC)

FROM: Lindsey Perry, Auditor General

SUBJECT: Arizona Auditor General (Office) process for assessing school district noncompliance with the Uniform System of Financial Records for Arizona School Districts and audit reporting requirements and Antelope Union High School District's noncompliance, letters dated February 21, April 18, and July 31, 2023

Background

Pursuant to Arizona Revised Statutes (A.R.S.) §15-271, the Office and the Arizona Department of Education together develop the Uniform System of Financial Records for Arizona School Districts (USFR). The USFR and related guidance prescribe the minimum internal control policies and procedures to be used by Arizona school districts (districts) for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements.

Also, pursuant to A.R.S. §15-271, the Office is responsible for notifying districts that have failed to establish and maintain effective internal control policies and procedures that comply with the USFR at a satisfactory level. Pursuant to A.R.S. §15-914 and the USFR, districts must submit audited financial statements and reports, and a USFR Compliance Questionnaire to our Office within 9 months of fiscal year-end. When making compliance determinations, we review districts' audit reports, USFR Compliance Questionnaires, management letters submitted by the districts' independent audit firms, and internal control-related findings cited in our school district performance audits and financial investigations. Pursuant to A.R.S. §15-271, we provide noncompliant districts 90 days from the date of our notification letter to implement corrective actions.

We refer all noncompliant districts that have not made adequate progress in correcting their deficiencies to comply with the USFR at a satisfactory level to the Arizona State Board of Education (State Board). Additionally, we request that the State Board take appropriate action as prescribed by A.R.S. §15-272, which allows it, in part, to direct the Arizona Department of Education to withhold up to 10 percent of a district's State monies until it is determined to be no longer in noncompliance with the USFR.

We were asked to present the Office's process for assessing school district noncompliance with the USFR and audit reporting requirements, including presenting information on the Antelope Union High School District's noncompliance for fiscal year 2022, which will be presented by both Meghan Hieger, Accountability Services Division Director, and me.

See ***Attachment A*** for our letters dated February 21, April 18, and July 31, 2023, reporting Antelope Union High School District's noncompliance with the USFR.

Action required

None. Presented for JLAC's information only.

Attachment A

Letter

February 21, 2023

LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

February 21, 2023

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

Subject: Antelope Union High School District—Still in Noncompliance with the USFR Based on Subsequent Audit Reports

Dear Members of the Board:

We received and reviewed Antelope Union High School District's financial audit reports and the *Uniform System of Financial Records for Arizona School Districts* (USFR) Compliance Questionnaire for the year ended June 30, 2021, which indicated that the District was still in noncompliance with the USFR. We have attached a list of the most significant USFR compliance deficiencies we noted in these reports, including budgetary overspending and negative cash balances reported of:

- $135,983 in general budget limit overspending.
- $357,564 in total negative cash balance, in funds that are not legally allowed to spend beyond their available cash resources.
- $237,476 in federal grant fund negative cash balances resulting from unallowable spending that exceeded federal award amounts and therefore is not eligible for federal reimbursement.

The District reported $104,951 in interest on registered warrants resulting from its negative cash balances, an increase of 50.5 percent in registered warrant costs from the prior year. The District reported $1,187,374 in registered warrants on the June 30, 2021, financial statements due to negative cash balances. Further, the District's independent auditor has continued to express substantial doubt about the District's ability to pay future expenditures in a timely manner and to continue operating.

On August 27, 2021, the State Board of Education held a hearing regarding the District's noncompliance with the USFR and directed the Superintendent of Public instruction to withhold 3 percent of the District's State aid, in accordance with Arizona Revised Statutes §15-272(B).

We have provided the District an updated corrective action plan template to document corrective actions it takes to comply with the USFR including addressing its overspending and negative cash balances. Once the District can show that it is no longer in noncompliance with the USFR, it should ask my office to perform a status review.

If you have questions concerning this matter, please call Cris Cable, Director, or Megan Smith, Manager, within our Accountability Services Division at (602) 977-2796.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

cc: Governing Board
Mr. Gregory Copeland, Superintendent
Mr. Aaron Whittle, Business Manager
Antelope Union High School District
The Honorable Thomas Hurt, Yuma County School Superintendent
Mr. Sean Ross, Executive Director
Arizona State Board of Education
Mr. Art Harding, Chief Operations Officer
Ms. Deirdre Mai, Deputy Associate Superintendent, Grants Management
Arizona Department of Education

Antelope Union High School District
Not in compliance with the Uniform System of Financial Records (USFR)
List of deficiencies

Governing board/management procedures - The governing board and District management should establish and implement procedures as required by Arizona Revised Statutes (A.R.S.) to ensure their oversight duties are met.		
	Question	Deficiency
1.	The governing board appointed a student activities treasurer and, if applicable, assistant student activities treasurers. A.R.S. §15-1122	The Governing Board did not appoint an employee as student activities treasurer for the fiscal year (FY) ended June 30, 2021.
2.	The governing board approved student clubs' and organizations' fund-raising events. A.R.S. §15-1121	The Governing Board was not provided a list of student fund-raising events to approve during FY 2021.
3.	The governing board established written personnel and payroll policies and approved employee contracts that included salary and wage schedules, and any other agreed-upon terms of employment.	For ten of fifteen employee contracts reviewed, the contracts did not specify the number of working hours per day.
4.	The District annually provided guidance to all governing board members and employees on what constitutes a substantial interest and that the conflict-of-interest statutes apply to all District governing board members and employees. A.R.S. §§38-502 &38-509	Documentation was not provided that the District annually provided guidance to all governing board members and employees on what constitutes a substantial interest and that the conflict-of-interest statutes apply to all District governing board members and employees.
5.	The District held governing board meetings in accordance with A.R.S. §§38-431 to 38-431.09, and prepared and retained written minutes and/or recordings.	District policy BEDG provides that Board minutes are to be made available for public inspection within 3 workings days after the meeting. Documentation was not provided to verify that the Board minutes were made available for public inspection within 3 working days after a Board meeting, as the copies of the minutes do not indicate the date they were completed and made available to the public.

Budgeting - The District should prepare budgets based on legal requirements and allowable uses of monies and monitor spending to accurately inform the public about its planned spending and ensure it stays within those budgets.		
	Question	Deficiency
1.	The budget included all funds as required by A.R.S. §15-905 and followed the form's Budget—Submission and Publication Instructions.	The proposed expenditure budget was submitted electronically to the Arizona Department of Education (ADE) on July 17, 2020, 12 days after the July 5 deadline.

Accounting records - The District should accurately maintain accounting records to support the financial information it reports and follow processes and controls that reduce the risk of undiscovered errors that would affect the reliability of information reported to the public and oversight agencies.		
	Question	Deficiency
1.	The District coded transactions in accordance with the USFR Chart of Accounts.	The District recorded $82,610 in negative expenditures in Fund 105—Title I (FY 2020) to clear prior year negative cash balance by reporting expenditures in other funds. It was noted that of this amount, $55,173 in expenditures were posted to Fund 106—Title I (FY 2021). As these expenditures did not occur during the allowable grant period they are disallowed as FY 2021 Title I expenditures. The following expenditures were not coded in accordance with the USFR Chart of Accounts: • An expenditure for air purifiers was recorded to Object 6611—District Supplies and should have been recorded to Object 6731 or 6732—Furniture and Equipment. • An expenditure for hot spot units and 4G data plan was recorded to Object 6611—District Supplies while the hot spot units should have been recorded to Object 6731 or 6732—Furniture and Equipment, and the cost for 4G data plan should have been recorded to Object 6531—Telecommunications. • An expenditure for instructional aid (annual subscription for digital library) was recorded to Fund 001—Maintenance and Operation (M&O) while per the USFR: "Instructional aids must be paid for from the Unrestricted Capital Outlay Fund or another allowable fund, but not from the M&O Fund." • An expenditure for copier lease payment was recorded to Function 2610—Operation of Buildings and Object 6731—Furniture and Equipment and should have been recorded to Function 5000—Debt Service and Object 6832—Other Principal Payments and Object 6842—Other Interest Payments. • An expenditure for Chromebook lease payment was recorded to Function 1000—Instruction and Object 6731—Furniture and Equipment and should have been recorded to Function -5000—Debt Service and Object 6832—Other Principal Payments and Object 6842—Other Interest Payments. • Expenditures for food for staff orientation and staff meeting were recorded to Function 1000—Instruction and Object 6580—Travel" and should have been recorded to Function 2213—Instructional Staff Training and Function 2570—Noninstructional Personnel Training and Object 6890—Miscellaneous Expenditures.

2.	The District sequentially numbered journal entries and retained supporting documentation and evidence that journal entries were signed, dated, and approved by someone other than the preparer.	The District made journal entries that did not appear proper. The District moved a total of $15,256 payroll expenditures from Fund 510—Food Service to Fund 001—M&O with four adjusting journal entries. However, instead of moving cash and expenditures, the District moved salaries payable and expenditures, which caused the incorrect cash balances and salaries payables in the financial data file for the two funds. In addition, the District moved a total of $2,409 payroll expenditures from Fund 105—Title I (FY 2020) to Fund 106—Title I (FY 2021) with two adjusted journal entries. Further, the following deficiencies were noted based on the review of adjusting journal entries (AJE's): • For 10 of 20 AJEs' supporting documents and documents of a secondary review and approval were not provided. It could not be determined if the AJE's were for a proper business purpose of the District. • For one AJE, documentation of a secondary review and approval was not provided. • For one AJE, it could not be determined if the AJE was for a proper business purpose of the District based on the document provided.
3.	The District documented and dated a monthly review of financial transactions the county school superintendent (CSS) initiated (i.e., revenue or journal entries) for propriety and researched and resolved any differences.	Documentation was not provided that the District documented and dated a monthly review of financial transactions the CSS initiated (i.e., revenue or journal entries) for propriety and researched and resolved any differences.
4.	The District reconciled cash balances by fund monthly with the County School Superintendent (CSS) or county treasurer's records, and properly supported, documented, and dated the reconciliations.	Documentation was not provided that the District reconciled cash balances by fund monthly with the CSS or county treasurer's records, and properly supported, documented, and dated the reconciliations.

Cash and revenue - The District should document and control cash transactions to safeguard monies, provide evidence of proper handling to protect employees involved in handling monies from unfounded accusations of misuse, and reduce the risk of theft or loss.

	Question	Deficiency
1.	The District used an M&O Fund revolving bank account in accordance with A.R.S. §15-1101.	The M&O Fund revolving account was inappropriately used to deposit two food service grant revenues and then clear the deposits to the County for Fund 510—Food Service. The grants were for $16,150 and $21,091.
2.	The District used an Auxiliary Operations Fund bank account in accordance with A.R.S. §15-1126.	Supporting documentation was not provided for 1 of 5 auxiliary operation checks selected for review, only an unsigned copy of an auxiliary check was provided. As such, it could not be determined if the check was signed by two authorized signers.

3.	The Auxiliary Operations Fund bank or treasurer account deposits included all monies raised in connection with the activities of school bookstores and athletics and were supported by appropriate documentation. A.R.S. §15-1126	Two of five auxiliary deposits were only supported by a prenumbered receipt and noted as "Athletics".
4.	The extracurricular activities fees tax credit monies were included in the Auxiliary Operations Fund and/or separately accounted for in a Extracurricular Activities Fees Tax Credit Fund.	The District records auxiliary operations and extracurricular activities fees tax credit monies in the same bank account and uses Quickbooks to track the deposits and expenditures. It was noted that Quickbooks is unable to generate a balance by class and the exact balances of the auxiliary operations and tax credits accounts cannot be determined.
5.	The District used the Student Activities Fund bank account(s) in accordance with A.R.S. §15-1122.	It was noted that there were four outstanding checks totaling $3,969 that were older than one year.
6.	The Student Activities Fund monies were deposited in a bank or treasurer account designated as the Student Activities Fund account.	Four of five student activity deposits were not properly supported. In addition, the District held an auction of surplus property and collected $1,400. One of the deposits made to the student activities bank account totaled $1,400 was for the surplus property auction and noted as for "In-staff funds". It was not determined if the auction was an allowable fundraising activity, what items were auctioned and what club the monies were raised for.
7.	The District paid bank charges from only the M&O Fund revolving bank account, Food Service Fund revolving bank account, Auxiliary Operations Fund bank account, and Auxiliary Operations Fund revolving bank account(s) or, if not, the bank charges were reimbursed from an appropriate District fund or bank account.	The food service clearing account was not reimbursed for bank fees of $88.
8.	The District separated responsibilities for cash-handling and recordkeeping among employees (i.e., receiving, depositing, and recording revenues), to safeguard monies.	The business manager received the checks in the mail, made the deposits and coded and recorded the deposits. It was noted that only treasurer's receipts were provided to support the deposits.
9.	The District's deposits were made in a timely manner and supported by deposit slips or other deposit transmittal supporting documentation.	Per review of the County receipts, a total of $194,862 in cash was received in the office and checks received in the mail were deposited with the County in FY 2021. The District did not provide prenumbered receipts documenting the date received; copies of checks deposited; nor County Deposit Transmittal Forms. Only the County receipts were provided. As such it could not be determined if the deposits were made timely. In addition: • Validated deposit slips were not provided for the five auxiliary deposits that were reviewed. • Validated deposit slips were not provided for the five student activity deposits that were reviewed. • Two of five auxiliary deposits were only supported by a prenumbered receipt and did not indicate the date of the event. As such it could not be determined if the deposits were made timely.

		• Due to lack of documentation of initial collections it could not be determined if 4 of 5 student activity deposits reviewed were deposited timely. • Documentation was not provided to support if 5 of 5 food service deposits reviewed were deposited timely.
10.	The District's deposits and cash balances with the county treasurer were reconciled.	The District recorded cash adjustments totaling $162,710 based on the County School Superintendent's reconciliation to the County Treasurer. No detail or explanation was provided for the adjustments other than noted as "reconciling differences".
11.	The District retained supporting documentation for disbursements from bank accounts.	Documentation was not provided for 1 of 5 revolving checks reviewed.
12.	The District safeguarded unused checks.	A check for $1,500 dated 08/28/20 was written from the Auxiliary bank account made payable to cash for bookstore cash box.
13.	The District tracked and reconciled the number of meals sold to the total cash collected per day.	Reports providing the number of meals sold and cash collected was not provided to support 5 of 5 food service deposits reviewed. In addition, documentation was not provided to reconcile sales to amounts collected for all 5 food service revenues selected to reviewed.
Supplies inventory - The District should physically safeguard and report supply inventories to prevent theft, overstocking, understocking, spoilage, and obsolescence.		
	Question	Deficiency
1.	The District physically safeguarded supply inventories to prevent unauthorized use, theft, damage, and obsolescence and enable accurate financial reporting.	The District did not provide a detailed food service inventory of food service supplies held as of June 30, 2021. In addition, the District has two fuel tanks, one for gasoline and one for diesel fuel. It was not determined if the controls over the dispensing the fuel were adequate as a log of fuel dispensed by vehicle was not provided.
Property control - The District should properly value, classify, and report land, buildings, and equipment on its stewardship and capital assets lists. In addition, the District should safeguard its property, which represents a significant investment of its resources, from theft and misuse.		
	Question	Deficiency
1.	The District recorded additions on the capital assets list and reconciled capitalized acquisitions to capital expenditures at least annually.	For one of five expenditures for capital asset items reviewed, the item was not included in the District's FY 2021 capital asset list.
2.	The District's stewardship list for items costing at least $1,000 but less than the District's capitalization threshold included the location, identification number, and description, and was updated for any acquisition, transfer, or disposal.	The stewardship list provided only include items purchased in FY 2021, and no prior year items. In addition, the list did not include the identification numbers and locations of the items. For one of five expenditures for stewardship items reviewed, the item was not included in the District's FY 2021 stewardship list.

<table>
<tr><td>3.</td><td>The District properly tagged assets and updated asset lists.</td><td>The District's FY 2021 capital asset list did not have tag numbers for 157 out 166 items on the list. Eight of ten items selected from the District premises were not traced back to the District's capital asset list due to the lack of detail descriptions and identification numbers on the District's capital asset list. It was noted all eight items were school buses, and the District's capital asset list has nine school buses.</td></tr>
<tr><td>4.</td><td>The District performed a physical inventory of all equipment at least every 3 years and reconciled the inventory results to the stewardship and capital assets lists upon completion.</td><td>Documentation was not provided if the District performed a physical inventory of all equipment at least every 3 years.</td></tr>
<tr><td>5.</td><td>The governing board approved stewardship and capital asset items disposed of during the fiscal year, and the District removed the assets from the corresponding list and disposed of them in accordance with Arizona Administrative Code (A.A.C.) R7-2-1131(C).</td><td>The auction of surplus property was not provided to the Board for approval.</td></tr>
<tr><td colspan="3">Expenditures - The District should ensure spending approvals document both the allowable District purpose and confirmation that spending was within budget capacity or available cash, to ensure appropriate use of public monies and compliance with budget limits, and to protect employees from unfounded allegations of misuse.</td></tr>
<tr><th></th><th>Question</th><th>Deficiency</th></tr>
<tr><td>1.</td><td>The District monitored budget capacity in budget-controlled funds and cash balances in cash-controlled funds before approving purchase orders (PO) and authorizing expenditures, except as authorized in A.R.S. §§15-207, 15-304, 15-907, &15-916.</td><td>The Arizona Department of Education's (ADE) FY 2020-21 BUDG75 report dated January 11, 2022, provides that Fund 001—M&O's expenditures were $135,983 (6.8%) over the budget limit of $2,001,721.

The District reported negative cash balances totaling $(357,564) as of June 30, 2021, in the following funds that were not reimbursable grant funds:

<table><tr><th>Fund description</th><th>Amount</th></tr><tr><td>011–Classroom Site Fund</td><td>$ (51,449)</td></tr><tr><td>012–Classroom Site Fund</td><td>(28,312)</td></tr><tr><td>020–Instructional Improvement</td><td>(11,455)</td></tr><tr><td>506–School Plant</td><td>(20,184)</td></tr><tr><td>510– Food Service</td><td>(146,323)</td></tr><tr><td>515–Civic Center</td><td>(5,481)</td></tr><tr><td>596–CTED</td><td>(1,155)</td></tr><tr><td>827–SPED IGA</td><td>(93,205)</td></tr><tr><td>Total</td><td>$ (357,564)</td></tr></table>
The District recorded expenditures totaling $237,476 in excess of award amounts that resulted in cash deficits carried forward from the prior years and over expenditure of award amounts in FY</td></tr>
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<table>
<tr><td></td><td></td><td>2021 that were not funded by the grant award. The following amounts are the deficits carried forward and the excess expenditures noted in the following reimbursable grant funds:

Fund description | Excess expenditures
Fund 105–Title I | $ 16,379
Fund 121–Title I Migrant | 29,342
Fund 220–SPED | 20,166
Fund 302–ARRA Education | 72,625
Fund 320–Enrollment Stability Grant | 98,964
Total | $ 237,476

Based on review of award amounts and revenue received there did not appear to be a receivable that would reimburse the District for $237,476 of the carried forward deficits due to expenditures in excess of grant awards.

In addition, for two of the twenty-five expenditures reviewed, the purchase orders were created after the invoice date. For two of the twenty-five expenditures reviewed, the payment amounts exceeded the purchase order amounts by more than 10%.

Further, the interest paid on registered warrants increased from $69,748 in FY 2020 to $104,951 in FY 2021, an increase of $35,203 (50.5%). The District had $1,187,374 in registered warrants reported on the June 30, 2021, financial statements due to cash deficiencies. As such, the District's Independent Auditors' Report expressed substantial doubt about the District's ability to continue operating.</td></tr>
<tr><td>2.</td><td>The District's expenditures were made only for allowable District purposes, properly satisfied the specific purposes required for any restricted monies spent, and were adequately supported by documentation required by the USFR.</td><td>• One of five checks issued from the revolving account was not properly supported. The check was made payable to Antelope UHSD for $1,765 and only noted as beginning of the year reconciling item.
• For one credit card purchase review, the purchase was for gift cards for student incentives to summer classes. It was noted a total of two $250, three $100 and forty-five $50 dollar gift cards were purchased, and the supporting document of which students received the gift cards only accounts for two $250, three $100 and forty-one $50 gift cards, which left four $50 gift cards not accounted for.
• The District paid a vendor $319.99 for overdue invoices dated ranging from 05/13/18 to 12/22/20 in July 2021.
• The District paid $1,824.50 to its food service department for employee meals for May and June 2021. This did not appear to be an allowable expenditure.</td></tr>
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		• For three of the twenty-five expenditures reviewed, a receiving report or documentation of the employee that authorized as "Okay To Pay" was not provided. For one of the twenty-five expenditures reviewed, the payment amount did not agree to the invoice amount.
3.	The District's extracurricular activities fees tax credit monies were expended only for eligible activities that qualified under A.R.S. §§15-342(24) & 43-1089.01.	A check for $9,681.67 for extracurricular expenses was issued from the auxiliary checking account and paid to the student activities account. Adequate supporting documentation was not provided to support the expenditure or document the expenditures were allowable tax credit expenditures.
4.	The District's Student Activities Fund disbursements and transfers of monies among student clubs were issued only when cash was available in the student club account and properly authorized by or on behalf of the student members of a particular club and documented in the club minutes.	One of five student activity disbursements was not supported with student minutes documenting the expenditure.
5.	The District properly prepared the Career Technical Education District (CTED) Supplanting worksheet and adequately supported that monies received from a CTED were used only for vocational education and to supplement, rather than supplant, the District's base year vocational education spending. A.R.S. §15-393	The FY 2021 Career Technical Education District (CTED) Supplanting worksheet was not provided, as such, it could not be determined if monies received from a CTED were used only for vocational education and to supplement, rather than supplant, the District's base year vocational education spending.

Credit cards and p-cards - The District should control credit cards and p-cards to help reduce the risk of unauthorized purchases and approve purchases to ensure compliance with competitive purchasing requirements in the USFR and School District Procurement Rules.

		Deficiency
1.	The District issued and tracked possession of all District credit cards and trained employees who make credit card purchases or process transactions on the District's policies and procedures.	For five of five credit card users reviewed, the signed credit card user agreements were not provided.
2.	The District's card purchases were only for authorized District purposes, within the dollar limits authorized for the employee, and supported by valid receipts or transaction logs that clearly identify the employee making the purchase.	For one of fifteen credit card purchases reviewed, the receipt supporting the charge of $199.16 for food at a restaurant was not provided.

Procurement - The District should follow the School District Procurement Rules and USFR purchasing guidelines for purchases it makes to promote fair and open competition among vendors that helps ensure the District receives the best value for the public monies it spends.

	Question	Deficiency
1.	The District requested at least 3 written quotes for purchases costing at least $10,000 but less than $100,000 and followed the guidelines prescribed by the USFR.	Documentation was not provided to show that at least three written quotes were obtained for ten purchases in the written quote range or documentation that the purchases were otherwise exempt from requiring oral quotes (i.e., sole source, cooperative purchase, etc.).

	Question	Deficiency
2.	The District provided training and guidance related to restrictions on soliciting, accepting, or agreeing to accept any personal gift or benefit with a value of $300 or more. A.R.S. §15-213(N) and A.A.C. R7-2-1003	Documentation was not provided that the District provided training and guidance related to restrictions on soliciting, accepting, or agreeing to accept any personal gift or benefit with a value of $300 or more.

Classroom site fund - The District should ensure it appropriately spends the State sales tax revenues for teacher pay and programs to support students, such as class size reduction, dropout prevention, and tutoring, as required by law.

	Question	Deficiency
1.	The District's total Classroom Site Fund (CSF) revenues were properly allocated among the following funds: 011–Base Salary (20%), 012–Performance Pay (40%), and 013–Other (40%), and expenditures in the CSFs (011-013) were within the CSF budget limit. A.R.S §15-977	The following items were noted regarding CSF: • Fund 012 expenditures were $26,183 over the budget of $47,753. • Fund 013 had a negative budget amount of $10,318, and an expenditure amount of $1,278.

Payroll - The District should document the review, verification, and approval of payroll expenditures to ensure employees are appropriately compensated and payments to employees are supported by Governing Board approved contracts, pay rates, and terms of employment.

	Question	Deficiency
1.	The District ensured hourly employees were not paid for more than the actual hours worked to date.	For two employees, the hourly rates on the contract did not agree to the hourly rates on the payroll journal report.
2.	The District's individual personnel files included all appropriate supporting documentation, as listed on USFR pages VI-H-2 through 4.	The following supporting documents were missing from the employees' personnel files: • One of fifteen employees did not have the signed FY 2021 employee contract on file, the contract on file only has the first two pages. • One of fifteen employees did not have the I-9 Form on file.
3.	The District enrolled employees who met the Arizona State Retirement System (ASRS) membership criteria, withheld employee contributions, and in a timely manner remitted employee and District contributions in accordance with the ASRS Employer Manual.	Documentation was not provided to determine if one employee without an ASRS withholding or an alternate contribution rate contribution worked 20 or more hours for 20 or more weeks in FY 2021.
4.	The District calculated the accrual and use of vacation, sick leave, and compensatory time for all employees in accordance with District accrual rates for specified years of service, maximum amounts to be accrued, and disposition of accrued time upon separation of employment.	• For five of five employees reviewed, documentation was not provided on how their sick leave day accruals were calculated. In addition, leave slips or other supporting documentation was not provided for the leave uses selected to review. • Documentation was not provided to support the payout rates for five of five vacation payouts' selected to review.
5.	The District's payroll was properly reviewed and approved before processing and distribution to employees.	For two employees, the total contract amounts (including stipends) did not agree to the amount actually paid as indicated on the payroll journal report. The following was noted regarding one employee's contract:

		• The employee contract indicated that the District shall provide the employee "with six hundred dollars and zero cents (600.00) per month as a car and cell phone allowance", which should be a total of $7,200 in FY 2020-21. However, only $4,000 was paid for "Auto Entitlement" as indicated on the payroll journal report. • The employee contract indicated that up to 6% per annum of the employee's annual base salary shall be designated as "performance-based pay". However, as indicated on the payroll journal report, the district paid the performance pay ($5,677.20) as an addition to the base salary.
Financial reporting - The District should accurately prepare its financial reports, including its Annual Financial Report (AFR), to provide the public and oversight bodies, including bond investors and district creditors, a transparent view of the District's financial position.		
	Question	Deficiency
1.	The District's website included its average teacher salary and a copy of or a link to the District's page from the most recent Arizona Auditor General District Spending Report. A.R.S. §15-903	The District's website did not include its average teacher salary.
2.	The District submitted the School District Employee Report (SDER) to ADE, and it was accurate and timely. A.R.S. §15-941 and School Finance Reports	Documentation was not provided to support the salaries reported on the FY 2021 SDER report for five out of five employees selected to review.
Student attendance reporting - The District should report accurate student membership and attendance information to ADE to ensure it receives the appropriate amount of State aid and/or local property taxes.		
	Question	Deficiency
1.	The District's calendar ensured school was in session for the required days and offered students the required instructional hours per grade level, including Arizona Online Instruction (AOI) Programs as prescribed in A.R.S. §§15-808(J)(1), 15-901(A)(1), & and 15-901.07.	Documentation was not provided to support if grades 9-12 of AOI programs include at least four courses throughout the year or that meet at least 900 hours during the school year.
2.	The District prorated high school students' membership if enrolled in less than 4 subjects.	For one high school student with a reported FTE of 0.5, documentation was not provided to support the student's FTE.
3.	The District maintained appropriate documentation and accurately reported students enrolled in its AOI program, including redetermining the actual full time equivalent (FTE) for each student enrolled in an AOI Program following a student's withdrawal or after the end of the school year. A.R.S. §15-808	For three out of three students enrolled in the AOI Program selected for review, the following documentation was not provided: • The Intended Full Time Equivalency Enrollment Statement. • Documents to support if the District followed its procedures to re-determine the actual FTE for each student enrolled in an AOI Program, following a student's withdrawal or after the end of the school year.

4.	The District ensured the student's name in the student management system matched the name on the legal document on file. A.R.S §15-828(D).	For one of five students reviewed, legal document was not provided to support the student's name in the student management system.
5.	The District prepared and retained the Official Notice of Pupil Withdrawal form for each withdrawal, and the forms were signed by a District administrator. A.R.S. §15-827	For one of five students withdrawals reviewed, the withdrawal form was not provided.
6.	For students participating in distance learning, the District followed attendance procedures defined in a distance learning plan ADE approved.	The FY 2021 Distance Learning Plan was not provided. As such it could not be determined if for students participating in distance learning, the District followed attendance procedures defined in an ADE-approved distance learning plan.
Information technology - The District should adopt an IT security framework that aligns with credible industry standards and through that framework the District should implement controls that provide reasonable assurance that its financial and student data is accurate, reliable, and secure.		
	Question	Deficiency
1.	The District maintained adequate separation of duties in its IT systems that prevented 1 employee from completing a transaction without additional review and approval procedures.	The District changed financial software from BusinessPlus to Visions software January 1, 2021. Based on a Visions User Role report, six employees were provided super user access to Visions software.
2.	The District assessed security risks for its systems and data and provided employees annual security awareness training.	Documentation was not provided that the District provided employees security awareness training at least annually that addressed prevention and detection of technology-related threats (i.e., phone and email phishing, website and ransomware attacks, and data breaches), and detailed instructions regarding how to prevent, identify, and report suspected security risks and incidents.
3.	The District's system software and hardware was physically protected from unauthorized access, theft, and environmental hazards.	It was noted that the District's servers are located in a classroom that does not have access restrictions.
4.	The District had recovery and contingency planning documents in place to restore or resume system services in case of disruption or failure that were reviewed and tested at least annually.	A District-level plan to activate the recovery or contingency plan was not provided. Even if the District uses a third-party vendor for IT support, the District should still have a District-level plan to activate the recovery or contingency plan that is tested at least annually.
Transportation support - The District should accurately report its transportation miles and eligible student riders to ADE, to ensure the District receives the appropriate amount of State aid and/or local property taxes.		
	Question	Deficiency
1.	The District accurately calculated and maintained documentation for miles and students reported on the Transportation Route Report submitted to ADE. A.R.S. §15-922	Documentation was not provided to support the miles and students reported on the Transportation Route Report submitted to ADE.

Records management - The District should protect and maintain its records, including hard copies and electronic files with student and employee data, and ensure that its records are disposed of securely in accordance with established time frames.		
	Question	Deficiency
1.	The District established and followed policies and procedures to properly protect, maintain, and dispose of personally identifiable information and confidential records, such as student and employee information and social security numbers. www.azlibrary.gov/records	Based on inspection of the records room it was noted that several years of records should have been disposed of.

Attachment A

Letter

April 18, 2023

LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

April 18, 2023

Governing Board
Antelope Union High School District
9168 S. Ave. 36 E.
Wellton, AZ 85356

Dear Members of the Board:

Pursuant to Arizona Revised Statutes (A.R.S.) §15-914 and the *Uniform System of Financial Records for Arizona School Districts* (USFR), school districts must submit audited financial statements and reports, and a USFR Compliance Questionnaire (questionnaire) to our Office within 9 months of fiscal year-end. We have not received the District's reports and questionnaire for the year ended June 30, 2022, which were due by March 31, 2023. Therefore, the District has not complied with the USFR and applicable State and federal requirements regarding audit report submission.

If the District does not submit the reports and questionnaire within 90 days of the date of this letter, we will notify the Arizona State Board of Education of the District's noncompliance and request that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272.

If you have questions about this letter or the action the District must take, please call Tijana Djordjic, Accountability Services Senior Accountant, or me at (602) 977-2796.

Sincerely,

Meghan L. Hieger

Meghan L. Hieger, CPA
Director, Accountability Services Division

cc: Mr. Gregory Copeland, Superintendent
Mr. Aaron Whittle, Business Manager
Antelope Union High School District
The Honorable Thomas Hurt, Yuma County Schools Superintendent
Members of the State Board of Education
Arizona State Board of Education
Mr. Art Harding, Chief Operations Officer
Ms. Deirdre Mai, Deputy Associate Superintendent, Grants Management
Arizona Department of Education

Attachment A

Letter

July 31, 2023

LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

July 31, 2023

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

Subject: Antelope Union High School District—Not in Compliance with Audit Reporting Requirements

Dear Members of the State Board:

We issued a letter on April 18, 2023, informing Antelope Union High School District that we had not received its audit reports and the *Uniform System of Financial Records for Arizona School Districts* (USFR) Compliance Questionnaire (questionnaire) for the year ended June 30, 2022, which were due by March 31, 2023. We informed the District's Governing Board that if the District did not submit the reports and questionnaire within 90 days, we would notify the Arizona State Board of Education (State Board) pursuant to Arizona Revised Statutes (A.R.S.) §15-271.

To date, we have not received the District's audit reports and questionnaire for the year ended June 30, 2022. Consequently, the District has not complied with the USFR and applicable State and federal law regarding report submission, and we request that the State Board take appropriate action as prescribed by A.R.S. §15-272.

In addition to the District's noncompliance with this year's reporting requirements, the District has been in noncompliance with the USFR since August 2019. This noncompliance is based on our review of the significant deficiencies cited in the District's audit reports and questionnaires for the years ended June 30, 2018 through 2021, and a status review we performed of the District's internal controls as of March 2021. We notified the State Board of this noncompliance on June 16, 2021, and we provided an update on February 21, 2023. Consequently, the State Board has held hearings and taken the following actions:

- On August 27, 2021, the State Board held a hearing regarding the District's noncompliance with the USFR and directed the Superintendent of Public Instruction to withhold 3 percent of the District's State aid, in accordance with A.R.S. §15-272(B).
- On June 26, 2023, the State Board held a hearing regarding the District's overexpenditures and appointed a receiver who may take action as prescribed in A.R.S. 15-103(F).

If you have questions concerning this matter, please call Meghan Hieger, Director, or Megan Smith, Manager, within our Accountability Services Division at (602) 977-2796.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

cc: Governing Board
Mr. Gregory Copeland, Superintendent
Mr. Aaron Whittle, Business Manager
Antelope Union High School District
Mr. Keith Kenny, Receiver for Antelope Union High School District
J.S. Held, LLC
The Honorable Thomas Hurt, Yuma County Schools Superintendent
Mr. Sean Ross, Executive Director
Arizona State Board of Education
Mr. Art Harding, Chief Operations Officer
Ms. Deirdre Mai, Deputy Associate Superintendent, Grants Management
Arizona Department of Education

LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: September 11, 2023

TO: Senator Sonny Borrelli, Chair
Representative Matt Gress, Vice Chair
Members, JLAC

FROM: Lindsey Perry, Auditor General

SUBJECT: Office follow-up process for school district performance audits and presentation of 4 school district performance audit reports and most recent follow-up reports

Background

The Office is responsible for conducting performance audits of Arizona school districts (districts) pursuant to A.R.S. §41-1279.03. These performance audits assess districts' spending and operational efficiency in noninstructional areas, including administration, plant operations and maintenance, food service, and transportation. These audits result in public reports that provide recommendations to improve the efficiency and effectiveness of district operations. In addition to providing recommendations, we also follow up with districts to assess their efforts to implement the recommendations and, consistent with the intent of our recommendations, often find their implementation improves performance, ensures compliance with laws and regulations, and yields cost savings.

The Legislature has appropriated the Office resources to follow up on district report findings and recommendations periodically for 2 years. Depending on the audit recommendations' complexity, we find that it sometimes takes districts longer than 2 years to implement critical recommendations. However, because our recommendations are important to improving the district, we do not simply go away after 2 years if a district has not implemented all critical recommendations.

Increasingly, the Office is seeing districts take significantly longer to implement recommendations, resulting in the Office dedicating more resources to conduct multiple reviews of these districts, sometimes up to 54 months after we issued the initial performance audit—all of which have an impact on the Office's workload and ability to conduct new performance audits. To address this, in July 2023, Chairman Borrelli sent letters to 8 districts that had not made substantial progress implementing recommendations by the 2-year follow-up mark. Chairman Borrelli asked the 8 districts to provide to the Office a plan to implement each recommendation and a reasonable timeline to do so. We reviewed all 8 submitted district plans and timelines and determined that 4 districts' plans did not provide reasonable action steps and timelines—Santa Cruz Elementary School District, Peach Springs Unified School District, Topock Elementary School District, and Hackberry Elementary School District.

We were asked to present these 4 districts' performance audits and most recent follow-up reports. Scott Swagerty, Division of School Audits Director, and Christine Haidet, Division of School Audits Manager, will provide an overview of the Office's initial performance audit reports, the districts' status in implementing recommendations from those audit reports, and information regarding the districts' responses to Chairman Borrelli's request letter.

See ***Attachment A*** for the September 2019 Santa Cruz Elementary School District Performance Audit report, 42-month follow-up report, and the District's August 17, 2023, response.

See ***Attachment B*** for the January 2019 Peach Springs Unified School District Performance Audit report, 54-month follow-up report, and the District's August 18, 2023, response.

See ***Attachment C*** for the March 2020 Topock Elementary School District Performance Audit report, 36-month follow-up report, and the District's August 18, 2023, response.

See ***Attachment D*** for the October 2020 Hackberry Elementary School District Performance Audit report, 24-month follow-up report, and the District's August 17, 2023, response.

Action required

None. Presented for JLAC's information only.

Attachment A

Report and Followup

Santa Cruz Elementary School District

Santa Cruz Elementary School District

Performance Audit

September 2019
Report 19-209

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

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The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

Senator **Rick Gray**, Chair
Senator **Lupe Contreras**
Senator **Andrea Dalessandro**
Senator **David C. Farnsworth**
Senator **David Livingston**
Senator **Karen Fann** (ex officio)

Representative **Anthony T. Kern**, Vice Chair
Representative **John Allen**
Representative **Timothy M. Dunn**
Representative **Mitzi Epstein**
Representative **Jennifer Pawlik**
Representative **Rusty Bowers** (ex officio)

Audit Staff

Vicki Hanson, Director
Alexa Tavasci, Manager
Joshua Lykins, Team Leader
Scott Tang

Contact Information

Arizona Office of the Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018-7271

contact@azauditor.gov

(602) 553-0333

www.azauditor.gov

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

September 26, 2019

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Santa Cruz Elementary School District

Ms. Kathy Romero, Superintendent
Santa Cruz Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Santa Cruz Elementary School District*, conducted pursuant to Arizona Revised Statutes §41-1279.03.

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

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

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General

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Santa Cruz Elementary School District Performance Audit—Fiscal Year 2017

September 2019

Santa Cruz County

Rural district

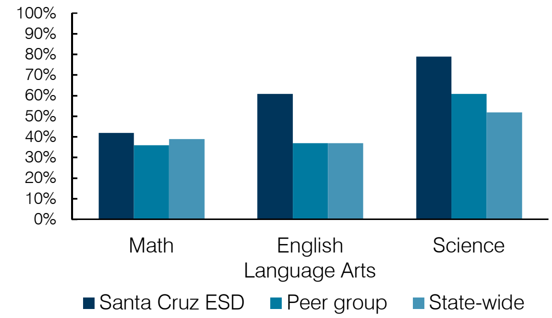
Kindergarten through 8th grade

Students attending: 214

Number of schools: 1

School letter grade: A

Students who passed State assessments



Total operational spending—$2.1 million ($9,721 per pupil)

Instructional—52.4% ($5,089 per pupil)	Noninstructional—47.6% ($4,632 per pupil)

Operational overview	Measure	Santa Cruz ESD	Peer average
Administration—reasonably efficient despite higher costs The District served 38 percent fewer students than peer districts, on average, and therefore, its administrative costs were spread across fewer students. We reviewed the District's administrative expenditures and did not identify any overstaffing or unusually high salaries or other costs. However, the District needs to improve some accounting controls (see page 2).	Cost per pupil	$1,774	$1,231
Plant operations—mixed costs but reasonably efficient The District spent a similar amount per pupil despite a higher cost per square foot because it operated and maintained 21 percent less square feet per student than peer districts, on average. Districts that operate substantially fewer square feet per student tend to have higher costs per square foot because of higher usage.	Cost per square foot	$9.39	$6.81
	Square feet per pupil	121	153
Food service—lack of documentation prevented program evaluation The District spent a similar amount per meal despite a higher cost per pupil because it served 9 percent more meals per pupil. However, the District did not maintain enough documentation for us to evaluate the program (see page 2).	Cost per pupil	$635	$549
	Cost per meal	$3.56	$3.41
Transportation—lower costs but potential safety concerns The District employed efficient practices that kept costs low, such as utilizing transportation employees in other operational areas when not driving buses. It also contracted out some open-enrollment and high school student routes to parents at a much lower cost than operating the routes independently. However, the District did not keep bus maintenance and repair records as required by the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards), which are designed to help ensure bus passengers' safety (see page 2).	Cost per mile	$1.34	$1.93
	Cost per rider	$967	$1,267

Lack of District oversight led to insufficient recordkeeping and increased risk of errors and fraud

District did not maintain appropriate documentation related to food service operations—The District outsources its food service program with a vendor on a cost-reimbursement basis but failed to retain the contract or fiscal year 2017 contract addendum. Therefore, it cannot be determined if the District was being billed correctly or if outsourcing through this contract was in the District's best interest. However, the program's expenditures had exceeded its revenues for at least the last 10 fiscal years. Further, the District did not maintain food production or inventory records. Therefore, it cannot be determined whether food purchasing and meal planning were appropriate and if changes were needed to increase efficiency and to identify any potential cost savings.

District did not retain key records

The District could not produce:

- The food service vendor contract.
- The contract addendum for the audit year.
- Food production records.
- Food inventory records.

Therefore, it cannot be determined whether the District was being billed correctly, and by paying for these services without ensuring contract requirements were met, the District did not provide adequate oversight to ensure appropriate use of public monies.

District did not sufficiently ensure school bus passengers' safety and welfare—The District failed to maintain any documentation showing when and what maintenance or repairs were completed as required by the State's Minimum Standards. Further, it did not have a policy or systematic procedures for determining when maintenance should be completed. These Minimum Standards help school districts ensure school bus passengers' safety and welfare, as well as extend the useful life of its buses. In failing to maintain records to demonstrate its compliance, and with no system for determining appropriate maintenance, the District could not ensure its bus safety or longevity.

Accounting system users' broad access increased risk of errors and fraud—We reviewed the District's December 2018 user access report for the 2 business office staff and identified that both users had more access to the accounting system than needed to perform their job duties. These users had access to perform all payroll and/or purchasing functions without an independent review and approval. Granting employees system access beyond what is required to fulfill their job duties exposed the District to an increased risk of errors and fraud, such as processing false invoices, changing employee pay rates, or adding and paying nonexistent vendors or employees.

District did not classify all its expenditures in the correct operational categories, causing it to inaccurately report its spending—The District did not accurately classify about $228,000 of $2.1 million in operational spending in accordance with the Uniform Chart of Accounts for school districts. When corrected, the District's instructional spending percentage increased by 2.6 percentage points.

Recommendations

The District should:

1. Maintain a copy of its food service vendor contract and related addendums; thoroughly review its invoices to ensure that amounts are billed in accordance with the contract's terms; and keep appropriate production and inventory records to ensure that food purchasing, meal planning, and staffing levels are appropriate.
2. Establish and implement a policy that states what school bus preventative maintenance work will be completed at what mileage and time frame, and document the preventative maintenance and repairs in a systematic and timely manner in accordance with the policy and the State's Minimum Standards.
3. Limit users' access in the accounting system to only those functions needed to perform their job responsibilities.
4. Classify all transactions in accordance with the Uniform Chart of Accounts for school districts to ensure it accurately reports its spending.

Objectives, scope, and methodology

We have conducted a performance audit of Santa Cruz 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 2017 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 costs related to these services and the governing board.

- **Plant operations and maintenance—**Salaries, benefits, and other costs related to equipment repair, building maintenance, custodial services, groundskeeping, and security; and costs for heating, cooling, lighting, and property insurance.

- **Food service—**Salaries, benefits, food supplies, and other costs related to preparing, transporting, and serving meals and snacks.

- **Transportation—**Salaries, benefits, and other costs 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 2017 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 all 35 individuals who received payments in fiscal year 2017 through the District's payroll system and reviewed supporting documentation for 30 of the 1,590 fiscal year 2017 accounts payable transactions. We did not identify any improper transactions. After adjusting transactions for proper account classification, we reviewed fiscal year 2017 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 finding on page 2.

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 2017 student passage rates on State assessments as reported by the Arizona Department of Education (ADE). We also reported the District's ADE-assigned school letter grade. 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 29% Elementary school districts Towns and rural areas	12
Administration, plant operations and maintenance, and food service	District size District type Location	Between 200 and 599 students Elementary school districts Towns and rural areas	11
Transportation	Miles per rider Location	More than 519 miles per rider Towns and rural areas	14

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 and school administrators, department supervisors, and other support staff who were involved in activities we considered significant to the audit objectives.

- **Observations—**To further evaluate District operations, we observed various day-to-day activities in the scoped areas. This included facility tours, food service operations, and transportation services.

- **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.

- **Analysis—**We reviewed and evaluated fiscal year 2017 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 all its costs.

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

Santa Cruz Elementary District #28

HC2 Box 50 / 7 Duquesne. Nogales, AZ-85621
Ph: (520) 287-0737   Fax: (520) 287-6791
www.sced28.com

September 18, 2019

Ms. Lindsey Perry, CPA, CFE
Arizona Auditor General
2910 N. 44th St. Ste. 410
Phoenix, AZ 85018-7271

Dear Ms. Perry,

We have attached our written responses. Per statute the District has addressed each finding and has also selected recommendation and implementation option.

If you have any questions regarding the answers attached to this letter, please feel free to contact myself or Mrs. Kathy Romero.

Sincerely,

Denisse Melendez, Business Office
Santa Cruz Elementary School District #28

Finding 1: Lack of District oversight led to insufficient recordkeeping and increased risk of errors and fraud

District Response: The District agrees with the finding.
Santa Cruz Elementary District #28 agrees to oversee all documentation for Food Service and Transportation Departments. All record keeping will be kept at the district, to prevent the risk of errors and fraud.

Recommendation 1: The District should maintain a copy of its food service vendor contract and related addendums; thoroughly review its invoices to ensure that amounts are billed in accordance with the contract's terms; and keep appropriate production and inventory records to ensure that food purchasing, meal planning, and staffing levels are appropriate.

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

The District has now established a new food contract with Food Service Management Company for SY 2019-2020. This contract will be used to ensure that amounts are billed in accordance to contact terms.

District has been in contact with Food Service Management and has asked for them to send in payroll timecards with invoice every month for two employees being charged to District from FSMC. District will review the invoice and ensure that amounts stated are billed in accordance to contract terms.

All inventory and production records will be kept on site to ensure that food purchasing, meal planning and charges to staffing levels are appropriate.

Recommendation 2: The District should establish and implement a policy that states what school bus preventative maintenance work will be completed at what mileage and time frame, and document the preventative maintenance and repairs in a systematic and timely manner in accordance with the policy and the State's Minimum Standards.

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

District will develop and adopt a policy for preventative maintenance as per policy #R13-13-108 from Arizona Department of Public Safety Guidelines. District will ensure it follows all state requirements for school bus preventative maintenance in accordance to new policy.

Recommendation 3: The District should limit users' access in the accounting system to only those functions needed to perform their job responsibilities.

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

The Business Office is compiled with two staff members, the Business Manager and the Accounts Payable. We have worked a system where the Business Manager and Accounts Payable person, have full access within our accounting system. Due to the fact if Business Manager is ever absent, the processing of finances can be done by Accounts Payable Staff Member User through Visions and vice versa. Both the Business Manager and

Accounts Payable work very closely to ensure that all entries and processing in our Accounting System are appropriate. Business Office will not limit users' access in the accounting system, but will ensure that those that have access will only be used to perfom their job responsibilities within the accounting system.

The District will work the Auditors Generals Office to establish a compensating control, to reduce the risk of errors and fraud and address the recommendation.

Recommendation 4: The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts to ensure it accurately reports its spending.

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

Moving forward District will classify all transactions in accordance with the Uniform Chart of Accounts to ensure accurate spending is reported per USFR. District has reviewed list given by AZ Auditor General on reclassification of expenditures

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Santa Cruz Elementary School District
42-Month Follow-Up Report

The September 2019 Santa Cruz Elementary School District performance audit found that the District's lack of oversight led to insufficient recordkeeping and increased risk of errors and fraud. We made 4 recommendations to the District, and its status in implementing the recommendations is as follows:

Status of 4 recommendations

Implemented in a different manner	1
Not implemented	**3**

We will conduct a 54-month followup with the District on the status of the recommendations that have not yet been implemented.

Finding 1: Lack of District oversight led to insufficient recordkeeping and increased risk of errors and fraud

1. The District should maintain a copy of its food service vendor contract and related addendums; thoroughly review its invoices to ensure that amounts are billed in accordance with the contract's terms; and keep appropriate production and inventory records to ensure that food purchasing, meal planning, and staffing levels are appropriate.

Not implemented—In fiscal year 2021, the District changed from outsourcing its food service program to a vendor on a cost reimbursement basis—meaning it paid the vendor for all costs incurred—to outsourcing its program to another school district under a contract where Santa Cruz ESD pays a flat rate to the other district for meals and labor. This arrangement remains in place for fiscal year 2023 and provides more incentive to the other school district to operate an efficient food service program to stay within the agreed-upon flat rates. However, our review of the District's fiscal year 2023 food service contracts and January and February 2023 invoices found that the District established 2 fiscal year 2023 food service contracts with the other school district that outline different terms and rates for daily labor costs and for meals delivered. According to District officials, the District established a food service contract with the other school district in July 2022 and then developed another contract to submit to the Arizona Department of Education (ADE) using ADE's required formatting. However, neither district reviewed the 2 contracts to ensure they had the same terms and rates, and the District and other school district signed both contracts. As a result, for fiscal year 2023, it was unclear what terms and rates for daily labor costs and for meals delivered should be followed, and the District was unable to determine whether it was billed appropriately and in accordance with contract terms. We reported in our previous 36-month followup that the District began working to address the discrepancies between the 2 food service contracts. However, the District had not resolved these discrepancies at the time of our review. According to District officials, the District will develop consistent agreed-upon rates for the fiscal year 2024 contract.

2. The District should establish and implement a policy that states what school bus preventative maintenance work will be completed at what mileage and time frame, and document the preventative maintenance and repairs in a systematic and timely manner in accordance with the policy and the State's Minimum Standards.

Not implemented—As we reported in our previous 36-month followup, the District planned to present an updated school bus preventative maintenance policy at the Board's November 2022 meeting. Although the District presented and the Board approved an updated school bus preventative maintenance policy at that meeting, the approved policy was not sufficient as it did not include what school bus preventative maintenance work will be completed at what mileages and time frames. Additionally, the District uses a checklist to document preventative maintenance performed on its school buses.[1] However, without a policy specifying what maintenance work will be completed at specific mileages and time frames, the District cannot ensure that it performs and documents preventative maintenance and repairs in a systematic and timely manner in accordance with the State's Minimum Standards, which help school districts ensure school bus passengers' safety and welfare and extend the useful life of buses. District officials reported that they plan to update the District's school bus preventative maintenance policy by October 2023.

3. The District should limit users' access in the accounting system to only those functions needed to perform their job responsibilities.

   Implemented in a different manner at 18 months—Instead of limiting the 2 business office employees' access in the accounting system, the District implemented a compensating control, which requires the Superintendent to review supporting documentation for all purchases and payroll prior to any payments being made.

4. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts to ensure it accurately reports its spending.

   Not implemented—District officials reported that the District now works with external financial auditors and consultants to ensure expenditures are accurately classified. However, our review of the District's fiscal year 2023 year-to-date expenditures found that the District continued to incorrectly classify transactions similarly to the misclassifications we identified during the audit, which may result in the District misreporting its spending. According to District officials, the District will review classification errors and will ensure it accurately classifies its spending by November 2023.

[1] The District uses a vendor for all school bus preventative maintenance and repair work, and in July 2022, it began requiring vendors that provide preventative maintenance and repairs on District school buses to complete, sign, and return a detailed checklist to help the District ensure that preventative maintenance services are performed in accordance with the State's Minimum Standards. District officials reported that they are continuing to require the vendor to complete the checklists for the District's school bus preventative maintenance and that a District employee reviews the checklists before the District will process the vendor's invoices.

Santa Cruz Elementary District #28

7 Duquesne. Nogales, AZ-85621
Ph: (520) 287-0737 Fax: (520) 287-6791
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August 17, 2023

Senator Borrelli and Representative Gress,

Below are the responses to the letter that District received on July 28th, 2023 addressing the audit findings from the AZ Auditor General.

1.) The district should maintain a copy of its food service vendor contract and related addendums; thoroughly review its invoices to ensure that amounts are billed in accordance with the contract's terms; and keep appropriate production and inventory records to ensure that food purchasing, meal planning, and staffing levels are appropriate.

SCED #28 has been working very close with Food Service company to make sure that all documentation has been retained on-site since beginning of Fiscal Year 2021. School District has meal count every morning and afternoon and from this count when invoices are given to school district, we make sure that our monthly meal counts match with food service provider as well as labor costs.

For FY23-24 both IGA's NUSD and ADE, District has reviewed and made sure both match. We made sure both IGA's match, as far as meal pricing, labor pricing and additional milk pricing. Moving forward this is step we will be implementing every fiscal year for review of both IGA's.

FY 23-24 IGA's have been drafted and District is waiting for Board Approval from NUSD and SCED #28 will take the approved IGA to Governing Board on September 2023 meeting.

2.) The district should establish and implement a policy that states what school bus preventative maintenance work will be completed at what mileage and time frame, and document the preventative maintenance and repairs in a systematic and timely manner in accordance with the policy and the State's Minimum Standards.

For several years, SCED #28 has had our Bus Drivers complete a daily check on all buses. They must immediately report any issues on bus, district works with Citizens Auto Stage for repairs, apart from issue the servicing technician must complete a detailed district provided checklist to be signed off by Citizens Technician and given back to our Bus Driver so Transportation Department can keep on record and match with invoice. SCED #28 adopted a Bus Preventative policy in November 2022 outlining details on the preventative maintenance. In September 2023 District will revise and take back to the Governing Board the Bus Preventative Policy to include miles and time frame frequency for service on buses (buses will be serviced every 6 months or 10,000 miles whichever comes first). Bus Drivers will make sure to check for both repairs and when preventative maintenance is due on the buses. Starting in September 2023 District will implement the preventative maintenance additions to the policy as part of the pre-trip checklist.

3.) The district should classify all transaction in accordance with the Uniform Chart of Accounts for school districts to ensure it accurately reports its spending.

SCED #28 Finance Office has reviewed the expenditure checklist provided by AZ Auditor General outlining the corrections. This list will be reviewed again by Business Manager and Financial Consultants and we will be making any necessary adjustment to coding. We plan to have this all done by October 2023 and moving forward we plan to implement.

Respectfully,

Denisse Melendez

Denisse Melendez
SCED #28 Business Manager

Attachment B

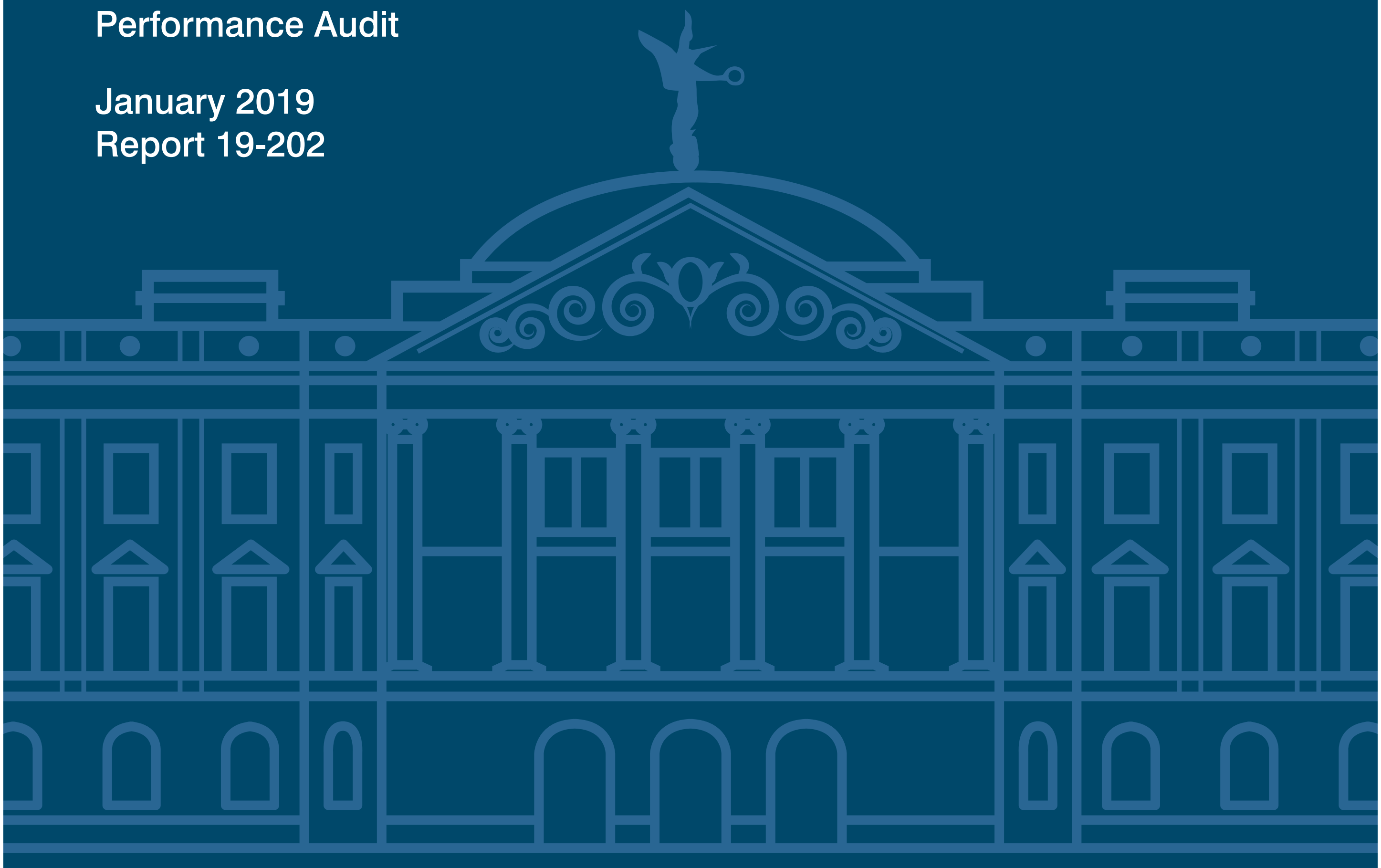
Report and Followup

Peach Springs Unified School District

Peach Springs Unified School District

Performance Audit

January 2019
Report 19-202



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

ARIZONA Auditor General
Making a Positive Difference

The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

The Joint Legislative Audit Committee

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ARIZONA AUDITOR GENERAL
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JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

January 31, 2019

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Peach Springs Unified School District

Ms. Jaime Cole, Superintendent
Peach Springs Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Peach Springs 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 of the findings and all but 1 of the recommendations and plans to implement the recommendations.

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

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General

ARIZONA Auditor General
Making a Positive Difference

ARIZONA AuditorGeneral
Making a Positive Difference

Performance Audit Report Highlights
January 2019

Peach Springs Unified School District

CONCLUSION: In fiscal year 2017, Peach Springs Unified School District's (District) school received an "F" letter grade and was required to participate in a school improvement program. Although the District operated with lower costs in nearly all operational areas, we identified a number of improvements needed in the District's operations. Specifically, the District's plant operations cost per square foot was much higher than the peer districts' average primarily because the District paid for utilities and some other costs of its leased high school but collects no revenues. Further, the District's food service program produced many more meals than were needed, resulting in food waste, and at least some meals served likely did not meet the National School Lunch Program's nutritional and portion-size requirements. Additionally, the District did not maintain records supporting that its bus driver met the State's certification requirements, that it performed preventative maintenance and inspections on its buses, or the route mileage and number of riders it reported for state funding purposes. Finally, the Governing Board approved and paid the superintendent bonuses totaling $25,000 but likely did not have statutory authority to pay those bonuses. This likely constitutes a gift of public monies in violation of the Arizona Constitution.

Student achievement and operational efficiency

Student achievement—Unlike in other school district performance audit reports, we did not report the District's student passage rates on state assessments because providing the information could identify individual student results. The District's school received an "F" letter grade under the Arizona Department of Education's (ADE) A-F Accountability System for the 2016-2017 school year, and the District was required to participate in a school improvement program to improve its students' academic performance.

Costs lower in most operational areas, but improvements are possible—In fiscal year 2017, the District spent less than peer districts averaged in most operational areas. However, the District has opportunities to further lower some costs. Specifically, the Districts' plant operations cost per square foot was much higher than the peer districts' average, primarily because of costs the District incurred for its leased high school. Additionally, the District's food service program produced many more meals than were needed, and the District could further lower costs by controlling the food waste. The District's transportation program's efficiency could not be measured because of insufficient records.

Comparison of cost measures
Fiscal year 2017

Cost measure	Peach Springs USD	Peer group average
Administrative cost per pupil	$2,869	$3,137
Plant operations cost per square foot	8.66	6.96
Food service cost per meal	3.73	5.79

District should continue focus on instructional program

The District's school received an "F" letter grade, and under the 100-percentage-point scale used to assign letter grades, the school earned just 17 percent of the available points—the lowest percentage of the 1,317 kindergarten through eighth grade public and charter schools that received letter grades for the 2016-2017 school year. Because of its poor performance, the District was required to participate in a school improvement program where school and district staff work closely with ADE to improve students' academic performance. According to ADE officials, the District has made progress in developing new curriculum and classroom management practices but still needs to focus on improving instruction and the climate and culture of the school. ADE officials also stated that the District did not apply for certain monies that were available to it through the school improvement program in fiscal year 2018.

Recommendation

The District should continue to work with ADE to improve its instructional program and apply for all monies available to it through the school improvement program.

District incurs costs but collects no revenues for the lease of its high school

The District closed its high school many years ago and leased a portion of it to the Grand Canyon Resort Corporation (Tribal Corporation), a wholly owned tribal corporation of the Hualapai Tribe. Beginning in calendar year 2016, according to district officials, the Tribal Corporation stopped making lease and utility payments to the District but continued to use the high school. In December 2016, the District consulted with its legal counsel and billed the Tribal Corporation for $103,983 in unpaid calendar year 2016 lease and utility charges, including $51,000 for lease payments and $53,000 for utility charges, but according to district officials, the Tribal Corporation refused to pay the bill. As of October 2018, the Tribal Corporation has made no lease or utility payments for calendar years 2016 through 2018 but continued to occupy the high school.

Recommendation

The District should continue to work with its legal counsel and the Tribal Corporation to establish a current lease agreement and to recover prior years' unpaid lease and utility payments.

District likely did not have statutory authority to pay superintendent's bonuses

In fiscal years 2017 and 2018, the District's Governing Board approved and paid its superintendent bonuses totaling $25,000 that were not included in the superintendent's governing-board-approved contract or other formal document. This likely constitutes a gift of public monies in violation of the Arizona Constitution.

Recommendation

The District should seek legal counsel to determine if it had the legal authority to pay $25,000 in bonuses to its superintendent and, if not, to determine its ability to recover the monies.

District needs to improve food service program oversight

We found that the District's food service program produced many more meals than were needed, resulting in food waste. We also found that the District did not have procedures in place to determine if its meals met National School Lunch Program (NSLP) nutritional requirements, and at least some meals served likely did not meet the nutritional and portion-size requirements.

Recommendation

The District should implement controls over food production and procedures to limit waste and ensure its meals meet NSLP requirements.

District should improve controls over transportation program

The District did not maintain records supporting that its bus driver met the State's certification requirements, that it performed preventative maintenance and inspections on its buses, or the route mileage and number of riders it reported for state funding purposes. The District ceased providing transportation in fiscal year 2018, and students began taking a shuttle bus service owned and operated by the Hualapai Tribe to and from school. However, if the District resumes its transportation program in the future, it should ensure the program meets all state requirements.

Recommendation

The District should ensure that requirements for bus driver certification and bus preventative maintenance are met and documented and ensure it maintains documentation supporting the miles driven and riders transported for state funding purposes.

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DISTRICT OVERVIEW

Peach Springs Unified School District (District) is a rural district located in northwestern Arizona in Mohave County. The District primarily consists of the Hualapai Reservation, and according to district officials, except for a few teachers' children, all students are members of the Hualapai Tribe (Tribe). In fiscal year 2017, the District served 184 students in kindergarten through eighth grade at its one elementary school. The District's high school students attend a neighboring school district, and Peach Springs USD pays tuition to that district.

The District's school received an "F" letter grade for the 2016-2017 school year and was required to participate in a school improvement program, which included creating a plan to improve its instructional program. The District should continue to work closely with the Arizona Department of Education (ADE) on its plan and ensure it applies for all monies available to it through the school improvement program. Regarding its operations, although the District's per pupil spending was lower in nearly all operational areas, auditors identified a number of improvements needed in the District's operations.[1] Specifically, the District needs to resolve issues with the lease of its high school; strengthen some of its accounting, equipment, and computer controls; and improve oversight of its food service and transportation programs.

Student achievement

Unlike in other school district performance audit reports, auditors did not report the District's student passage rates on state assessments because providing the information could identify individual student results. The District's school received an "F" letter grade under ADE's A-F Accountability System for the 2016-2017 school year. Because of this, the District was required to participate in a school improvement program where school and district staff work closely with ADE to create a plan to improve students' academic performance. Although the District is making progress on its plan, it should continue to work closely with ADE to develop, implement, monitor, and evaluate action plan steps to improve its instructional program. Additionally, the District should ensure that it applies for all monies available to it through the school improvement program (see Finding 1, page 3).

Lower costs than peer districts', but improvements needed

As shown in Table 1 on page 2 and based on auditors' review of various cost measures, in fiscal year 2017, the District spent less than its peer districts averaged in most areas. The District's total operational spending was lower primarily because it received less in small school adjustment funding than many of its peer districts.[2] However, the District has opportunities to address its higher plant operations costs, which could allow the District to spend more monies on its instructional program. The District spent just 34.3 percent of its available operating dollars on instruction while the peer districts averaged 49.3 percent. Additionally, auditors identified needed improvements in all operational areas reviewed.

Slightly lower administrative costs, but improvements needed—The District's $2,869 per pupil administrative costs were 9 percent lower than the peer districts' $3,137 average. The District operated with slightly lower per pupil costs primarily because it served more students than the peer districts, on average, and therefore, its administrative costs were spread across more students. However, this report identifies several administrative

1 Auditors developed two peer groups for comparative purposes. See page a-1 of this report's Appendix for further explanation of the peer groups.

2 Operational spending includes costs for the District's day-to-day operations. For further explanation, see Appendix page a-1. Arizona Revised Statutes §15-949 allows school districts with 125 or fewer students in kindergarten through eighth grade to increase their expenditure budget limits based on need as determined by school districts' governing boards, without voter approval.

practices that need improvement (see Finding 3, page 7).

Higher plant operations costs—Although the District's $2,494 plant operations cost per pupil was slightly lower than the peer districts' $2,644 average, its $8.66 cost per square foot was 24 percent higher than the peer district's $6.96 average, primarily because of costs the District incurred for its high school. The District closed the high school many years ago and leased a portion of it to the Grand Canyon Resort Corporation (Tribal Corporation), a wholly owned tribal corporation of the Hualapai Tribe. Although the Tribal Corporation continued to occupy a portion of the high school, it stopped making lease payments to the District in calendar year 2016, and the District continued to pay for the high school utility costs (see Finding 2, page 5).

Table 1
Comparison of cost measures
Fiscal year 2017
(Unaudited)

Cost measure	Peach Springs USD	Peer group average	State average
Total operational spending per pupil	$11,779	$17,454	$8,141
Instructional spending per pupil	4,035	8,613	4,377
Administrative cost per pupil	2,869	3,137	844
Plant operations cost per square foot	8.66	6.96	6.30
Food service cost per meal	3.73	5.79	2.88

Source: Auditor General staff analysis of fiscal year 2017 district-reported accounting data; Arizona Department of Education student membership data; School Facilities Board square footage data; and district-reported data on meals served, miles driven, and riders transported.

Much lower food service costs, but improvements needed—The District's $3.73 cost per meal was much lower than the peer districts' average and reflects the much larger size of the District's food service program, which served about 74 percent more meals than the peer districts', on average. However, the District needs to improve program oversight to reduce food waste and ensure that meals are meeting National School Lunch Program nutritional and portion-size requirements (see Finding 4, page 11).

Transportation efficiency could not be determined due to insufficient records—For fiscal year 2017, the District did not have adequate supporting records for the number of miles driven or number of students transported on its buses, which are numbers reported to ADE for state funding purposes. The lack of records also prevented auditors from calculating efficiency measures, such as cost per mile, cost per rider, or bus capacity usage, needed to evaluate the transportation program's efficiency. Additionally, the District did not maintain documentation of bus driver certification and bus preventative maintenance (see Finding 5, page 13). During fiscal year 2018, the District stopped operating its transportation program, and instead, students were transported on a shuttle owned and operated by the Tribe.

District should continue focus on instructional program

The District's school received an "F" letter grade under the Arizona Department of Education's (ADE) A-F Accountability System for the 2016-2017 school year. For elementary schools, ADE assigned letter grades based on a State Board of Education-approved system that measured year-to-year student academic growth, proficiency on state assessments, proficiency and academic growth of English language learners, and indicators that an elementary student is ready for success in high school. ADE based schools' letter grades on the percentage of points schools earned on a 100 percent scale. The District's school earned just 17 percent of the available points—the lowest percentage of the 1,317 kindergarten through eighth grade public and charter schools that received letter grades for the 2016-2017 school year. Because of its poor performance, the District was required to participate in a school improvement program where school and district staff work closely with ADE to improve students' academic performance. Further, according to ADE officials, required school improvement programs have changed over time with different names and different requirements, but the District's school has been in the school improvement programs for many years. One of the key requirements of the current school improvement program is the development of an integrated action plan, which identifies a number of action steps and goals for the overall improvement of student achievement. In the Summer of 2017, the District developed a 26-step integrated action plan, and in June 2018, the District reported implementing 23 of the 26 action steps. The plan includes items such as teacher development, instructional materials, and family and community engagement. ADE provides support and technical assistance for districts in the required school improvement program. According to both district officials and ADE officials, the District has worked closely with ADE during this process, with ADE providing onsite classroom observations and trainings and consulting support for district and school staff.

According to ADE officials, the District has made progress in developing new curriculum and classroom management practices but still needs to focus on improving instruction and the climate and culture of the school. Therefore, the District should continue to work closely with ADE to address these needs. Additionally, ADE officials stated that although the District applied for and obtained available entitlement monies to help it improve its instructional program, it did not apply for certain competitive school improvement monies that were available specifically to offset costs for implementing its integrated action plan in fiscal year 2018. District officials stated that they were unaware of these additional monies. In the future, the District should work closely with ADE to ensure it obtains all monies available to it through the school improvement program. District officials stated that they have had a difficult time attracting and retaining teachers, and additional funding could enable the District to attract additional teacher candidates.

To exit the school improvement program, the District's school must meet several requirements including improving to a "C" letter grade or higher. Further, if the school remains in the program for 4 years, ADE is required to provide increased oversight, including taking an active role in developing and implementing a revised integrated action plan. The District entered the current school improvement program in the Summer of 2017, and it could see increased oversight in 2021 if the District's student achievement does not improve.

For fiscal year 2018, ADE was not able to assign the District's school a letter grade because the District made errors in reporting student test data.

Recommendations

The District should:

1. Continue to work closely with ADE to develop, implement, monitor, and evaluate action plan steps to improve its instructional program and students' academic performance.

2. Ensure that it applies for all monies available to it through the school improvement program.

3. Continue to work with ADE to correct errors in reporting student test data.

   District response: As outlined in its response, the District agrees with the finding and recommendations and plans to implement the recommendations.

District incurs costs but collects no revenues for leasing its high school to a tribal corporation

The District's fiscal year 2017 $8.66 cost per square foot was 24 percent higher than the peer districts' average, primarily because it paid for utilities and some other costs of its leased high school. In 1998, the District began construction on a high school at an apparent cost of $9.4 million.[3] A portion of the construction costs were financed, and the District makes monthly loan payments of $12,002 on the high school. As of December 31, 2017, the outstanding loan balance was about $1.9 million with the final payment due in April 2039. The high school is built on tribal lands, and the District leases the high school land from the Tribe with a 99-year lease for $10 per year.

According to district officials, after the school was completed, the District used the campus as its high school for approximately 2 years before the District closed the school and began to send its high school students to a neighboring school district. At some point after the high school closed, the District began leasing approximately 4,200 square feet of the high school's 41,000 square feet at $1 per square foot per month to the Grand Canyon Resort Corporation (Tribal Corporation), a wholly owned tribal corporation of the Hualapai Tribe. There were several different lease agreements covering different rooms and/or buildings the Tribal Corporation uses, and some lease agreements stated that electricity and bottled gas would be charged to the Tribal Corporation while other agreements did not mention utilities. Additionally, the District could not locate some of the lease agreements. In addition to utility costs for the high school, the District also incurs costs for property liability insurance, but the costs could not be separately identified for the high school building. The Tribal Corporation, which operates several tourist attractions including the Grand Canyon Skywalk, Grand Canyon West, Hualapai River Runners, and the Hualapai Lodge, uses the high school as its operations center. The District occasionally uses the high school gymnasium for elementary school events and maintains housing for some district employees on the high school land.

In calendar years 2014 and 2015, the lease agreements between the District and the Tribal Corporation expired, and according to district officials, the leases were not renewed. However, the Tribal Corporation continued to use the high school and, according to district officials, continued to pay the District the same $1 per square foot monthly lease payment. Beginning in calendar year 2016, according to district officials, the Tribal Corporation stopped making lease and utility payments to the District but continued to use the high school. In December 2016, the District consulted with its legal counsel and billed the Tribal Corporation for $103,983 in unpaid calendar year 2016 lease and utility charges, including $51,000 for lease payments and $53,000 for utility charges, but according to district officials, the Tribal Corporation refused to pay the bill. As of October 2018, the Tribal Corporation has made no lease or utility payments for calendar years 2016 through 2018 but continued to occupy the high school. As shown in Table 2 on page 6, the estimated loss from these unpaid lease and utility payments totals $312,000 for calendar years 2016 through 2018, money that could be used for other operational purposes, including improving the District's instructional program (see Finding 1, page 3).

During late 2016 and early 2017, the District consulted with its legal counsel, and district officials stated that attempts were made to recover past lease and utility payments as well as attempts to enter a new lease agreement, but no resolution was obtained. Arizona Revised Statutes §15-1105(A) requires districts to charge a reasonable

[3] The District maintained very little original documentation related to the construction and financing of the high school and, because 20 years have passed since the school was built, there was little institutional knowledge about aspects of the building such as its original cost, how the school was financed, why it was built, why it ceased to operate as a high school, or when the Tribal Corporation began to lease the building. When possible, auditors used the best available information to provide some background information on the situation.

use fee, including the costs of utilities, for the lease of school property. Therefore, the District should continue to work with its legal counsel and the Tribal Corporation to identify and implement a resolution to this ongoing issue.

Table 2
Estimated revenue loss from high school lease
Calendar years 2016 to 2018

Calendar Year	Amount the Tribal Corporation paid	Estimated revenue loss from lease	Estimated revenue loss from utilities	Estimated total loss
2016	$0	$51,000	$53,000	$104,000
2017	0	51,000	53,000	104,000
2018	0	51,000	53,000	104,000
Total	**$0**	**$153,000**	**$159,000**	**$312,000**

Source: Revenue loss from lease was calculated based on the lease agreements, and the District estimated revenue loss from utilities based on calendar year 2016 utility bills.

Recommendation

4. The District should continue to work with its legal counsel and the Tribal Corporation to establish a current lease agreement for the Tribal Corporation's use of the District's high school and to recover prior years' unpaid lease and utility payments.

   District response: As outlined in its **response**, the District agrees with the finding and recommendation and plans to implement the recommendation.

District should strengthen accounting, equipment, and computer controls

The District lacked adequate controls over its accounting processes, equipment, and computer systems. These control deficiencies exposed the District to an increased risk of errors, fraud, misuse of sensitive information, and loss of equipment. In addition, auditors identified some improper payments.

District needs to strengthen controls over accounting processes and equipment

In fiscal year 2017, the District lacked adequate controls over its purchasing and payroll processes, which resulted in unsupported and improper payments, and lacked controls over equipment stored at its high school. Additionally, the District did not accurately classify all its expenditures in the correct operational categories. Further, deficiencies in the District's internal controls have existed for many years.

Some purchases lacked proper approval—The District needs to strengthen its purchasing controls to ensure that all purchases are properly approved before being made. Auditors reviewed 30 fiscal year 2017 purchases and found that 4 purchases were made without prior approval. Although no inappropriate purchases were detected in the items reviewed, the District should ensure that an authorized employee approves all purchases before goods or services are ordered, as required by the *Uniform System of Financial Records for Arizona School Districts* (USFR). This would help ensure that the District has adequate budget capacity and that expenditures are appropriate and properly supported.

Untimely payments resulted in late fees and finance charges—In reviewing the District's accounts payable transactions, auditors determined that the District paid $704 in late fees and finance charges to credit card companies during fiscal year 2017 because it did not make payments in a timely manner. The District should have a process in place to help ensure timely payments and thereby ensure that public monies are used for appropriate, education-related expenditures.

Approval for additional pay not always documented—The District did not always maintain adequate documentation showing that additional duties were approved before the work was performed. Auditors reviewed payroll and personnel documentation for the 42 employees who received payments in fiscal year 2017 and found that 9 employees received additional-duty payments ranging from $46 to $6,000 per employee, but there was no documentation indicating that the additional duties and related pay were approved before the work was performed. Therefore, auditors were unable to determine whether these individuals were paid correctly. To help ensure that all pay is properly authorized and employees are paid correctly, the District should document additional duties and related pay in employees' contracts or on personnel/payroll action forms. Further, the District should ensure that these documents are properly approved before the work is performed and that the payment is made as required by the USFR.

District likely did not have statutory authority to pay superintendent's bonuses—In May 2017, the District's Governing Board approved and paid its superintendent a $10,000 bonus for fiscal year 2017 and, in February 2018, approved and paid a $15,000 bonus for fiscal year 2018. However, districts may pay only the amounts to employees that are provided for in the employees' contracts or other formal documents, such as contract addendums, and these bonuses were not included in the superintendent's governing-board-approved contract or other formal document. Although the superintendent's contract allowed for $2,700 of performance pay in fiscal year 2017 and $4,500 of performance pay in fiscal year 2018, the Governing Board did not identify the bonus payments as performance pay during the meeting where the bonuses were approved and did not have any documentation to show that they evaluated whether the superintendent met the statutorily required goals to receive the performance pay, which included goals such as student academic gains and positive feedback on parent and teacher surveys. Additionally, if the bonuses were for additional duties the superintendent performed, the Governing Board did not identify those duties and how much the superintendent could earn for performing the duties. As a result, the District likely did not have statutory authority to pay the bonuses, and the $25,000 of payments to the superintendent likely constitutes a gift of public monies in violation of the Arizona Constitution. The District should seek legal counsel to determine if it had the legal authority to pay the bonuses and, if not, to determine its ability to recover the monies.

In fiscal years 2017 and 2018, the Governing Board approved and paid the superintendent bonuses totaling $25,000 but likely did not have statutory authority to pay those bonuses. This likely constitutes a gift of public monies in violation of the Arizona Constitution.

Some employee payments were not supported—In fiscal year 2017, the District incorrectly calculated three terminated employees' final paychecks, resulting in two employees being underpaid by about $3,600 and $1,500, respectively, and one employee being overpaid by about $1,100. Once auditors brought this issue to the District's attention, the District processed payments for the two underpaid terminated employees, but it has not taken any action to recover the overpayment. The District should establish and implement additional procedures to review employee pay to help ensure that employees are paid correctly and rectify any overpayments or underpayments made to employees.

District did not accurately classify all its expenditures in the correct operational categories— The District did not accurately classify all its fiscal year 2017 expenditures in accordance with the Uniform Chart of Accounts for school districts. Specifically, the District did not accurately classify all its expenditures in the correct operational categories, such as instruction, administration, and food service. As a result, the District's *Annual Financial Report* did not accurately present the report's users with the District's spending in these operational categories. Auditors identified classification errors totaling approximately $296,000 of the District's total $2.2 million in operational spending.[4] The dollar amounts shown in Table 1 on page 2 and used for analysis in this report reflect the necessary adjustments.

Deficiencies in internal controls have existed for many years—Since at least fiscal year 2013, the District has been noncompliant or marginally compliant with the USFR.[5] Many of the District's business office procedures in this finding, such as weak internal controls over purchasing and credit cards, were also cited by its financial auditors in previous years. Further, since fiscal year 2014, the District's overall financial stress level, as previously reported in the Office of the Auditor General's annual report, *Arizona School District Spending*, has been moderate or high, with one of the contributing factors being its compliance status.[6] If the District's internal control deficiencies worsen and it finds itself in noncompliance with the USFR, it puts itself at risk of having the State Board of Education potentially withhold a portion of its state funding.

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4 Operational spending includes costs incurred for the District's day-to-day operations. For further explanation, see Appendix, page a-1.

5 The Office of the Auditor General reviews all school district audit reports and USFR Compliance Questionnaires submitted by independent audit firms to determine whether districts have established and maintained effective internal control policies and procedures that comply with the USFR at a satisfactory level. Noncompliant districts have not complied with the USFR at a satisfactory level while marginally compliant districts have complied at a satisfactory level, but they are notified of the need to address existing deficiencies to continue to comply with the USFR in future years.

6 The Office of the Auditor General's annual report, *Arizona School District Spending*, includes a financial stress assessment for each of Arizona's school districts. Auditor General staff developed six key local measures to determine Arizona districts' financial stress and identified whether each district's measures presented a low, moderate, or high risk of financial stress. The overall financial stress level was determined based on the results of the six measures.

District should secure and/or use equipment stored at its high school—As discussed in Finding 2 (see page 5), the District does not use its high school and leases a portion of the facility to a tribal corporation. The high school contains a large amount of equipment including student desks, office chairs, tables, file cabinets, instructional materials, and laboratory, fitness, and food service equipment. The equipment was not secured and was at-risk for misuse and theft. Additionally, some of the equipment appeared to be newer and in better condition than similar equipment at the elementary school, and the District should consider using the equipment.

Photo 1
High school equipment

Source: Photos taken by Auditor General staff.

District needs to strengthen computer controls

The District lacked adequate controls over its accounting and student information systems. These control deficiencies exposed the District to an increased risk of errors, fraud, and unauthorized access to these critical systems.

Accounting system users had broad access—Auditors reviewed the District's April 2018 accounting system user access report for the District's two employees with access to the accounting system and determined that both users had more access to the accounting system than they needed to perform their job duties. Granting employees system access beyond what is required to fulfill their job duties exposed the District to an increased risk of errors and fraud, such as processing false invoices, changing employee payrates, or adding and paying nonexistent vendors or employees.

Procedures for removing student information system access were inadequate—The District lacked a timely process for ensuring that only current employees had access to the District's student information system. Auditors reviewed the District's April 2018 student information system user access report and found 16 student information system user accounts that were linked to employees who no longer worked for the District. To reduce the risk of unauthorized access, the District should implement procedures to ensure prompt access removal when a user is no longer employed by the District.

Recommendations

The District should:

5. Ensure that it requires an independent review and approval for all its purchases prior to the purchases being made.
6. Ensure that payments are made in a timely manner to avoid unnecessary late fees and finance charges.
7. Ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.

8. Seek legal counsel to determine if it had the legal authority to pay $25,000 in bonuses to its superintendent, and if not, to determine its ability to recover the monies.

9. Establish and implement additional procedures to review employee pay to help ensure that employees are paid correctly and rectify any overpayments or underpayments made to employees.

10. Classify all expenditures in accordance with the Uniform Chart of Accounts for school districts.

11. Better secure equipment stored at its high school and consider the possibility of using some of the equipment at its elementary school.

12. Limit employees' access in the accounting system to only those accounting system functions necessary to perform their job duties.

13. Improve procedures to ensure that terminated employees have their student information system access promptly removed.

District response: As outlined in its **response**, the District agrees with the finding and all but 1 of the recommendations and plans to implement the recommendations.

District needs to improve food service program oversight

Despite operating at a lower cost per meal than peer districts averaged in fiscal year 2017, the District needs to improve oversight of its food service program. During observations, auditors found that the District produced more meals than needed, resulting in food waste. In addition, at least some meals served likely did not meet the National School Lunch Program's (NSLP) nutritional and portion-size requirements.

Meal overproduction resulted in food waste

Auditors observed the District's food service operations in fiscal year 2018 and noted that the staff were producing many more meals than were needed, resulting in food waste. For example, on one day observed, the District prepared 188 lunches but only served 140, or 74 percent of the meals prepared, and the remaining lunches were thrown away. According to district food service staff, they produce a daily lunch for every student enrolled in the District without considering factors such as student absences or the number of students that normally participate in the lunch program. The District should establish food production controls to reduce overproduction and waste, such as having classroom teachers take morning counts of students intending to eat a district-served lunch that day and providing these morning counts to food service staff to guide them in determining the proper number of lunches to prepare.

Meals not reviewed for nutritional requirements, and some meals likely did not meet requirements

Participating in the NSLP requires districts to follow specific nutritional guidelines, but Peach Springs USD did not have procedures in place to determine if its meals met the guidelines. Specifically, the District did not have procedures to determine the nutritional value of the meals served and did not determine the portion sizes of various meal components needed to meet the requirements. The NSLP nutritional requirements are based on a combination of daily and weekly requirements. Based on auditors' review of two specific daily meals served in fiscal year 2018 along with that week's meal schedule, it appeared likely that the meals did not meet the nutritional requirements. For example, on one day observed, the District served a cheeseburger, French fries that were fried in oil, a whole apple, and a nonreduced-fat chocolate milk. The meal likely did not meet NSLP nutritional guidelines because it did not include a vegetable, the flavored milk was not nonfat as required, a required nonflavored milk option was not offered, and the meal likely exceeded the program's maximum calorie and sodium requirements. Auditors also found that the District did not determine a serving size for the meal components and noted a large variation in the serving sizes of the French fries for students in the same grade level. Additionally, similar issues were brought to the District's attention in the past. In April 2017, the Arizona Department of Education performed an administrative review of the District's food service program and found that the District was not meeting NSLP vegetable requirements and was not offering the required milk options.

Recommendations

The District should:

14. Implement food production controls, such as varying meal production based on daily student attendance or expected lunch counts submitted by classroom teachers to help reduce meal overproduction and waste.
15. Develop and implement procedures to ensure its meals meet the NSLP's nutritional and portion-size requirements.

    District response: As outlined in its **response**, the District agrees with the finding and recommendations and plans to implement the recommendations.

District should improve controls over transportation program, if operations resume

In fiscal year 2017, the District operated its own transportation program, running one morning and one afternoon route with one bus driver. However, the District did not maintain records supporting that its bus driver met the State's certification requirements, that it performed preventative maintenance and inspections on its buses, or the route mileage and number of riders it reported for state funding purposes. Early in fiscal year 2018, the District's bus driver terminated employment with the District, and district officials stated that they were unable to find a replacement driver. According to district officials, after the District ceased providing transportation, students began using a shuttle bus service owned and operated by the Tribe to get to and from school. The shuttle bus operates at no cost to the District. However, if the District resumes its transportation program in the future, it should ensure the program meets all state requirements.

District did not ensure bus driver certification requirements were met

To help ensure student safety, the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards), administered by the Department of Public Safety, require districts to ensure that bus drivers are properly certified and receive periodic physical examinations, drug and alcohol tests, refresher training, physical performance tests, and CPR and first aid certification. However, auditors found that the District did not have documentation to demonstrate that its fiscal year 2017 bus driver met these requirements.

Bus preventative maintenance and inspections not documented

According to the State's Minimum Standards, districts must also be able to demonstrate that their school buses receive systematic preventative maintenance and inspections. Preventative maintenance includes items such as periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. Additionally, the Minimum Standards also require districts to demonstrate that their school bus drivers perform pretrip inspections of each school bus before it is operated for the first time each day. These standards are designed to help ensure the school bus passengers' safety and welfare, as well as extend the useful life of buses. However, the District did not have a formal preventative maintenance policy specifying the maximum miles a bus could travel or maximum time period before requiring bus maintenance. Additionally, the District did not have documentation to demonstrate that it was performing routine preventative maintenance and pretrip inspections during fiscal year 2017.

Student transportation mileage and riders not supported

For state transportation funding, school districts are required to report to the Arizona Department of Education the actual miles driven to transport students to and from school and the number of eligible students transported, and districts are required to maintain the related records to document that they have reported this information accurately. However, many of the District's fiscal year 2017 detailed records identifying the miles driven and riders transported were incomplete or missing. As a result, auditors were not able to determine whether the District was funded appropriately for its student transportation. The lack of records also prevented auditors from calculating efficiency measures, such as cost per mile, cost per rider, or bus capacity usage, needed to evaluate the transportation program’s efficiency. If the District resumes its transportation program in the future, it should ensure it maintains documentation to support the numbers reported.

Recommendation

16. The District should ensure that bus driver certification requirements are met and documented; ensure that it conducts and documents bus preventative maintenance and inspections in a systematic and timely manner; and ensure it maintains documentation supporting the miles driven and riders transported for state funding purposes, if it resumes its transportation program.

    District response: As outlined in its **response**, the District agrees with the finding and recommendation and plans to implement the recommendation.

Auditor General makes 16 recommendations to the District

The District should:

1. Continue to work closely with ADE to develop, implement, monitor, and evaluate action plan steps to improve its instructional program and students' academic performance (see Finding 1, page 3, for more information).

2. Ensure that it applies for all monies available to it through the school improvement program (see Finding 1, page 3, for more information).

3. Continue to work with ADE to correct errors in reporting student test data (see Finding 1, page 3, for more information).

4. Continue to work with its legal counsel and the Tribal Corporation to establish a current lease agreement for the Tribal Corporation's use of the District's high school and to recover prior years' unpaid lease and utility payments (see Finding 2, pages 5 through 6, for more information).

5. Ensure that it requires an independent review and approval for all its purchases prior to the purchases being made (see Finding 3, page 7, for more information).

6. Ensure that payments are made in a timely manner to avoid unnecessary late fees and finance charges (see Finding 3, page 7, for more information).

7. Ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files (see Finding 3, page 7, for more information).

8. Seek legal counsel to determine if it had the legal authority to pay $25,000 in bonuses to its superintendent, and if not, to determine its ability to recover the monies (see Finding 3, pages 7 through 8, for more information).

9. Establish and implement additional procedures to review employee pay to help ensure that employees are paid correctly and rectify any overpayments or underpayments made to employees (see Finding 3, page 8, for more information).

10. Classify all expenditures in accordance with the Uniform Chart of Accounts for school districts (see Finding 3, page 8, for more information).

11. Better secure equipment stored at its high school and consider the possibility of using some of the equipment at its elementary school (see Finding 3, page 9, for more information).

12. Limit employees' access in the accounting system to only those accounting system functions necessary to perform their job duties (see Finding 3, page 9, for more information).

13. Improve procedures to ensure that terminated employees have their student information system access promptly removed (see Finding 3, page 9, for more information).

14. Implement food production controls, such as varying meal production based on daily student attendance or expected lunch counts submitted by classroom teachers to help reduce meal overproduction and waste (see Finding 4, page 11, for more information).

15. Develop and implement procedures to ensure its meals meet the NSLP's nutritional and portion-size requirements (see Finding 4, page 11, for more information).

16. Ensure that bus driver certification requirements are met and documented; ensure that it conducts and documents bus preventative maintenance and inspections in a systematic and timely manner; and ensure it maintains documentation supporting the miles driven and riders transported for state funding purposes, if it resumes its transportation program (see Finding 5, pages 13 through 14, for more information).

Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of Peach Springs Unified School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation because of their effect on instructional spending, as previously reported in the Office of the Auditor General's annual report, *Arizona School District Spending*. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2017, was considered.[7] Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how it accounted for dollars spent on instruction.

For very small districts, such as Peach Springs USD, increasing or decreasing student enrollment by just five or ten students or employing even one additional part-time position can dramatically impact the district's costs per pupil in any given year. As a result, and as noted in the fiscal year 2017 *Arizona School District Spending* report, very small districts' spending patterns are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of Peach Springs USD's operations, less weight was given to various cost measures, and more weight was given to auditor observations made at the District.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2017 summary accounting data for all districts and Peach Springs USD's fiscal year 2017 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To compare districts' academic indicators, auditors developed a student achievement peer group using poverty as the primary factor because poverty has been shown to be associated with student achievement. Auditors also used secondary factors such as district type and location to further refine these groups. Peach Springs USD's student achievement peer group includes Peach Springs USD and the 15 other elementary school districts that also served student populations with poverty rates between 30 and 39 percent and were located in towns and rural areas. Auditors compared the District's percentage of students who passed state assessments to its peer groups' averages; however, auditors did not report the students' passage rates because reporting them could jeopardize the students' anonymity.[8] Auditors did report the school's Arizona Department of Education (ADE)-assigned letter grade. To further assess the District's instructional program, auditors interviewed district officials and ADE officials, reviewed various federal and state school improvement guidance, and obtained letter-grade point scores and percentage-earned data from the ADE website.

To analyze the District's operational efficiency, auditors selected a group of peer districts based on their similarities in district size and location. This operational peer group includes Peach Springs USD and 52 other school districts that also served fewer than 200 students and were located in towns and rural areas. Auditors compared the District's costs to its peer group averages. Generally, auditors considered the District's costs to be similar if they

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[7] Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with the acquisition of 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.

[8] The percentage of students who passed state assessments is based on the number of students who scored proficient or highly proficient on the Arizona's Measurement of Educational Readiness to Inform Teaching (AzMERIT) Math and English Language Arts tests and those who met or exceeded the state standards on the Arizona's Instrument to Measure Standards (AIMS) Science test. Test results were aggregated across grade levels and courses, as applicable.

were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 15 percent of peer averages, higher/lower if they were within 16 to 30 percent of peer averages, and much higher/lower if they were more than 30 percent higher/lower than peer averages. However, in determining the overall efficiency of the District's noninstructional operational areas, auditors also considered other factors that affect costs and operational efficiency such as square footage per student and meal participation rates, as well as auditor observations and any unique or unusual challenges the District had. Additionally:

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls, including reviewing personnel files and other pertinent documents and interviewing administrators about their duties. Auditors also reviewed and evaluated fiscal year 2017 administration costs and compared them to peer districts'. Additionally, auditors reviewed lease agreements, lease billings, utility bills, and high school loan documents and schedules.

- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2017 plant operations and maintenance costs and district building space and compared these costs and use of space to peer districts'.

- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2017 food service revenues and expenditures, including labor and food costs; compared costs to peer districts'; reviewed ADE's food service-monitoring reports; and observed food service operations.

- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports. Auditors also reviewed fiscal year 2017 transportation costs and compared them to peer districts'.

- To assess whether the District complied with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2017 expenditures to determine whether they were appropriate and if the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how it distributed performance pay. No issues of noncompliance were identified.

- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2017 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for all 42 individuals who received payments in fiscal year 2017 through the District's payroll system and reviewed supporting documentation for 30 of the 1,232 fiscal year 2017 accounts payable transactions. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2017 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that they considered significant to the audit objectives.

- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems. Auditors also evaluated certain district policies over the systems such as data sensitivity, backup, and recovery.

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.

The Auditor General and her staff express their appreciation to Peach Springs USD's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

Peach Springs Unified School District #8
403 Diamond Creek Rd, Peach Springs, AZ 86434

January 22, 2019

Ms. Lindsey Perry, Auditor General
2910 N. 44th St, Suite 410
Phoenix, Arizona 85018

Dear Ms. Perry,

The Peach Springs Unified School District respectfully submits it response to the Preliminary Performance Audit conducted for fiscal year 2017 by the Office of the Auditor General. The district would like to thank Mike Quinlan and the AG staff for their professionalism, direction, and information sharing throughout the process.

The district agrees with the performance audit findings and all but one of the recommendations and has begun to incorporate improvements to advance the efficiency and effectiveness of our operations based on the recommendations provided.

Peach Springs District is committed to improvement and creating an environment where we strive to put 'kids first.' We will continue our dedication to the students, parents, and community of the Hualapai people as we continue to implement improvements throughout all areas of the school district.

Sincerely,

Jaime Cole

PSUSD Superintendent

Finding 1: District should continue focus on instructional program

District Response: PSUSD agrees with this finding and will continue to work very closely with ADE improvement team.

Recommendation 1: The District should continue to work closely with ADE to develop, implement, monitor, and evaluate action plan steps to improve its instructional program and students' academic performance.

District Response: PSUSD agrees with this recommendation. Again, PSUSD has been working closely with ADE improvement team and has been implementing action plans involved around parent involvement, teacher development, and providing the best possible curriculum. Each year, we have adopted reading 2015, math K-8 curriculum 2016, science K-8 curriculum 2017, and we have provided much professional development for teachers including over 200 professional development services in 2017-2018 for teachers including Kagan and weekly coaching.

Recommendation 2: The District should ensure that it applies for all monies available to it through the school improvement program.

District Response: Peach Springs USD agrees with this recommendation and will seek all money available to aid in the implementation of the improvement action plan.

Recommendation 3: The District should continue to work with ADE to correct errors in reporting student test data.

District Response: The district agrees with this recommendation and has been working with ADE to correct errors in student reporting data prior to June 2015. Lack of qualified staff is still a major hurdle for the district despite our efforts to improve. There is a serious problem resulting in years of neglect in Native American communities where the best services are needed for kids.

Finding 2: District incurs costs but collects no revenues for leasing its high school to the Tribe

District Response: Peach Springs District agrees with the finding of losing funding due to non-payment of Music Mountain High School rent from the Grand Canyon Resort Corporation. We have followed all recommendations and will continue working with attorneys in our attempts to collect payment for rent that Grand Canyon Resort Corporation is refusing to pay.

Recommendation 4: The District should continue to work with its legal counsel and the Tribe to establish a current lease agreement for the Tribe's use of the District's high school and to recover prior years' unpaid lease and utility payments.

District Response: District agrees with this recommendation and has invoiced Grand Canyon Resort Corporation and attempted to collect payment for prior years rent. Additionally, the lease negotiations attempted by the district have not been responded to in a timely manner. District will continue to push for a fair rent and lease agreement.

Finding 3: District should strengthen accounting, equipment, and computer controls

District Response: The district agrees with this finding and will continue to work to increase accounting, equipment, and computer controls. We now have a system in place resulting in less audit hits from financial auditors in fiscal year 18.

Recommendation 5: The District should ensure that it requires an independent review and approval for all its purchases prior to the purchases being made.

District Response: PSUSD agrees with this recommendation and will implement measures to demonstrate that prior approval is part of the district purchasing process.

Recommendation 6: The District should ensure that payments are made in a timely manner to avoid unnecessary late fees and finance charges.

District Response: Peach Springs District agrees with this recommendation and has continued improvement and district is aware of previous missteps from before current administration taking over management of the district and during transitionary phases along the way. We are committed to bringing all accounts up to date to avoid late fees.

Recommendation 7: The District should ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.

District Response: The district agrees with this recommendation and has already implemented newly created PAR forms for additional duties that will be approved prior to the additional duties and will be maintained in employee personnel records.

Recommendation 8: The District should seek legal counsel to determine if it had the legal authority to pay $25,000 in bonuses to its superintendent, and if not, to determine its ability to recover the monies.

District Response: The district disagrees with the recommendation however the district is working with district attorney to ensure compliance. What is not mentioned is that superintendent declined first year bonus to pay for school paint and each year added more roles and responsibilities to the superintendent title from superintendent, principal, business manager, facilities manager, kitchen manager ordering food and designing menus, instructional coach, behavior/discipline monitor for students K-8, testing coordinator, AZELLA testing, special education director, community representative for FTF, board/school secretary, nurse, and many other jobs tasks resulting in 7 day workweeks and the bonus was for other duties assigned while working during breaks for three years.

Recommendation 9: The District should establish and implement additional procedures to review employee pay to help ensure that employees are paid correctly and rectify any overpayments or underpayments made to employees.

District Response: The district agrees with this recommendation and currently reviews all payroll vouchers for accuracy. This process will now be additional to overview reviews on an annual basis for pay conducted to employees as an overview and double check with pay schedule and board approved contracts.

Recommendation 10: The District should classify all expenditures in accordance with the Uniform Chart of Accounts for school districts.

District Response: PSUSD agrees with this recommendation and staff will use the USFR chart of accounts when making requisitions for review. Also, consultants will assist in reviewing our account codes for errors and corrections to be made as necessary.

Recommendation 11: The District should better secure equipment stored at its high school and consider the possibility of using some of the equipment at its elementary school.

District Response: The district agrees with this recommendation and will continue to work to improve these controls. This is directly related to a rent and lease disagreement with the Grand Canyon Resort Corporation (GCRC) which has caused the issues of this major finding in the past. This includes times where the GCRC has changed the locks on the building and also left the building unsecured during the business day while utilizing the portion of the building they have for their offices.

Recommendation 12: The District should limit employees' access in the accounting system to only those accounting system functions necessary to perform their job duties.

District Response: The district agrees with this recommendation and will work with the system administrator for our accounting software to limit access so that only 1 person will enter requisition and only 1 person will approve.

Recommendation 13: The District should improve procedures to ensure that terminated employees have their student information system access promptly removed.

District Response: Peach Spring district agrees with this recommendation. Going forward, PSUSD removes SIS access immediately following the end of year and after an employee with access resigns or quits.

Finding 4: District needs to improve food service program oversight

District Response: The district agrees with this finding and will work on improving oversight of the food program. In the past, many students (middle school) requested extra food and we did provide food based on need of kids in our community. Problems finding qualified staff and with equipment/freezer malfunctions has caused some of the problems. PSUSD wants to improve ordering and preparing the right amount of food and staying within program budgets and allocations while also helping to fill the needs of students in our community.

Recommendation 14: The District should implement food production controls, such as varying meal production based on daily student attendance or expected lunch counts submitted by classroom teachers to help reduce meal overproduction and waste.

District Response: Peach Springs district agrees with this recommendation. Kitchen staff is working to improve on being aware of student counts. There is a count that is based on daily student attendance that will be implemented as part of the daily preparation for the kitchen staff.

Recommendation 15: The District should develop and implement procedures to ensure its meals meet the NSLP's nutritional and portion-size requirements.

District Response: Peach Springs agrees with this recommendation and is working to redesign our approach to making menus and delivering the best possible nutritional value to every student at every meal.

Finding 5: District should improve controls over transportation program, if operations resume

District Response: PSUSD agrees with this finding. Although prior bus drivers walked out and many records turned up missing from lack of professionalism, the district created a system to avoid this situation in the future. It is an important priority that required documentation is maintained securely for all future bus drivers.

Recommendation 16: The District should ensure that bus driver certification requirements are met and documented; ensure that it conducts and documents bus preventative maintenance and inspections in a systematic and timely manner; and ensure it maintains documentation supporting the miles driven and riders transported for state funding purposes, if it resumes its transportation program.

District Response: PSUSD agrees with the recommendation and the need to demonstrate proper certifications. Bus driver requirements are stringent at the district and required maintenance will be documented. As these records "walked out" with previous bus drivers we will maintain these records more securely in the future. Our daily forms for miles and riders will follow these same procedures.

ARIZONA Auditor General

Making a Positive Difference

Peach Springs Unified School District
54-Month Follow-Up Report

The January 2019 Peach Springs Unified School District performance audit found that the District should focus on improving its instructional program; work with legal counsel and the Tribal Corporation to receive unpaid lease amounts and establish a current lease for use of its high school; strengthen accounting, equipment, and computer controls; and improve oversight of its food service and transportation programs. We made 16 recommendations to the District, and its status in implementing the recommendations is as follows:

Status of 16 recommendations

Implemented	5
Implemented in a different manner	1
Partially implemented	1
In process	2
Not implemented	**7**

We will conduct a 66-month followup with the District on the status of the recommendations that have not yet been implemented.

Finding 1: District should continue focus on instructional program

1. The District should continue to work closely with the Arizona Department of Education (ADE) to develop, implement, monitor, and evaluate action plan steps to improve its instructional program and students' academic performance.

   Implementation in process—In fiscal years 2021 and 2022, the District worked with ADE's Crisis Management Team (CMT) to identify areas of impact on students' academic success, such as recruiting and retaining teachers and adopting an evidence-based curriculum, and monitor the District's progress in these areas.[1] The CMT issued its final report to the Legislature in December 2021. The report stated that the District had made some progress in implementing CMT recommendations and that ADE would continue to monitor and support the District's school improvement efforts, such as its continued participation in the federal and State-wide school improvement programs.

   Beginning in fiscal year 2021, the District hired new staff to support and improve its instructional programs, including a principal, an assistant principal, a community liaison, a director of instruction, and 2 instructional coach consultants. Additionally, as reported in the prior 42-month followup, ADE officials reported that the District networked with other school districts and organizations to get ideas for addressing instructional challenges, improved its technology infrastructure, increased its social-emotional learning support, and improved its relationship with the community by increasing community engagement. Also, the District reestablished its transportation program, which was an area of concern as it could impact attendance.

   In fiscal year 2022, the District's elementary school's letter grade improved from an F to a D. According to ADE officials, the District will likely be a candidate for more rigorous oversight through ADE's Comprehensive Support and Improvement program. Additionally, in fiscal year 2024, the District began participating in Project Momentum, a voluntary program administered and funded through ADE that is designed to improve academic performance.

[1] Laws 2020, Ch. 26, established the CMT in August 2020 and required it to recommend necessary district changes due to the District's persistent underperformance. Laws 2021, Ch. 404, §106, extended the sunset date for the CMT from April 1, 2021, to April 1, 2022.

2. The District should ensure that it applies for all monies available to it through the school improvement program.

   Implementation in process—As reported in the explanation for recommendation 1, in fiscal year 2024, the District began participating in Project Momentum, a voluntary program administered and funded through ADE that is designed to improve academic performance. The District reported that it will receive additional funding up to $223,000 for participating in the program. Additionally, as of August 2023, the District was applying for 2 instructional improvement grants for fiscal year 2024.

3. The District should continue to work with ADE to correct errors in reporting student test data.

   Implemented at 12 months

Finding 2: District incurs costs but collects no revenues for leasing its high school to a tribal corporation

4. The District should continue to work with its legal counsel and the Tribal Corporation to establish a current lease agreement for the Tribal Corporation's use of the District's high school and to recover prior years' unpaid lease and utility payments.

   Implemented in a different manner at 42 months—According to the District, in July 2019, the Tribal Corporation stopped utilizing District-owned facilities. In July 2022, the District reopened the high school for student instruction, and in August 2022, we toured the high school, confirming that the Tribal Corporation was no longer utilizing District-owned facilities. According to the District, it worked with its legal counsel to enter into a new land lease agreement with the Tribal Corporation and will not pursue the unpaid lease and utility payments owed to it by the Tribal Corporation. However, the District was not able to provide documentation to support that the Governing Board (Board) approved the decision to not pursue the payment of these unpaid lease and utility payments.

Finding 3: District should strengthen accounting, equipment, and computer controls

5. The District should ensure that it requires an independent review and approval for all its purchases prior to the purchases being made.

   Not implemented—In the prior 42-month followup, we reported that the District updated its purchasing process to require documented approval from the superintendent prior to purchases being made and found that District staff were not consistently following the updated process. The District reported in August 2023 that it is developing a new process to ensure purchases have approval from a supervisor prior to the purchases being made and plans to implement the new process by October 2023. The District should ensure that an authorized employee approves all purchases before goods or services are ordered, as required by the *Uniform System of Financial Records for Arizona School Districts*, to help ensure the District has adequate budget capacity for purchases and that expenditures are appropriate and properly supported. We will reassess the District's implementation of this recommendation during our 66-month followup.

6. The District should ensure that payments are made in a timely manner to avoid unnecessary late fees and finance charges.

   Not implemented—Since the prior 42-month followup, the District has continued to pay late fees as a result of untimely credit card payments. Specifically, in February 2023, the District incurred $214 in fees and interest charges resulting from a late payment. The District reported in August 2023 that it is working with its bank to receive statements in a timely manner to ensure that it can timely process payments and avoid unnecessary late fees and finance charges. According to the District, its new process will be in place by October 2023. The District should have a process in place to help ensure timely payments and thereby ensure that public monies are used for appropriate education-related expenditures. We will reassess the District's implementation of this recommendation during our 66-month followup.

7. The District should ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.

   Not implemented—In the prior 42-month followup, we reported that the District had developed a payroll process requiring administrative approval on personnel action requests (PAR) for employees' additional duties in advance of the work being performed and found that it could not demonstrate that it had followed its PAR process. The District reported in August 2023 that it is developing a new PAR process that will be in place by October 2023. The District should ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files to ensure that employees' pay is approved and appropriate. We will reassess the District's efforts to implement this recommendation during our 66-month followup.

8. The District should seek legal counsel to determine if it had the legal authority to pay $25,000 in bonuses to its superintendent, and if not, to determine its ability to recover the monies.

   Partially implemented at 42 months—Although the District sought legal counsel regarding the $25,000 in bonuses paid to its previous superintendent, it did not clearly describe the issue and therefore did not receive clear guidance regarding whether it had the legal authority to pay the bonuses. According to District officials, the District's Board has decided to no longer pursue recovery of the monies. Although the District's governing board meeting agenda for its November 3, 2021, meeting indicates the Board considered and discussed the prior superintendent's compensation in executive session, the District could not provide documentation that the Board took action in a public meeting regarding the matter, such as voting to approve the decision to not pursue recovery of the monies from the former superintendent.

9. The District should establish and implement additional procedures to review employee pay to help ensure that employees are paid correctly and rectify any overpayments or underpayments made to employees.

   Not implemented—In the prior 42-month followup, we reported that the District had not established and implemented procedures to review employee pay to help ensure employees are paid correctly, and we found that 2 of 5 employees we reviewed were underpaid by $500 and $587. According to the District, it is still developing a new process to calculate and enter staff pay amounts to help ensure that employes are paid correctly. The District stated that the new process will be established by October 2023. We will reassess the District's implementation of this recommendation during our 66-month followup.

10. The District should classify all expenditures in accordance with the Uniform Chart of Accounts for school districts.

    Not implemented—Our review of the District's fiscal year-to-date 2023 expenditures found that the District continued to incorrectly classify transactions similar to what we identified during the audit, which may result in the District inaccurately reporting its spending. According to District officials, the District business manager will complete trainings on classifying expenditures in accordance with the Uniform Chart of Accounts for school districts through various organizations by October 2023. Additionally, the District plans to work with a consultant to review and correct its expenditure coding by October 2023.

11. The District should better secure equipment stored at its high school and consider the possibility of using some of the equipment at its elementary school.

    Implemented at 42 months—The District worked with a consultant to review the equipment inventory stored at its high school and developed a list of equipment that is unusable to approve for disposal. The District began operating its high school again in July 2022 and is using some of the remaining equipment for instruction and has secured the rest of the equipment in locked storage areas.

12. The District should limit employees' access in the accounting system to only those accounting system functions necessary to perform their job duties.

    Not implemented—Our October 2021 review of the District's accounting system access reports for the 4 District employees with accounting system access at that time found that all 4 employees had more access than was required for them to perform their job duties. During our discussions with the District in July 2022 and March

2023, the District stated that they had not made changes to limit access. However, the District reported in August 2023 that it is working with the Mohave County School Superintendent's Office to limit employees' access in the accounting system to only those accounting system functions necessary to perform their job duties. According to the District, it will review and reduce employees' accounting system access by October 2023. Granting employees system access beyond what is required to fulfill their job duties exposes the District to an increased risk of errors and fraud, such as processing false invoices, changing employee payrates, or adding and paying nonexistent vendors or employees.

13. The District should improve procedures to ensure that terminated employees have their student information system access promptly removed.

Implemented at 30 months

Finding 4: District needs to improve food service program oversight

14. The District should implement food production controls, such as varying meal production based on daily student attendance or expected lunch counts submitted by classroom teachers to help reduce meal overproduction and waste.

Implemented at 42 months—The District is now using attendance counts to determine its daily meal production, and our August 2022 District food service operations observations did not identify excessive waste or overproduction.

15. The District should develop and implement procedures to ensure its meals meet the National School Lunch Program's (NSLP) nutritional and portion-size requirements.

Implemented at 42 months—For fiscal year 2023, the District developed a new process for serving student meals that requires an additional food service employee to double-check each student meal served while counting meals for NSLP reporting to ensure that all student meals meet NSLP nutritional and portion-size requirements. Our August 2022 District food service operations observation found that meals served for lunch appeared to have met NSLP nutritional and portion-size requirements.

Finding 5: District should improve controls over transportation program, if operations resume

16. The District should ensure that bus driver certification requirements are met and documented; ensure that it conducts and documents bus preventative maintenance and inspections in a systematic and timely manner; and ensure it maintains documentation supporting the miles driven and riders transported for State funding purposes if it resumes its transportation program.

Not implemented—The District resumed operating its transportation program in March 2022. Our March 2023 review of the school bus driver certification documentation for the District's 3 school bus drivers found that the District did not have documentation to demonstrate that 2 of its school bus drivers met the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards). Specifically, 2 school bus drivers' files were missing evidence of an initial driver training or a refresher training.

Additionally, in April 2023, the District developed an informal policy to perform preventative maintenance on its school buses every 6 months or 3,500 miles. However, the policy did not specify what preventative maintenance will be performed on each school bus to ensure it meets Minimum Standards. Finally, for fiscal year 2023, although the District developed a process to document the miles driven and riders transported for State funding purposes, it could not demonstrate that the process was effective because as of August 2023, it had not reported its miles and riders to ADE, even though it was required to report this information in March 2023 for State funding purposes.

The District should follow the Minimum Standards to help ensure the school bus passengers' safety and welfare, as well as extend the useful life of school buses. Additionally, the District should maintain documentation supporting the miles driven and riders transported for State funding purposes to ensure that it was funded appropriately for its student transportation. According to the District, it plans to ensure that all of its school bus drivers meet the Minimum Standards requirements for school bus driver certifications and develop a checklist to document its school bus preventative maintenance by October 2023.

Peach Springs Unified School District
403 Diamond Creek Road, PO Box 360
Peach Springs, AZ 86434
928-769-2202 psusd8.org

William Santiago, Superintendent *Gloria Herrera, Business Manager*

Sent via email to sswagerty@azauditor.gov on August 18, 2023

August 18, 2023

Scott Swagerty
Director, Division of School Audits
Arizona Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018-7271

RE: Request for Submission of a Status Report from Peach Springs Unified School District to the Arizona Auditor General

Dear Director Swagerty,

At the request of the Joint Legislative Audit Committee I am submitting a status report regarding the Peach Springs Unified School District 42-Month follow-Up Report issued by the Arizona Auditor General. Attached is the district's plan and timeline to implement the 10 recommendations. Please feel free to contact my office if you have any questions or require additional information.

Regards,

William Santiago
Superintendent

cc: Senator Sonny Borrelli (R-30)
Representative Matt Gress (R-4)
Board President Michelle Zephier
Board Clerk Juanita Cooper
Board Member Gensean Putesoy
Board Member Jody Donohue
Board Member Joyce Powskey

Attach.

Finding 1: District should continue focus on instructional program.

1. The District should continue to work closely with the Arizona Department of Education (ADE) to develop, implement, monitor, and evaluate action plan steps to improve its instructional program and students' academic performance.

   The district has developed and is implementing current district wide LEA integrated action plan. Separate school integrated action plans are in place for all 3 district schools: Peach Springs Elementary School, Music Mountain Jr/Sr High School, and Music Mountain Academy. Based on the ADE's letter grade system the district has improved Peach Springs Elementary letter grade from F to a D for school year 2023. The district and teacher leadership participate in the ADE Continuous School Improvement (CSI) professional development trainings. The district has significantly improved special Education services completing ADE Corrective Action. The district has adopted The National Institute For Excellence In Teaching (NIET). NIET is a research proven evaluation rubric for teachers and principals (*National Center for education Evaluation and Regional Assistance*). The NIET framework is composed of instructional excellence, collaborative learning, reflective culture, and collective leadership. NIET has a proven record for building educator and leadership capacity in urban and rural school districts. The district is updating its K-12 curriculum for English Language Arts, Houghton Mifflin Harcourt and Math, Envision Math.

   Timeline:

   Jan 2023 – October 2023 Review recommendations, identify root cause, develop corrective procedures.

   October 2023 – January 2024 Review effectiveness of corrective procedures. Adjust procedures as needed.

2. The District should ensure that it applies for all monies available to it through the school improvement program.

   In addition to all entitlement grants through ADE the district has applied for: School Safety Grant, Systemic Leadership Development Grant, Raising Indigenous Success in Education (RISE), American Rescue Plan Act (ARPA), and State and Local Recovery Funds (SLFRF) and Targeted Support and Improvement (TSI)Grant. Additionally, the ADE contacted the district to participate in Project Momentum. Project Momentum is a school improvement initiative from Fairfax County Virginia. The initial deployment of Project Momentum was through the Governor's office and piloted through Avondale Elementary School District. Project Momentum has now transferred over to the office of the ADE and Peach Springs Unified School District is the first school district to participate that is identified as rural remote and serving a tribal student population. Through Project Momentum the district will receive additional monies, approximately $200k to provide professional development, principal support, and teacher coaching. Outside of the ADE School Improvement Grant funding the district has applied for money through The Language Conservancy in the amount of 1.5 million dollars over 5 years for implementation of the Hualapai Literacy Project. The project will include: 1) Hualapai online dictionary database. 2) Hualapai coloring books, flashcards, and vocab builder application. 3) Level I and II Textbooks. The district has applied for funding through the Division of School Facilities for renovating the district's aging buildings. Additionally, the district applied for the following grant, however we were not awarded: EPA Clean Bus Grant.

   Timeline:

   Jan 2023 – October 2023 Review recommendations, identify root cause, develop corrective procedures.

   October 2023 – January 2024 Review effectiveness of corrective procedures. Adjust procedures as needed.

3. The District should continue to work with ADE to correct errors in reporting student test data.

Implemented at 12 months.

Finding 2: District incurs costs but collects no revenues for leasing its high school to a tribal corporation.

4. The District should continue to work with its legal counsel and the Tribal Corporation to establish a current lease agreement for the Tribal Corporation's use of the District's high school and to recover prior years' unpaid lease and utility payments.

Implemented in a different manner at 42 months.

Finding 3: District should strengthen accounting, equipment, and computer controls.

5. The District should ensure that it requires an independent review and approval for all its purchases prior to the purchases being made.

The district will develop and implement a Purchase Requisition process. All purchases will begin with a purchase requisition. Requisitions will be turned into the immediate supervisor for review and approval. If approved, the requisition will be submitted to the business office. Business office will review requisition for accuracy and budget capacity. A purchase Order (PO) will be opened for approved requisitions. The District has established a process for signing out/use of district credit cards. All cards must be signed out through Business Services. A purchase requisition must be in place prior to use of a credit card. All staff have been trained during district Inservice. Staff hired after initial district in-service will receive training as part of onboarding.

Timeline:

Jan 2023 – October 2023 Review recommendations, identify root cause, develop corrective procedures.

October 2023 – January 2024 Review effectiveness of corrective procedures. Adjust procedures as needed.

6. The District should ensure that payments are made in a timely manner to avoid unnecessary late fees and finance charges.

The district is working with its banking institution to ensure that we are receiving statements in a timely and accurate manner, so the district can process payment in a timely and accurate manner. The district will work with its banking institution to verify the accuracy of late fees and finance charges.

Timeline:

Jan 2023 – October 2023 Review recommendations, identify root cause, develop corrective procedures.

October 2023 – January 2024 Review effectiveness of corrective procedures. Adjust procedures as needed.

7. The District should ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.

   The district will establish a Personnel Action Request (PAR) process. The PAR will be used by the business services department for hiring and separation of all employees. The PAR will be used for the initial setup of an employee in the district's budgeting, payroll, and human resources system and for any changes involving an employee's status.

   Timeline:

   Jan 2023 – October 2023 Review recommendations, identify root cause, develop corrective procedures.

   October 2023 – January 2024 Review effectiveness of corrective procedures. Adjust procedures as needed.

8. The District should seek legal counsel to determine if it had the legal authority to pay $25,000 in bonuses to its superintendent, and if not, to determine its ability to recover the monies.

   The PSUSD Board sought and received legal advice from the district's attorney on this issue during its November 2021 Board Meeting.

   Timeline:

   November 2018 Board Meeting.

   November 2021 Board Meeting.

9. The District should establish and implement additional procedures to review employee pay to help ensure that employees are paid correctly and rectify any overpayments or underpayments made to employees.

   The district will develop a procedure to manually calculate and enter staff contractual amount and daily rate of pay. The district will not rely solely on its financial program, Infinite Visions, for calculations of daily rate and workdays. Procedure will be verified by randomly selecting staff and verifying their contractual amount with the daily rate amount and workdays in Infinite Visions.

   Timeline:

   Jan 2023 – October 2023 Review recommendations, identify root cause, develop corrective procedures.

   October 2023 – January 2024 Review effectiveness of corrective procedures. Adjust procedures as needed.

10. The District should classify all expenditures in accordance with the Uniform Chart of Accounts for school districts.

    The district manager will complete training through the Arizona Association of School Business Official (ASBO), Arizona school Boards association (ASBA), Infinite Visions, National Association of Federally Impacted Schools (NAFIS) and ADE. Business Manager will train district staff train staff on business services procedures. Additionally, the district has contracted with Heinfeld, Meech, an accounting, auditing, and consulting firm. The focus will be on maintaining the district GL in accordance with USFR. Specifically, Heinfeld and Meech will utilize a coding verification program to rectify any coding that is incorrect.

Timeline:

Jan 2023 – October 2023 Review recommendations, identify root cause, develop corrective procedures.

October 2023 – January 2024 Review effectiveness of corrective procedures. Adjust procedures as needed.

11. The District should better secure equipment stored at its high school and consider the possibility of using some of the equipment at its elementary school.

    Implemented at 42 months.

12. The District should limit employees' access in the accounting system to only those accounting system functions necessary to perform their job duties.

    District is working with Mohave County Superintendent office to ensure that individuals with access to the district's financial system, Infinite Visions, have the appropriate rolls. The district will work with the county superintendent's office to ensure that the assignment of user roles does not allow any district employee to generate a requisition and approve a PO from beginning to the end process.

    Timeline:

    Jan 2023 – October 2023 Review recommendations, identify root cause, develop corrective procedures.

    October 2023 – January 2024 Review effectiveness of corrective procedures. Adjust procedures as needed.

13. The District should improve procedures to ensure that terminated employees have their student information system access promptly removed.

    Implemented at 30 months.

Finding 4: District needs to improve food service program oversight.

14. The District should implement food production controls, such as varying meal production based on daily student attendance or expected lunch counts submitted by classroom teachers to help reduce meal overproduction and waste.

    Implemented at 42 months.

15. The District should develop and implement procedures to ensure its meals meet the National School Lunch Program's (NSLP) nutritional and portion-size requirements.

    Implemented at 42 months.

Finding 5: District should improve controls over transportation program, if operations resume

16. The District should ensure that bus driver certification requirements are met and documented; ensure that it conducts and documents bus preventative maintenance and inspections in a systematic and timely manner; and ensure it maintains documentation supporting the miles driven and riders transported for State funding purposes, if it resumes its transportation program.

    The district has resumed its transportation program and is implementing procedures in three areas:

    1) The district is documenting all bus driver certification requirements.

    a. Review all expiration dates with 1 month notice to renew.
    b. District has hired two drivers that are certified trainers.
2) The district is implementing systems for bus preventative maintenance, inspections, and documentation.
    a. Update current board policy.
    b. All vehicles will be scheduled for maintenance based on mileage, 3,500 miles and/or time, every 6 months.
    c. Safety inspections will be conducted every 3,500 miles.
    d. Drivers will conduct daily trip inspections.
3) The district is implementing a documentation process for miles driven and the number of riders transported for state funding.
    a. Drivers will keep daily log of students transported.
    b. Drivers will keep daily log of milage.

Additionally, the district is utilizing Universal Background Screening to ensure that requirements are met for random drug screening. The district is monitoring any legislative changes to CDL requirements specific to yellow and white buses.

Timeline:

Jan 2023 – October 2023 Review recommendations, identify root cause, develop corrective procedures.

October 2023 – January 2024 Review effectiveness of corrective procedures. Adjust procedures as needed.

Attachment C

Report and Followup

Topock Elementary School District

Topock Elementary School District

Performance Audit

March 2020
Report 20-202

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

ARIZONA Auditor General
Making a Positive Difference

The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

Representative **Anthony T. Kern**, Chair
Representative **John Allen**
Representative **Timothy M. Dunn**
Representative **Mitzi Epstein**
Representative **Jennifer Pawlik**
Representative **Rusty Bowers** (ex officio)

Senator **Rick Gray**, Vice Chair
Senator **Lupe Contreras**
Senator **Andrea Dalessandro**
Senator **David C. Farnsworth**
Senator **David Livingston**
Senator **Karen Fann** (ex officio)

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MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

March 10, 2020

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Topock Elementary School District

Mr. John Warren, Superintendent
Topock Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Topock Elementary School District*, conducted pursuant to Arizona Revised Statutes §41-1279.03. As outlined in its response, the District agrees with all of the findings and all but 1 of the recommendations and plans to implement or implement a modification to all of the recommendations.

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

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General

2910 N 44th St., Ste. 410 • PHOENIX, AZ 85018-7271 • (602) 553-0333 • WWW.AZAUDITOR.GOV

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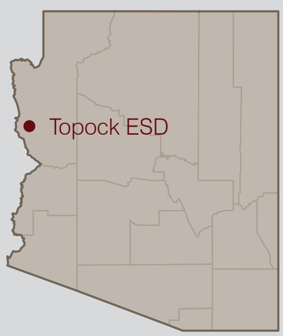
Topock Elementary School District
Performance Audit—Fiscal year 2018
March 2020



Rural district in Mohave County

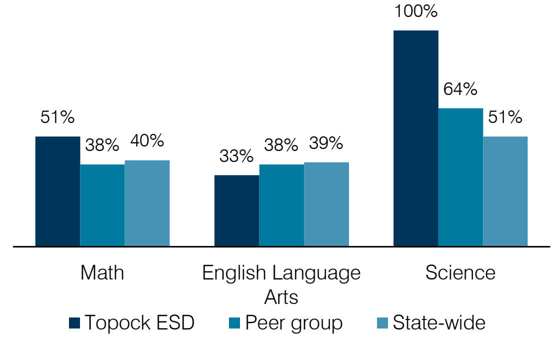
Grades: Kindergarten through 8th

Students attending: 102

Number of schools: 1

School letter grade: C

Students who passed State assessments



Total operational spending—$1.1 million ($11,052 per pupil)

Instructional—48.8% ($5,393 per pupil)	Noninstructional—51.2% ($5,659 per pupil)

Operational overview	Measure	Topock ESD	Peer average
Administration—similar spending but some weak controls The District's per pupil administrative spending was similar to the peer districts' average. However, the District's inadequate payroll, computer, and other internal controls increased its risk of errors and fraud, led to unsupported payments, and contributed to the District's frequent noncompliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR) (see Finding 1, page 2).	Spending per pupil	$3,155	$3,064
Plant operations—lower spending The District spent less on plant operations both per square foot and per pupil partly because it operated and maintained 31 percent fewer square feet per student than the peer districts, on average. In addition, the District employed fewer plant staff than the peer districts, on average, including employing a maintenance worker only on an as-needed basis.	Spending per square foot	$3.54	$7.31
	Spending per pupil	$913	$2,439
Food service—lower spending The District's food service spending was lower both per meal and per pupil than the peer districts' averages primarily because the District employed fewer food service staff and spent less on salaries and benefits. The District was able to employ fewer staff because it mostly served meals made of prepared foods that only required heating and serving, and it did not offer students a broad range of different meals.	Spending per meal	$3.14	$5.79
	Spending per pupil	$732	$932
Transportation—mixed costs, but better oversight needed The District's spending per mile was higher than the peer districts' average, while its spending per rider was lower, primarily because the District traveled 71 percent fewer miles per rider than the peer districts, on average. However, lack of program oversight led to potential student safety risk and reporting errors (see Finding 2, page 6).	Spending per mile	$2.17	$1.94
	Spending per rider	$671	$1,614

District's inadequate payroll, computer, and other internal controls increased risk of errors and fraud, led to unsupported payments, and contributed to the District not complying with the USFR

Issue 1: District lacked adequate payroll controls to ensure employees were paid appropriately

Some employees paid without employment contracts—We reviewed payroll and personnel documentation for all 31 individuals who received payments in fiscal year 2018 through the District's payroll system and found that the District did not have fiscal year 2018 contracts or work agreements for 3 of its 31 employees. Although the District's Governing Board approved employment of all staff in June 2017, the meeting minutes were not detailed enough to determine pay rates or salaries for these employees. Therefore, we could not determine whether these individuals were paid the proper amounts. We reviewed fiscal year 2017 work agreements for these employees and determined that they were paid similar amounts in fiscal year 2018. To help ensure that all pay is properly authorized and employees are paid correctly, the District should ensure that it maintains current contracts or work agreements for all its employees that stipulate the terms of their employment with the District as required by the *Uniform System of Financial Records for Arizona School Districts* (USFR). Further, the Governing Board's meeting minutes and associated documentation should show the approval for employees' work and pay amounts.

Some payments made without supporting documentation showing prior approval—An additional 4 employees out of the 31 we reviewed received salary payments in fiscal year 2018 totaling $52,095 for performing additional duties or receiving stipends for things such as teaching summer school, coordinating programs, and missing less than 3 days of work. However, $19,295 of these payments were made to the 4 employees without sufficient supporting documentation to indicate that the District's Governing Board approved the additional duties and pay amounts or stipends. For example, 1 teacher received additional duty payments and stipends totaling $14,100, but the District had documentation supporting only $5,500 of these additional duties and stipends. We reviewed fiscal year 2018 Governing Board meeting minutes to determine whether they contained approval for these payments. Although the meeting minutes showed that the Governing Board approved certain extra duty assignments and stipends, the minutes and the District's payroll records were not detailed enough to show which employees were to receive these payments. We also reviewed fiscal year 2017 Governing Board meeting minutes and determined that the Board approved similar extra duty assignments and stipends as it did in fiscal year 2018, but again, the minutes were not specific enough to show which employees were to receive these payments.

Recommendations

The District should:

1. Ensure that it maintains current contracts or work agreements for all its employees that stipulate the terms of their employment with the District.

2. Ensure that employees' additional duties and related payments or stipends are addressed in annual contracts or personnel/payroll action forms, approved in advance of the work being performed as required by the USFR, and maintained in employee personnel files.

3. Ensure its Governing Board meeting minutes and other associated documentation include enough detail to show the Governing Board's approval of employees' work and salary, stipend, and extra duty pay amounts.

District response: As outlined in its **response**, the District agrees with the finding and recommendations and will implement the recommendations.

Issue 2: Some payments to Superintendent were not in accordance with State statute and travel policy

Board inappropriately gave Superintendent performance pay without requiring documentation of goals—Arizona Revised Statutes (A.R.S.) §15-341(A)(39) requires that up to 20 percent of a superintendent's total annual salary be classified as performance pay based on whether he/she meets the performance goals identified in statute unless the district's governing board adopts alternative goals. According to the Superintendent's fiscal year 2018 through fiscal year 2020 contract, he may earn up to 20 percent of his salary in performance pay each fiscal year. In April 2018, the District's Governing Board awarded the Superintendent $10,400 in performance pay, which was equal to 10 percent of his fiscal year 2018 salary. However, the District was unable to provide documentation of what the approved goals were or that the Superintendent met the goals. Therefore, we could not determine whether he was paid the proper amount. Further, despite statute requiring superintendents' performance pay be awarded based on achievement of governing-board-approved goals, in April 2018, the District's governing board members decided that the Superintendent did not need to meet any goals in order to receive performance pay for fiscal year 2019. Despite not having to meet any specific goals, the Superintendent received $10,400 in performance pay for fiscal year 2019 as well.

Superintendent used District fuel card to fuel personal vehicle, in violation of State travel policy—In fiscal year 2018, the District's Superintendent purchased $779 worth of fuel for his personal vehicle using a District fuel card. According to the State's travel policy, which all school districts are required to follow, when using a personal vehicle, employees cannot be reimbursed for the cost of fuel, in this case, by using the District's fuel card. Instead, employees must submit a travel claim showing the mileage they traveled for District purposes and be reimbursed a flat rate of 44.5 cents per mile, which is intended to cover all vehicle-related expenses, including fuel, oil, and vehicle wear and tear. However, the Superintendent did not follow the State's travel policy and submit travel claims showing the miles he traveled in his personal vehicle for District purposes. By the Superintendent using the District's fuel card instead of following the State's travel policy, the District cannot ensure that it is paying for only the miles driven for District purposes and not for personal use. In addition to using his personal vehicle, the Superintendent also used a District vehicle several times for District business in fiscal year 2018. Further, the Superintendent's contract provides a $450 per month car allowance to compensate the Superintendent for using his personal vehicle for District business. However, the Superintendent's contract does not state whether the car allowance is intended to cover all the Superintendent's District-related personal vehicle expenses, including gasoline purchases. In light of the fact that the District has a vehicle available and the Superintendent receives a monthly car allowance, the District should consult with its legal counsel to determine whether it is appropriate for the Superintendent to be reimbursed for mileage when using his personal vehicle for District purposes. In addition, because the Superintendent failed to follow State travel policy and submit travel claims documenting the miles he traveled in his personal vehicle for District purposes, the District should seek reimbursement for the $779 that the Superintendent spent in fiscal year 2018 on fuel for his personal vehicle using the District's fuel card. Further, the District should work with its legal counsel to determine whether the Superintendent should also reimburse the District for similar fuel card purchases he made in fiscal years 2019 and 2020.

Recommendations

The District should:

4. Ensure that it documents the established performance goals the Superintendent must meet in order to receive performance pay and ensure that it retains adequate documentation to demonstrate that the Superintendent met the

goals for any performance payments made.

5. Consult with its legal counsel to determine whether it is appropriate for the Superintendent to be reimbursed for mileage when using his personal vehicle for District business. If the District and its legal counsel determine that mileage reimbursement is appropriate, the Superintendent should follow the State's travel policy by submitting a travel claim with the miles traveled for District purposes and be reimbursed at the State's flat per mile rate. Further, the District's policies and the Superintendent's contract should reflect the decision made by the District and its legal counsel.

6. Require the Superintendent to reimburse the District for the fiscal year 2018 purchases he made for his personal vehicle using the District's fuel card. Further, the District should consult with its legal counsel to determine whether the Superintendent should also reimburse the District for similar fuel card purchases made in fiscal years 2019 and 2020.

District response: As outlined in its **response**, the District agrees with the finding and recommendations 4 and 5 and will implement or implement a modification to the recommendations. The District does not agree with recommendation 6 but will implement a modification to the recommendation.

Issue 3: District lacked adequate computer controls, increasing risk of errors, fraud, and unauthorized access to sensitive information

District assigned employee too much access to its accounting system—The District had only 1 accounting system user, and this user performed all payroll and purchasing duties for the District. Although other employees reviewed payroll and purchasing documentation outside of the accounting system, the accounting system user had the ability to initiate and complete all payroll and purchasing transactions in the system without an independent review and approval. We did not identify any inappropriate payroll or purchase transactions; however, granting users this level of access exposes the District to an increased risk of errors and fraud such as processing false invoices, changing employee pay rates, or adding and paying nonexistent vendors or employees without being detected.

Insufficient password requirements did not adequately protect the District's network and systems from unauthorized access—We reviewed the District's password requirements as of November 2018 and determined that the District's network password policies were not aligned with credible industry standards, such as those developed by the National Institute of Standards and Technology (NIST). More specifically, a District employee assigned passwords to users, and users were not permitted to change them so that only they knew their own passwords.

Recommendations

The District should:

7. Limit the accounting system user's access so that the user cannot initiate and complete payroll and purchasing transactions and consider providing accounting system access to a second user to separate responsibilities and provide for independent reviews and approvals.

8. Implement and enforce stronger network password requirements to decrease the risk of unauthorized persons gaining access to sensitive District information by requiring users to create their own passwords that are known only to themselves.

District response: As outlined in its **response**, the District agrees with the finding and recommendations and will implement or implement a modification to the recommendations.

Issue 4: District did not comply with the USFR

In addition to the internal control deficiencies we identified during our performance audit, in accordance with A.R.S. §15-271, we reviewed the District's financial audit reports and USFR Compliance Questionnaire for the year ended June 30, 2018, and determined that the District did not comply with the USFR.[1] The District also did not comply with the USFR in fiscal years 2014, 2015, and 2016. We provided District management with details of the District's most significant deficiencies noted in its fiscal year 2018 financial audit reports and USFR Compliance Questionnaire. For example, the District had weak internal controls over credit cards and property such as buildings and equipment, leaving District monies and property susceptible to loss, theft, and misuse. As of January 2020, the District was working on implementing corrective actions to address its deficiencies, and we were following up with the District on the implementation of these actions. Additionally, the District's contracted financial auditors will review these areas and all other areas included in the USFR Compliance Questionnaire in their next financial statement and compliance audit due to our Office by March 31, 2020.

The USFR prescribes the minimum internal control policies and procedures for Arizona school districts and is designed to help school districts maintain adequate financial accountability and compliance with federal and State laws and regulations. A.R.S. §15-914 requires most school districts to contract for annual or biennial financial and compliance audits. Districts' auditors must prepare a USFR Compliance Questionnaire as part of that audit.

[1] The District's financial audit reports and Compliance Questionnaire were completed by its contracted external audit firm. We are responsible for reviewing these audit reports and questionnaires and determining whether school districts substantially complied with the USFR.

FINDING 2

Lack of transportation program oversight led to potential student safety risk and reporting errors

District did not always ensure buses were inspected and repaired as required

Required pretrip inspections not always documented—School districts are required by the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards) to have their school bus drivers perform pretrip safety inspections of school buses prior to transporting students each day. These standards, which are administrated by the Department of Public Safety, are designed to help ensure school bus passengers' safety and welfare, as well as extend the useful life of the buses. During these inspections, drivers should review various bus components to ensure they are in good working order. For example, drivers should ensure that tires are properly inflated, emergency exits are working, and engine fluids are at appropriate levels. We reviewed the 2 District buses' daily pretrip inspection checklists for fiscal year 2018 and found that only 65 percent of the checklists were actually filled out by bus drivers. By not consistently conducting pretrip inspections and documenting them on the checklists, the District cannot ensure that buses are in good working order and are safe for transporting students to and from school.

Some bus repairs not performed timely—The District had an agreement with a neighboring school district to obtain bus maintenance and repair services from that district. According to the District's process, the District Superintendent was to notify the neighboring school district of potential bus issues that bus drivers noted, and then the bus was to be transported to the neighboring district for inspection and potential repairs. However, the District did not always ensure that bus repairs were completed in a timely manner. For example, during fiscal year 2018, 1 of the District's buses had a radiator fluid leak that was not repaired for 2 months. Additionally, the other bus' broken engine hood latch was not fixed for 5 months. The broken engine hood latch is considered a major defect by the Minimum Standards. These untimely bus repairs increased students' safety risk.

District did not ensure bus drivers met all certification requirements

To further help ensure student safety, the State's Minimum Standards require districts to ensure that bus drivers are properly certified and receive random drug and alcohol tests, annual drug tests, physical examinations, physical performance tests, refresher training, and CPR and first aid certification. We reviewed fiscal years 2017 and 2018 files for the District's 2 regular bus drivers and 3 substitute bus drivers and found that the District did not have documentation showing that the drivers met all the Minimum Standards' driver certification requirements. Specifically:

- 5 drivers' files did not have evidence of required refresher training.
- 1 driver's file did not have evidence of required CPR/first aid certification.

In addition, the District did not have a process in place to ensure that at least 25 percent of its drivers were randomly tested for drug use each year and 10 percent were randomly tested for alcohol use each year as required by the Minimum Standards. As a result, none of the District's 5 bus drivers were randomly tested for drug or alcohol use in fiscal years 2017 through 2019. Failing to ensure that its bus drivers met all certification requirements placed students' safety at risk and increased the District's liability if an incident compromising students' safety occurred.

District incorrectly reported riders for State funding purposes

In fiscal year 2018, the District incorrectly reported to the Arizona Department of Education (ADE) the number of riders it transported for State funding purposes. Specifically, the District reported the number of students eligible for transportation rather than the number of students actually transported as A.R.S. §15-922 requires, resulting in the District overreporting its number of riders by 22, or 22 percent of total riders. Although the District's error in fiscal year 2018 did not ultimately have a substantial impact on the District's transportation funding, the District should ensure it is meeting reporting requirements by accurately reporting riders to ADE for State funding purposes and should work with ADE to determine whether a correction for fiscal year 2018 is needed.

Recommendations

The District should:

9. Ensure its bus drivers perform pretrip inspections and maintain documentation of these inspections in accordance with the State's Minimum Standards.

10. Ensure that bus repairs are conducted in a timely manner and documented in accordance with the State's Minimum Standards.

11. Develop and implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's Minimum Standards, including conducting and documenting random drug and alcohol testing of bus drivers to help ensure school bus passengers' safety and welfare.

12. Accurately calculate and report to ADE for State funding purposes the number of students transported.

13. Work with ADE to determine whether it needs to submit a correction for its fiscal year 2018 ridership.

District response: As outlined in its **response**, the District agrees with the finding and recommendations and will implement the recommendations.

Auditor General makes 13 recommendations to the District

The District should:

1. Ensure that it maintains current contracts or work agreements for all its employees that stipulate the terms of their employment with the District (see Finding 1, pages 2 through 3, for more information).

2. Ensure that employees' additional duties and related payments or stipends are addressed in annual contracts or personnel/payroll action forms, approved in advance of the work being performed as required by the USFR, and maintained in employee personnel files (see Finding 1, pages 2 through 3, for more information).

3. Ensure its Governing Board meeting minutes and other associated documentation include enough detail to show the Governing Board's approval of employees' work and salary, stipend, and extra duty pay amounts (see Finding 1, pages 2 through 3, for more information).

4. Ensure that it documents the established performance goals the Superintendent must meet in order to receive performance pay and ensure that it retains adequate documentation to demonstrate that the Superintendent met the goals for any performance payments made (see Finding 1, pages 3 through 4, for more information).

5. Consult with its legal counsel to determine whether it is appropriate for the Superintendent to be reimbursed for mileage when using his personal vehicle for District business. If the District and its legal counsel determine that mileage reimbursement is appropriate, the Superintendent should follow the State's travel policy by submitting a travel claim with the miles traveled for District purposes and be reimbursed at the State's flat per mile rate. Further, the District's policies and the Superintendent's contract should reflect the decision made by the District and its legal counsel (see Finding 1, pages 3 through 4, for more information).

6. Require the Superintendent to reimburse the District for the fiscal year 2018 purchases he made for his personal vehicle using the District's fuel card. Further, the District should consult with its legal counsel to determine whether the Superintendent should also reimburse the District for similar fuel card purchases made in fiscal years 2019 and 2020 (see Finding 1, pages 3 through 4, for more information).

7. Limit the accounting system user's access so that the user cannot initiate and complete payroll and purchasing transactions and consider providing accounting system access to a second user to separate responsibilities and provide for independent reviews and approvals (see Finding 1, page 4, for more information).

8. Implement and enforce stronger network password requirements to decrease the risk of unauthorized persons gaining access to sensitive District information by requiring users to create their own passwords that are known only to themselves (see Finding 1, page 4, for more information).

9. Ensure its bus drivers perform pretrip inspections and maintain documentation of these inspections in accordance with the State's Minimum Standards (see Finding 2, pages 6 through 7, for more information).

10. Ensure that bus repairs are conducted in a timely manner and documented in accordance with the State's Minimum Standards (see Finding 2, pages 6 through 7, for more information).

11. Develop and implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's Minimum Standards, including conducting and documenting random drug and alcohol testing of bus drivers to help ensure school bus passengers' safety and welfare (see Finding 2, pages 6 through 7,

for more information).

12. Accurately calculate and report to ADE for State funding purposes the number of students transported (see Finding 2, pages 6 through 7, for more information).
13. Work with ADE to determine whether it needs to submit a correction for its fiscal year 2018 ridership (see Finding 2, pages 6 through 7, for more information).

APPENDIX

Objectives, scope, and methodology

We have conducted a performance audit of Topock Elementary School District pursuant to A.R.S. §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness primarily in fiscal year 2018 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 2018 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 all 31 individuals who received payments in fiscal year 2018 through the District's payroll system and reviewed supporting documentation for 30 of the 1,139 fiscal year 2018 accounts payable transactions. After adjusting transactions for proper account classification, we reviewed fiscal year 2018 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 findings. We also reported our Office's determination of whether the District substantially complied with the *Uniform System of Financial Records for Arizona School Districts* based on a review of the District's fiscal year 2018 financial audit reports and Compliance Questionnaire that the District's contracted external audit firm completed.

Peer groups—We developed 2 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 2018 student passage rates on State assessments as reported by the Arizona Department of Education (ADE). We also reported the District's ADE-assigned school letter grade. To compare the District's operational efficiency in administration, plant operations and maintenance, food service, and transportation, we developed a peer group using district size and location. We used these factors because they are associated with districts' cost measures in these areas.

For very small districts, such as Topock ESD, increasing or decreasing student enrollment by just 5 or 10 students or employing even 1 additional part-time position can dramatically impact the district's costs per pupil in any given year. As a result, and as noted in the fiscal year 2018 *Arizona School District Spending* report, very small districts' spending patterns are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of the District's operations, less weight was given to various cost measures, and more weight was given to our observations made at the District.

Comparison areas	Factors	Group characteristics	Number of districts in peer group
Student achievement	Poverty rate District type Location	Between 16 percent and 22% Elementary school districts Towns and rural areas	17
Administration, plant operations and maintenance, food service, and transportation	District size Location	Fewer than 200 students Towns and rural areas	56

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.
- **Observations—**To further evaluate District operations, we observed various day-to-day activities in the scoped areas. This included facility tours, food service operations, and transportation services.
- **Report and documentation 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. We also reviewed bus driver files for the District's 2 regular bus drivers and 3 substitute bus drivers for fiscal years 2017 and 2018 and pretrip safety checklists and bus maintenance and repair records for the District's 2 buses for fiscal year 2018.
- **Analysis—**We reviewed and evaluated fiscal year 2018 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 revenues and expenditures associated with its food service program to determine whether the District was covering all its costs 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

Topock Elementary School
5083 Tule Drive/P.O. Box 370
Topock, Arizona 86436
Phone:(928)768-3344/Fax:(928)768-9253

February 28, 2020

Ms. Lindsey Perry
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Perry,

Topock Elementary School District has received and reviewed the Performance Audit report conducted for Fiscal Year 2018. The report provided welcome recommendations to enhance and improve district procedures.

The information shared has provided Topock Elementary #12 an opportunity to make improvements toward efficiency, accountability, and fiscal responsibility. The District will comply with all recommendations wherever feasible within the limitation of resources, as noted in the District's response. The Topock Elementary School District's mission is to provide a world class education regardless of socioeconomic challenges. With a long and rich history in northwest Arizona, the Topock Elementary School District opened in 1922 and continues to strive to provide exceptional instruction and to efficiently utilize all funds for the benefit of our students. The District will maintain a tight focus on aligning and maximizing District resources in pursuit of our mission. We look forward to continuing to improve our stewardship of the public's resources for the good of our community and students.

Topock Elementary School District would like to thank your audit team for the insight, professionalism, and courtesy throughout the audit process, along with the opportunity to engage in meaningful collaboration. The staff members from the Auditor General's Office, Ann Orrico and Jennie Snedecor are to be commended for their professionalism, support, guidance, and assistance throughout the audit process.

Please do not hesitate to contact us with any questions or comments regarding our response.

Respectfully Submitted,

John Warren
Superintendent
Topock Elementary School District
Past President Arizona Rural Schools Association

Success in Education

Finding 1: District's inadequate payroll, computer, and other internal controls increased risk of errors and fraud, led to unsupported payments, and contributed to the District not complying with the USFR

District Response: The District agrees with the finding.
The District has implemented the recommendations to increase and strengthen internal control measures. As a small school district the recommended separation of duties is not always possible. Additionally, oversight is provided by the Mohave County School Superintendent's Office. We will review our policies and procedures to ensure compensating controls are in place to provide the greatest protection possible to prevent the risk of errors and fraud.

Recommendation 1: The District should ensure that it maintains current contracts or work agreements for all its employees that stipulate the terms of their employment with the District.

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

The district has audited and implemented all current contracts and work agreements required by the USFR in a more timely manner and personnel files will be reviewed biannually.

Recommendation 2: The District should ensure that employees' additional duties and related payments or stipends are addressed in annual contracts or personnel/payroll action forms, approved in advance of the work being performed as required by the USFR, and maintained in employee personnel files.

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

The District has reviewed and revised their procedures. The District has developed a policy and procedure where two employees review each employee's file for accuracy to prevent over/underpayments and ensure additional duty stipends are addressed in contracts and work agreements, along with approval in advance of the work being performed to comply with USFR guidelines. Additionally, the Business Manager has completed an AASBO training on HR strengthening and internal controls.

Recommendation 3: The District should ensure its Governing Board meeting minutes and other associated documentation include enough detail to show the Governing Board's approval of employees' work and salary, stipend, and extra duty pay amounts.

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

Personnel charged with executing Governing Board minutes will receive training through ASBA to improve compliance per the recommendation. Additionally, the Governing Board Secretary will record all audio dialogue during Board meetings to improve efficiency and accuracy of meeting minutes.

Recommendation 4: The District should ensure that it documents the established performance goals the Superintendent must meet in order to receive performance pay and ensure that it retains adequate documentation to demonstrate that the Superintendent met the goals for any performance payments made.

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

Topock ESD #12 Governing Board did establish performance goals regarding Education, Management, Governing Board, and Personnel, that the Superintendent must meet in order to receive performance pay. However, the Governing Board acknowledges that adequate documentation of the goals, and progress toward meeting same was not kept. The Governing Board shall adopt a written resolution with performance goals or state the goals in the Superintendent's Contract, and retain adequate documentation of goals met or denied.

Recommendation 5: The District should consult with its legal counsel to determine whether it is appropriate for the Superintendent to be reimbursed for mileage when using his personal vehicle for District business. If the District and its legal counsel determine that mileage reimbursement is appropriate, the Superintendent should follow the State's travel policy by submitting a travel claim with the miles traveled for District purposes and be reimbursed at the State's flat per mile rate. Further, the District's policies and the Superintendent's contract should reflect the decision made by the District and its legal counsel.

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

The District will consult with legal counsel to determine whether it is appropriate for the Superintendent to be reimbursed for mileage when using his personal vehicle for District business. If the District and its legal counsel determine that mileage reimbursement is appropriate, the Superintendent will follow the guidance set forth in Ariz. Rev. Stat. Section 15-342(5), Ariz. Rev. Stat. Sections 38-621-627, and any applicable portions of the State of Arizona Accounting Manual Topic 50, Section 15. The District's policies and the Superintendent's contract shall reflect the decision made by the Governing Board and Counsel's recommendation.

Recommendation 6: The District should require the Superintendent to reimburse the District for the fiscal year 2018 purchases he made for his personal vehicle using the District's fuel card. Further, the District should consult with its legal counsel to determine whether the Superintendent should also reimburse the District for similar fuel card purchases made in fiscal years 2019 and 2020.

District Response: The District does not agree with the recommendation but will implement a modification to the recommendation.

The District will discuss whether or not the Superintendent should reimburse the District for FY 18, 19, and 20 with the District's legal counsel.

Recommendation 7: The District should limit the accounting system user's access so that the user cannot initiate and complete payroll and purchasing transactions and consider providing accounting system access to a second user to separate responsibilities and provide for independent reviews and approvals.

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

The District may utilize the Mohave County School Superintendent's Office through an MOU for additional oversight and separation of duties. Currently, the MCSSO has administrative access and oversight of all modules in Visions Software. If necessary, a second user on district staff will be granted accounting system access to provide independent reviews and approvals for payroll and purchasing transactions.

Recommendation 8: The District should implement and enforce stronger network password requirements to decrease the risk of unauthorized persons gaining access to sensitive District information by requiring users to create their own passwords that are known only to themselves.

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

The District has implemented policy and a procedure requiring all personnel to change their passwords periodically.

Finding 2: Lack of transportation program oversight led to potential student safety risk and reporting errors

District Response: The District agrees with the finding.
The District has already implemented new procedures for the oversight of the transportation program. The District is collaborating under a MOU with a larger neighboring district for additional assistance regarding transportation services.

Recommendation 9: The District should ensure its bus drivers perform pretrip inspections and maintain documentation of these inspections in accordance with the State's Minimum Standards.

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

The district has already implemented new procedures to ensure bus drivers document their pre-trip inspections and inspection forms are maintained by the district.

Recommendation 10: The District should ensure that bus repairs are conducted in a timely manner and documented in accordance with the State's Minimum Standards.

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

The District has a Transportation MOU in place with a larger neighboring district to provide preventative maintenance and repairs. Documentation and maintenance records are now kept in each vehicle with the mileage logs. In addition, a copy is maintained in the District file room. The District will ensure the State's Minimum Standards are met for all busses.

Recommendation 11: The District should develop and implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's Minimum Standards, including conducting and documenting random drug and alcohol testing of bus drivers to help ensure school bus passengers' safety and welfare.

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

The District has implemented a new procedure to randomly drug and alcohol test bus drivers in accordance with the Arizona Minimum Standards requirements.

Recommendation 12: The District should accurately calculate and report to ADE for State funding purposes the number of students transported.

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

The District has already implemented new policies and procedures to maintain compliance with ADE Transportation reporting procedures.

Recommendation 13: The District should work with ADE to determine whether it needs to submit a correction for its fiscal year 2018 ridership.

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

The District will collaborate with ADE to determine whether it needs to submit a correction for fiscal 2018 ridership.

Topock Elementary School District
36-Month Follow-Up Report

The March 2020 Topock Elementary School District performance audit found that the District's inadequate payroll, computer, and other internal controls led to unsupported payments and contributed to the District not complying with the *Uniform System of Financial Records for Arizona School Districts* (USFR). Further, the District's lack of transportation program oversight increased students' safety risk. As part of the previous followup, we identified actions taken by the District's Governing Board (Board) that appeared to be contrary to State open meeting law (see Finding 1, Recommendation 4). Specifically, the Board did not vote to approve some performance payments to the Superintendent in a public meeting. Instead, the Board inappropriately discussed a performance payment to the Superintendent in an email thread that included all the Board members. In total, we made 14 recommendations to the District, and its status in implementing the recommendations is as follows:

Status of 14 recommendations

Implemented	5
Implemented in a different manner	1
In process	4
Not implemented	**4**

We will conduct a 48-month followup with the District on the status of the performance audit and followup recommendations that have not yet been implemented.

Finding 1: District's inadequate payroll, computer, and other internal controls increased risk of errors and fraud, led to unsupported payments, and contributed to the District not complying with the USFR

1. The District should ensure that it maintains current contracts or work agreements for all its employees that stipulate the terms of their employment with the District.

   Implementation in process—The District continues to maintain contracts or work agreements for all its employees and updated its employment contracts for fiscal year 2023 to include most terms of employment with the District. However, the District's fiscal year 2023 work agreements for hourly employees did not include the number of hours to be worked per day, and the District did not have documented policies or payroll schedules that outlined these terms of employment, as required by the USFR. According to District officials, they are developing a process that they intend to use to track the approved number of hours to be worked for each employee, which they plan to finalize and implement in fiscal year 2024.

2. The District should ensure that employees' additional duties and related payments or stipends are addressed in annual contracts or personnel/payroll action forms, approved in advance of the work being performed as required by the USFR, and maintained in employee personnel files.

   Not implemented—The District had a personnel/payroll action form for the 6 employees who were paid for additional duties in fiscal year 2023. However, despite District officials being aware of the requirement for advance approval and reporting in the 30-month followup that it would ensure all additional duties are approved in advance of the work being performed for fiscal year 2023, we continued to find noncompliance. Specifically, the Superintendent and Board did not approve 2 of the 6 employees' personnel/payroll action forms in advance of the work being performed as required by the USFR. District officials reported that the personnel/payroll action forms were not approved in advance of the work being performed because the business office was not always informed about employees being assigned additional duties. District officials further reported that they are working with District staff to ensure the business office receives information regarding extra duty assignments so that personnel/payroll action forms can be completed and approved in advance of the work being performed, as required.

3. The District should ensure its Governing Board meeting minutes and other associated documentation include enough detail to show the Governing Board's approval of employees' work and salary, stipend, and extra duty pay amounts.

Implementation in process—Board meeting minutes and other associated documentation now include enough detail to show the Board's approval of most employees' work and salary, stipend, and extra duty pay amounts, as well as the Superintendent's performance payments. However, as discussed in Recommendation 2, 2 of 6 approvals did not occur in advance of the work being completed.

4. The District should ensure that it documents the established performance goals the Superintendent must meet in order to receive performance pay and ensure that it retains adequate documentation to demonstrate that the Superintendent met the goals for any performance payments made.

Implementation in process—Our review of the Superintendent's performance pay for fiscal year 2022, which was paid to the Superintendent in fiscal year 2023, found that the Board approved updated performance pay goals for the Superintendent that better reflected their intent for the Superintendent's performance pay and that these updated performance pay goals were documented. We also found that the District maintained documentation to support performance payments made to the Superintendent for fiscal year 2022, unlike in previous years we reviewed, and that the Board approved these payments in public meetings. However, the District still had not fully corrected errors we reported in our previous 30-month follow-up report where the Board did not follow the terms of the Board-approved fiscal year 2021 performance pay plan for the second performance goal, which was based on the percentage of District employees who assigned a letter grade of "A" to the school in a survey, resulting in an overpayment to the Superintendent of $3,367. At that time, the Board agreed it had not followed the approved performance pay plan and reported to us that the Superintendent agreed to pay back to the District the amount he was overpaid. However, based on our review of the September 30, 2022, Board meeting minutes, the Board approved a motion requiring the Superintendent to repay only $1,737, which was $1,630 less than the amount the Superintendent was overpaid. According to District officials, the Board's calculation for the repayment amount was based on the Board's intended language of the performance goals and not the Board-approved terms included in the Superintendent's fiscal year 2021 performance pay plan. Our calculation of the overpayment was based on the terms of the Board-approved performance pay plan that indicated that one-third of the Superintendent's performance pay "…shall be determined by the percentage of Topock full-time employees who assign a letter grade of 'A' to the school on a survey to be administered by the District." In July 2023, the Superintendent repaid the District the $1,737, as directed by the Board.

Additional finding and recommendation from 30-month follow-up report

Contrary to State open meeting law, the District's Governing Board did not approve performance pay for the Superintendent's second performance goal during meetings open to the public. The Governing Board, as a public body, is required to comply with open meeting laws.[1] Deciding on the amount of money to pay a superintendent as performance pay is a statutory duty of the Governing Board, and consequently, the Governing Board's discussion on this topic likely would be considered a legal action and must be done in a meeting open to the public.[2] However, the Governing Board did not discuss or vote to approve the Superintendent's performance payment for his second performance goal in a meeting open to the public. Instead, the Governing Board discussed the award of performance pay in a meeting not open to the public, specifically in an email thread that included a quorum of Governing Board members.[3] Governing Board members stated they were aware of the

[1] A.R.S. §38-431(6).

[2] A.R.S. §§15-341(A)(39), 38-431(3), and 38-431.01(A) and Op. Ariz. Att'y Gen. I75-008 (1975).

[3] All Governing Board members were included in the email thread. A.R.S. §38-431(4)(b)(ii) and 38-431.01(A).

open meeting laws requiring them to vote in a public meeting to approve any payments to the Superintendent and believed that they had done so in a meeting after the September 2021 email chain. However, our review of meeting minutes from September 2021 through October 2022 did not identify any such vote. According to State law, any legal actions taken by a governing board during a meeting that does not comply with the open meeting laws are null and void.[4]

Follow-up recommendation

The District should consult with legal counsel and the Attorney General's Office to ensure that any District actions taken contrary to open meeting laws are appropriately addressed to be made valid.

Not implemented—The District consulted with its legal counsel regarding actions it may have taken contrary to open meeting law to ensure they are appropriately addressed to be made valid. However, District officials reported that they did not contact and do not intend to contact the Attorney General's Office to ensure that any District actions taken contrary to open meeting laws are appropriately addressed to be made valid. In addition, the Board has not provided documentation to support that it approved the Superintendent's fiscal year 2021 performance pay in a public meeting.

5. The District should consult with its legal counsel to determine whether it is appropriate for the Superintendent to be reimbursed for mileage when using his personal vehicle for District business. If the District and its legal counsel determine that mileage reimbursement is appropriate, the Superintendent should follow the State's travel policy by submitting a travel claim with the miles traveled for District purposes and be reimbursed at the State's flat per mile rate. Further, the District's policies and the Superintendent's contract should reflect the decision made by the District and its legal counsel.

   Implementation in process—The Board consulted with legal counsel and determined that it is appropriate to reimburse the Superintendent for mileage when using his personal vehicle for District business if he follows the State's and District's travel policies and is reimbursed at the State's flat per mile rate. Further, the Superintendent no longer receives a car allowance to compensate him for using his personal vehicle for District business. The Superintendent's contract also now requires all the Superintendent's travel reimbursement requests to be approved by the Board President before any reimbursements are made. We reviewed supporting documentation for the single travel reimbursement paid to the Superintendent since our 30-month followup and found the District used the appropriate reimbursement rate.[5] However, the travel reimbursement lacked evidence of Board President approval before reimbursement was made, as required by the Superintendent's contract. District officials indicated that they would modify their travel procedures to ensure they follow the Superintendent's contract requirements and appropriate approval is obtained for all the Superintendent's travel reimbursements.

6. The District should require the Superintendent to reimburse the District for the fiscal year 2018 purchases he made for his personal vehicle using the District's fuel card. Further, the District should consult with its legal counsel to determine whether the Superintendent should also reimburse the District for similar fuel card purchases made in fiscal years 2019 and 2020.

   Implemented in a different manner at 18 months—The Board consulted with legal counsel and determined that the District will not require the Superintendent to reimburse the District for the fiscal years 2018 through 2020 fuel card purchases he made for his personal vehicle using the District's fuel card. The Board believed that if the Superintendent were required to reimburse the District for these fuel card purchases, the District would be required to pay the Superintendent mileage for all District-related travel from fiscal years 2018 through 2020. The Board also decided to no longer allow the Superintendent to use the District's fuel card to fuel his personal vehicle and to instead reimburse the Superintendent at the State's flat per mile rate following the State's and District's travel policies.

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4 A.R.S. §38-431.05(A) and 38-431.01(A).

5 According to the District, the Superintendent did not travel or seek reimbursement for travel from the District during fiscal year 2023. Therefore, the fiscal year 2022 reimbursement was the most recently available for us to review.

7. The District should limit the accounting system user's access so that the user cannot initiate and complete payroll and purchasing transactions and consider providing accounting system access to a second user to separate responsibilities and provide for independent reviews and approvals.

   Not implemented—Although the District added a second employee to the accounting system, 1 accounting system user continues to have the ability to initiate and complete payroll and purchasing transactions in the accounting system without a secondary review and approval. District officials stated that they are in the process of determining how they will separate user access and responsibilities between the 2 accounting system users.

8. The District should implement and enforce stronger network password requirements to decrease the risk of unauthorized persons gaining access to sensitive District information by requiring users to create their own passwords that are known only to themselves.

   Implemented at 18 months

Finding 2: Lack of transportation program oversight led to potential student safety risk and reporting errors

9. The District should ensure its bus drivers perform pretrip inspections and maintain documentation of these inspections in accordance with the State's Minimum Standards.

   Implemented at 18 months

10. The District should ensure that bus repairs are conducted in a timely manner and documented in accordance with the State's Minimum Standards.

   Implemented at 18 months

11. The District should develop and implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's Minimum Standards, including conducting and documenting random drug and alcohol testing of bus drivers to help ensure school bus passengers' safety and welfare.

   Implemented at 36 months—The District has implemented procedures to ensure that school bus driver certification requirements, such as refresher training and CPR/first aid certification, are met and documented. Additionally, the District has started working with a medical lab to meet its annual and random drug and alcohol testing requirements. We reviewed the District's fiscal year 2023 drug and alcohol tests and supporting documentation and found that it met Minimum Standards requirements.

12. The District should accurately calculate and report to the Arizona Department of Education (ADE) for State funding purposes the number of students transported.

   Implemented at 30 months—Our review of the District's daily rider counts confirmed that the District accurately reported to ADE for State funding purposes the number of students transported for fiscal year 2022.

13. The District should work with ADE to determine whether it needs to submit a correction for its fiscal year 2018 ridership.

   Not implemented—Despite District officials being aware of the District's fiscal year 2018 transportation reporting error since before the performance audit was issued in March 2020, they waited more than 2.5 years, or until November 2022, to contact ADE to request that the District's fiscal year 2018 riders be updated. However, ADE can modify data that impacts State aid for only the previous 3 fiscal years, and because of the District's significant delay in reporting, ADE was not able to process the District's request to correct its erroneous reporting for its fiscal year 2018 riders. As discussed in our Topock Elementary School District performance audit report (see Arizona Auditor General report 20-202), although the District's reporting error for its fiscal year 2018 riders did not have a substantial impact on its transportation funding, the District should have worked with ADE to determine whether a correction for fiscal year 2018 was needed.

Topock Elementary/Middle School
5083 Tule Drive/P.O. Box 370
Topock, Arizona 86436
Phone :(928)768-3344/ Fax :(928)768-9253

August 18th, 2023

Senator Borrelli,

Topock Elementary School District #12 acknowledges receipt of your request and provides the following response the JLAC and Auditor Generals Office regarding the implementation of and timeframe to address all audit findings:

1) The District should ensure it maintains current contracts or work agreements for all its employees that stipulate the terms of their employment with the district.
   A. The District now maintains contracts or work agreements for all employees and updated its contracts for fiscal year 2022 to include all terms of employment with the District. Additionally, the District has created a spreadsheet documenting scheduled hours for each hourly employee including total hours. Considering that staff members may have multiple duties, the District determined that putting days on the work agreements allows for greater flexibility to accomplish the day to day task of the district. The spreadsheet is maintained in the business office where all parties involved in processing payroll have access to monitor the hours worked to make sure staff is paid accordingly.
   B. The district created the spreadsheet during fiscal year 23 to test the capabilities to ensure compliance. The spreadsheet will be in effect by Sep 30, 2023. The Governing Board will review and approve during its' August 25th meeting. Moving forward, the spreadsheet will be available during the June board meeting for the following fiscal years' annually.

2) The District should ensure that employee's additional duties and related payments or stipends are addressed in annual contracts or personnel/payroll action forms, approved in advance of the work being performed are required by the USFR, and maintained in employee personnel files.
   A. The District will submit to the Governing Board for ratification a spreadsheet outlining extra duty pay/stipends for the upcoming SY. In the event additional duties required are not listed, the Superintendent will notify payroll of the upcoming additional duty, allowing a payroll action form/extra duty pay form to be initiated.
   B. The spreadsheet for FY24 will be available for the Governing Boards review during the August board mtg, and available during the June board meeting for each ensuing Fiscal Year as noted in response 1-B.

3) The District should ensure its Governing Board minutes and other associated documentation includes enough detail to show the Governing Board's approval of employee's work and salary, stipend, and extra duty pay amounts.
   A. The District's Governing Board minutes and other associated documentation now include enough detail the Governing Board's approval of employee's work and salary, stipend, and extra duty pay amounts. Further, due to turnover of Board Secretaries in conjunction with this finding, District has implemented the use of an electronic recorder, and purchased as "Otter Voice Meeting Note" transcriber to accurately record/transcribe meeting minutes during a board meeting. Any additional supporting documentation required by the USFR shall be included.
   B. Implementation of supporting documents will be as stated in 1.B. and 2.B, above. Governing Board Secretary training will occur in FY 24. It is the Districts intent to have the board secretary consult with a neighboring district to engage in the 3 step process of creating the Agenda, observing the board meeting in person and construction and posting of the minutes. Estimated to have this completed by Dec of 2023.

4) The District should ensure that it documents the established performance goals the Superintendent must meet in order to receive performance pay and ensure that it retains adequate documentation to demonstrate that the Superintendent met the goals for any performance payments made.
   A. The District has revised the Superintendents Performance Pay Plan to accurately outline the Governing Boards Goals in conjunction with any verbiage subject to interpretation and approved the revised plan during a Governing Board meeting. The Board also determined the Superintendent shall reimburse the District a portion of the allocated Performance Pay during a Governing Board meeting, which the Superintendent has done. The District will ensure meeting minutes accurately state and reflect the Governing Boards determination to utilize it's discretionary authority as needed.
   B. The use of electronic recording apparatus will ensure the accuracy of meeting minutes in the future. Further, Governing Board Members, have been reminded to not respond to emails by replying "all" to mitigate any potential OML violations. The District decided to not self' report to the Attorney General a potential OML violation as it was determined this was an honest mistake, addressed and acknowledged, and mitigated.

5) The District should consult with its legal counsel to determine whether it is appropriate for the Superintendent to be reimbursed for mileage when using his personal vehicle for District business. If the District and its legal counsel determine that mileage reimbursement is appropriate, the Superintendent should follow the State's travel policy by submitting a travel claim with the miles traveled for District purposes and be reimbursed at the State's flat rate per mile rate. Further, the District's policies and the Superintendent contract should reflect the decision made by the District and its legal counsel.

A. The District has implemented a procedure that upon the return of the Superintendent's return from school related business, a reimbursement claim will be initiated and will be processed once all approval signatures/dates have been completed. Further, the Superintendent no receives a car allowance, and no longer uses a District Fuel Card. All travel reimbursements now adhere to State Travel policies and guidelines. A date line has been added to the reimbursement claim form to ensure all claims are dated appropriately for approval.

6) (7) The District should limit the accounting system user's access so that the user cannot initiate and complete payroll and purchasing transactions and consider providing accounting system access to a second user to separate responsibilities and provide for independent reviews and approvals.

   A. The District hired and accounting clerk in FY23 and has since had turnover in that position. The District is in the process of developing procedures and implementation by October 31st to ensure the separation of duties and approval process is within the guidelines of the USFR. Further, additional access has been provided to the Superintendent for oversight of the accounting system.
   B. Collaborating with the County Superintendent's Office, the district has a timeline of Sep 30, 2023 to have procedures in place for both payroll and purchasing.

7) (11) The District should develop and implement procedures to ensure that the bus driver certification requirements are met and documented in documenting random drug and alcohol testing of bus drivers to help ensure school bus passengers' safety and welfare.

   A. The District has partnered with local laboratory to select and perform our random drug tests and our annual and accident test as required. Further, the District has appointed a staff member to provide oversight of the Transportation Program to insure compliance of the State's Minimum Standards.

B. The District will work with the laboratory to develop procedures to reflect the implementation of the random selection of bus drivers. Procedures will be completed by Aug 31, 2023.

8) (13) The District should work with ADE to determine whether it needs to submit a correction for its fiscal year 2018 ridership.

   A. The District can no longer submit a 915 for financial adjustments as the 3 year moratorium has expired. Subsequently, the district has not had a recorded finding for the same infraction on reporting ridership form the 100 Day Route Mile Report.

Please do not hesitate to contact me or the administration of Topock School if you have any additional questions or require further clarification.

Joe Gardner
President, Governing Board
Topock Elementary School District #12
JGardner@topockschool.com
phone: (928)768-3344

Attachment D

Report and Followup

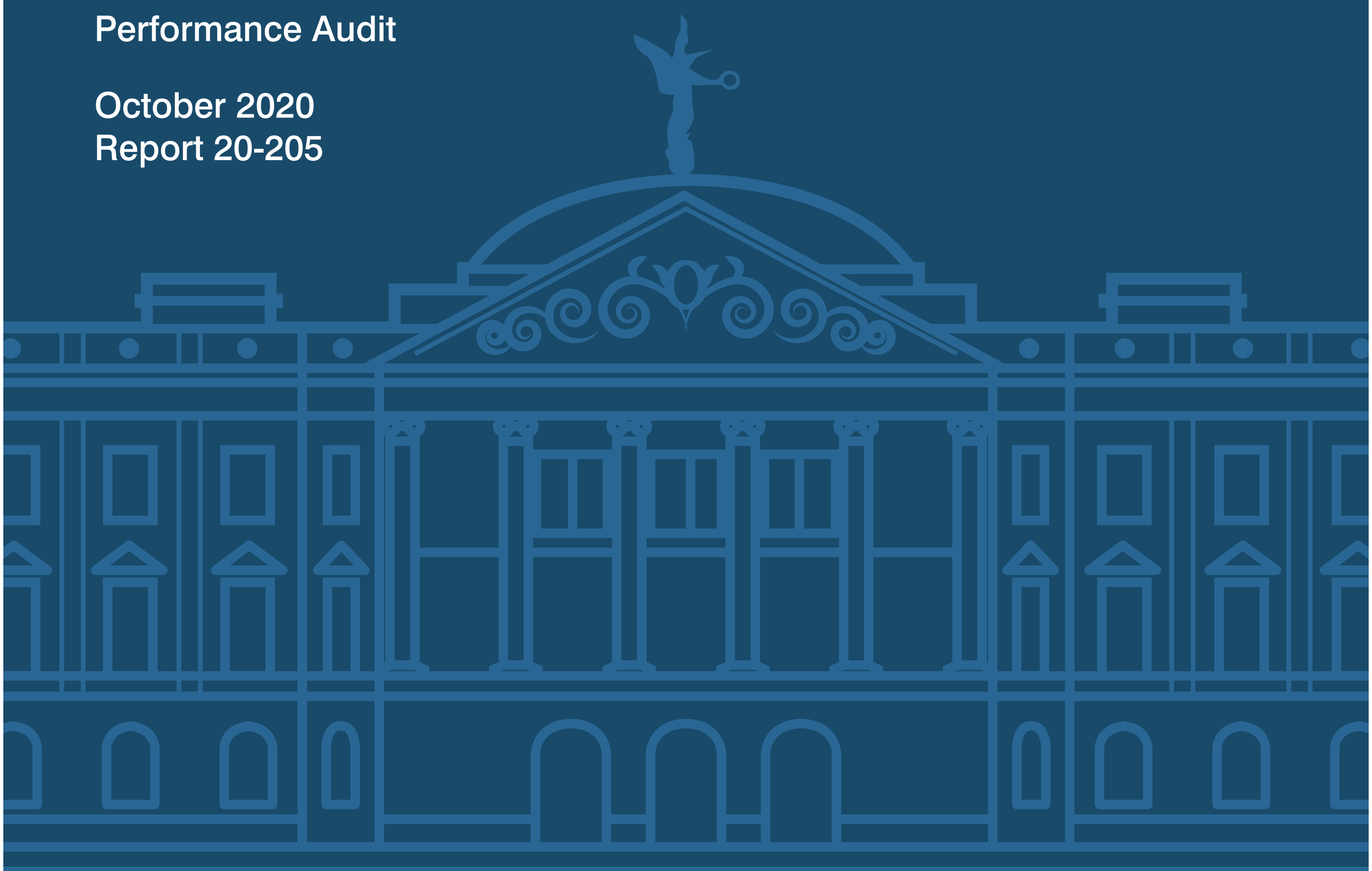
Hackberry Elementary School District

Hackberry Elementary School District

District spent more on administration, plant operations, food service, and transportation than its peer districts and could redirect an estimated $145,000 or more to instruction or other District priorities

Performance Audit

October 2020
Report 20-205



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

ARIZONA Auditor General
Making a Positive Difference

The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

Representative **Anthony T. Kern**, Chair

Representative **John Allen**

Representative **Timothy M. Dunn**

Representative **Mitzi Epstein**

Representative **Jennifer Pawlik**

Representative **Rusty Bowers** (ex officio)

Senator **Rick Gray**, Vice Chair

Senator **Lupe Contreras**

Senator **Andrea Dalessandro**

Senator **David C. Farnsworth**

Senator **David Livingston**

Senator **Karen Fann** (ex officio)

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LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

October 20, 2020

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Hackberry Elementary School District

Dr. Rob Varner, Acting Superintendent
Hackberry Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Hackberry 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 or implement a modification to all the recommendations.

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

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General

Hackberry Elementary School District

District spent more on administration, plant operations, food service, and transportation than its peer districts and could redirect an estimated $145,000 or more to instruction or other District priorities

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 twice as much on administration as peer districts and could redirect an estimated $104,600 annually to instruction.
- District has continually operated its 1 school substantially below designed capacity, resulting in an estimated $95,300 of inefficient spending in fiscal year 2018.
- District produced more meals than it served and had higher food service labor hours than similarly sized peer districts, costing an estimated $31,500 annually in monies that could have been used for instruction.
- District operated its transportation program at a higher cost in fiscal year 2018 than peer districts and did not perform timely bus preventative maintenance.
- District did not follow credible industry standards for access to its student information system, putting sensitive information at risk.

Key recommendations

The District should:

- Operate more efficiently by reviewing administrative staffing levels and implementing reductions.
- Ensure supervisors review all timecards and pay employees only for hours worked.
- Determine and implement ways to reduce its excess capacity and/or the costs associated with it.
- Ensure meals are not overproduced by using the number of lunch orders as the basis for food preparation.
- Reduce the number of labor hours used to conduct its food service program.
- Evaluate the cost effectiveness of purchasing or leasing an appropriately sized bus or paying parents to transport students.
- Track mileage and perform timely preventative maintenance if it continues to use a bus.
- Implement credible industry standards regarding access to and oversight of its student information system.

We also made a recommendation to the Legislature to consider adopting statutory requirements to reduce the risk of districts substantially overbuilding schools in the future.

See Performance Audit Report 20-205, October 2020, at www.azauditor.gov.

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ARIZONA AuditorGeneral
Making a Positive Difference

Hackberry Elementary School District Performance Audit—Fiscal year 2018

October 2020

Rural district in Mohave County

Grades: Kindergarten through 6th

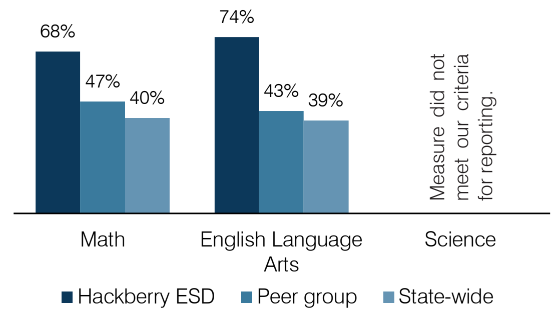
Students attending: 29.5[1]

Number of schools: 1

School letter grade: A

[1] 29.5 is the average student enrollment during the first 100 days of school.

Students who passed State assessments



Total operational spending—$811,358 ($27,504 per pupil)

Instructional—41.2% ($11,341 per pupil)	Noninstructional—58.8% ($16,163 per pupil)

Operational overview	Measure	Hackberry ESD	Peer average
Administration—spent more than peer districts and put sensitive information and public monies at risk Hackberry ESD spent almost twice its peer districts' average primarily because it had higher staffing. It also improperly paid hourly employees for their lunch breaks. This resulted in almost $104,600 in inefficient spending that could be redirected to instruction. Additionally, the District put sensitive information and public monies at risk (see Finding 1, page 2, and Finding 5, page 13).	Spending per pupil	$7,353	$3,949
Plant operations—excess school space resulted in high costs The District spent over one-third more per pupil on plant operations than its peer districts averaged because it operated that much more space per student than peers averaged. The District used only 18 percent of its school's designed capacity and spent about $95,300, or $3,230 per pupil, operating the unused space. Although the COVID-19 pandemic has resulted in new physical distancing guidance, even if Hackberry ESD adheres to this guidance, it will continue to operate a substantial amount of excess space (see Finding 2, page 5).	Spending per pupil	$4,433	$3,305
	Square footage per pupil	618	456
Food service—higher spending due to inefficient practices The District spent 7 percent more per meal and 3 percent more per pupil than its peer districts averaged. The District produced more meals than it served and had higher labor hours than peer districts, costing it an estimated $31,500 annually in monies that could have been used for instruction (see Finding 3, page 8).	Spending per meal	$12.56	$11.74
	Spending per pupil	$2,071	$2,010
Transportation—higher spending and lack of timely bus preventative maintenance The District spent more than its peer districts averaged primarily because it leased and operated a bus that was larger than needed. Additionally, the District did not perform timely bus preventative maintenance (see Finding 4, page 10).	Spending per mile	$2.89	$2.15
	Spending per rider	$3,466	$1,440

Hackberry ESD spent twice as much on administration as peer districts and could redirect an estimated $104,600 annually to instruction or other District priorities by reducing administrative staffing and paying hourly employees only for hours worked

In fiscal year 2018, Hackberry ESD spent nearly twice as much on administration as the 7 peer districts that had the most similar number of students as itself. Specifically, the District spent $7,353 per student on administration, whereas the 7 peer districts averaged only $3,949 per student. The District's higher administrative spending was due to it having higher staffing levels than peer districts. Additionally, it improperly paid hourly employees for their daily lunch breaks. Table 1 summarizes these administrative inefficiencies and their associated estimated costs. The District resolving these inefficiencies could result in an estimated $104,600 in annual savings, or about $3,545 per student, that it could spend on instruction or other District priorities.

Table 1
Estimated cost of administrative inefficiencies
Fiscal year 2018

Inefficiency	Total	Per student
Higher staffing	$ 95,720	$3,245
Paying hourly staff lunch breaks	8,863	300
Total	**$104,583**	**$3,545**

Source: Auditor General staff analysis of fiscal year 2018 District-reported accounting data, staffing level surveys, and Arizona Department of Education student membership data.

District spent about $95,700 more on administrative staffing than peer districts primarily because it employed 1 more full-time equivalent administrative employee

The District spent $95,700 more on administration than its 7 peer districts averaged primarily because it employed 1 more administrative full-time equivalent employee than the 7 peer districts averaged. Specifically, the District employed 2.5 full-time equivalent administrative employees, and the 7 peer districts employed an average of 1.5 full-time equivalent administrative employees as follows:

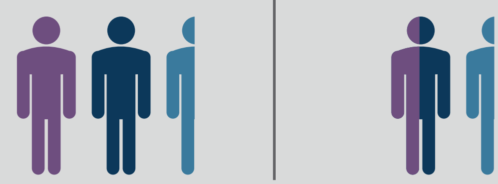
Higher superintendent staffing—Hackberry ESD employed a full-time superintendent, whereas all 7 of the most comparable peer districts employed either a part-time superintendent or a full-time employee to spend part of the day performing superintendent duties and the other part of the day performing classroom teacher or counselor duties, which are not administrative duties.

Higher business manager staffing—Hackberry ESD employed a full-time business manager, whereas only 2 of the 7 peer districts employed a full-time business manager. In contrast, 2 other peer districts employed a part-time business manager, 2 districts did not employ a business manager at all, and 1 peer district outsourced its business manager duties to a private company. The 2 districts that did not employ a business manager instead had their business services performed by their county school superintendent's office at no operational cost to their districts. Additionally, the peer district that outsourced its business duties to a private company did so at a cost of $29,050 in fiscal year 2018, which was much less than what Hackberry ESD spent to employ its business manager.

Regarding using the county school superintendent's office (County) to provide business services at potentially a lower cost, the District indicated that in fiscal year 2017, the County had provided temporary business services when the District was without a business manager and was in the process of searching for another. However, District officials reported that they did not explore whether it would be more cost effective to make the arrangement permanent and if the County would be interested in continuing to provide those services.

Administrative staffing comparison

Hackberry ESD (Less efficient)	Peer districts' average (More efficient)



Superintendent Business manager Administrative support

Hackberry ESD employed 2.5 full-time equivalent administrative employees, but the most comparable peer districts employed only 1.5 full-time equivalent employees, on average.

Despite employing 1 more administrative employee than the 7 peer districts, the District still did not comply with important requirements and standards that help protect its purchases, cash, and sensitive information in its IT systems (see Finding 5, page 13).

District overpaid its hourly employees an estimated $8,860 for time not worked and paid the former Superintendent over $3,300 in additional pay without evidence that it was approved by the Governing Board, putting the District at risk of violating the Arizona Constitution's gift clause

Paying employees for time not worked inappropriately increases operational costs and, if resolved, would result in more monies available to the District for instruction or other District priorities. In addition, paying employees for time not worked, without documentation that the employees performed their job duties, or without Governing Board approval for the additional pay, puts the District at risk of violating the Arizona Constitution's gift clause. Specifically, the Arizona Constitution, Art. IX, Sec. 7, bans gifts of public monies by public entities, including school districts, to individuals or organizations.

District overpaid its hourly employees an estimated $8,860 for time not worked because former Superintendent did not adequately review timecards—According to the former Superintendent, hourly employees are required to clock out for lunch and are not paid for this time. However, the District paid hourly employees during their lunch breaks for at least 30 minutes daily contrary to the requirement. Specifically, during the 3-month period we reviewed, all 7 hourly employees systematically failed to clock out during their lunch breaks, and the former Superintendent failed to recognize that they were not doing so when reviewing and approving their timecards. As a result, these 7 employees were overpaid by $2,130 during this 3-month period. Due to the pervasiveness of this issue during the time period we reviewed, we performed additional analysis and determined that the District overpaid these employees by an estimated $8,860 in fiscal year 2018.

District paid the former Superintendent over $3,300 above her contracted pay without evidence of Governing Board approval of additional pay—In fiscal year 2018, the District paid the Superintendent $3,336 above her contracted pay for attending Friday trainings during the school year and leading teacher professional development trainings on Fridays. The Superintendent stated that she satisfied the 190 days required by her contract by working Monday through Thursday each week. She worked that schedule to follow the weekly schedule of the District's 1 school. She stated that because she would satisfy her contracted 190 days by working 4 days per week during the fiscal year, she considered any trainings she attended or led on Fridays to be in excess of her contracted pay. However, the District did not have any documentation to support that the Governing Board approved her Friday trainings for additional pay. Additionally, the Superintendent's contract did not include a pay rate for work she performed beyond her contracted days. The *Uniform System of Financial Records for Arizona School Districts* (USFR) states that for contracted employees, either their original contract or a contract addendum should include agreements for any additional pay.

Recommendations

The District should:

1. Operate more efficiently in administration and redirect savings to instruction or other District priorities.
2. Review its administrative staffing levels and implement reductions.
3. Ensure that supervisors review all timecards, ensure that those timecards do not include employees' lunch breaks as paid time, and pay employees only for hours worked.
4. Ensure employment agreement terms are documented and include any additional employee pay above original contracted pay, either within the contract or in an addendum.

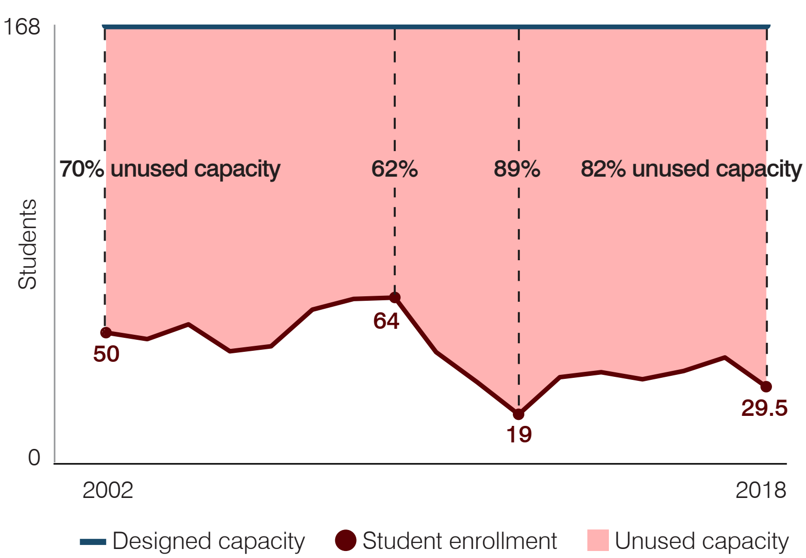
District response: As outlined in its **response**, the District agrees with the finding and recommendations and will implement or implement modifications to the recommendations.

Hackberry ESD has continually operated its 1 school substantially below its designed capacity, resulting in an estimated $1.3 million of inefficient spending

District built its 1 school and has continually operated it with substantial excess capacity, similar to other very small Arizona districts, resulting in an estimated $1.3 million of inefficient operational spending during the last 15 years—monies that could have been used for instruction or other District priorities

District has continually operated its school substantially below capacity, which has cost the District an estimated $1.3 million—In fiscal year 2002, the District opened the new school it built with new school facilities (NSF) fund monies from the Arizona School Facilities Board (SFB).[1] The District built the school for a capacity of 168 students, or more than 3 times the capacity of the 50 students enrolled when it opened. As shown in Figure 1, the District has not used more than 38 percent of the school's designed capacity every year since the school's opening. Specifically, the school has had between 19 and 64 students each year, using only 11 to 38 percent of its designed capacity annually. Although June 2020 guidance issued by the Arizona Department of Education (ADE) in response to the COVID-19 pandemic recommends that districts reopening their schools for in-person classes in the 2020-2021 school year space desks to allow for physical distancing, the District's average class size of fewer than 8 students should allow the District to follow this guidance without needing to use

Figure 1
School's designed capacity compared to student enrollment
Fiscal years 2002 through 2018
(Unaudited)



Source: Auditor General staff analysis of fiscal years 2002 through 2018 Arizona Department of Education student membership data and fiscal years 2002 through 2018 building capacity information from the SFB.

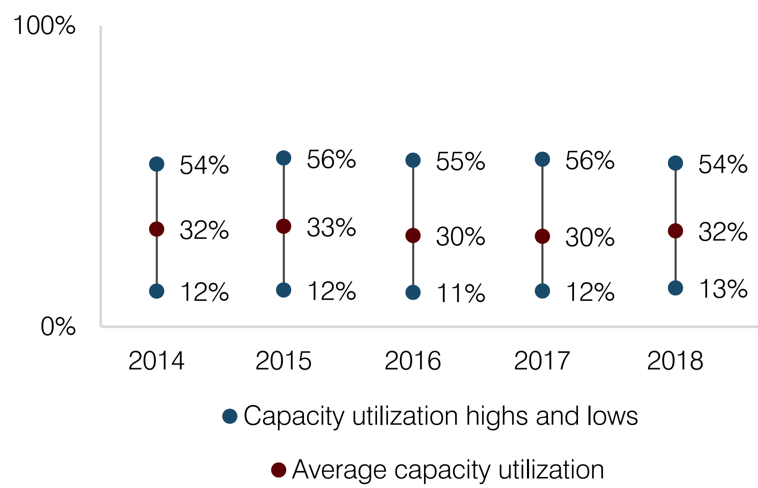
[1] Statute established the SFB in 1998 following an Arizona Supreme Court decision in a lawsuit that challenged Arizona's school construction funding system. Statute requires the SFB to administer 3 funds to address school districts' facility needs, including the new school facilities (NSF) fund to help school districts build new school facilities.

additional classrooms.[2] Therefore, even if Hackberry ESD adheres to this guidance, it would continue to operate a substantial amount of excess space.

Operating far below its designed capacity is expensive for the District because districts are primarily funded based on their number of students and do not receive any monies to maintain additional square footage. In fiscal year 2018, Hackberry ESD spent $95,300 operating its excess space. In the 15 years since the school opened through fiscal year 2018, Hackberry ESD spent an estimated $1.3 million to operate its excess space.

Other very small districts have also built and operated schools with excess capacity, and statute lacks protections to prevent this from occurring in the future—Like Hackberry ESD, 12 other very small districts (districts with fewer than 200 students) that also built schools around the same time with NSF fund monies received from the SFB similarly operated their schools with substantial excess capacity. Specifically, as shown in Figure 2, these 12 districts used 30 to 33 percent of their schools' designed capacities, on average, in fiscal years 2014 through 2018. As it was when Hackberry ESD and these 12 districts built their current schools, school districts today are statutorily eligible to receive NSF fund monies from the SFB to build new schools when they project their enrollment to grow in the next couple of years and the growth would put them beyond their current schools' capacities. Statute also required then, as it does now, that the SFB approve districts' enrollment projections. Despite SFB's approval process, Hackberry ESD and these 12 districts substantially overbuilt their schools compared to their actual enrollments. Because of the length of time that has passed since these new schools were approved and built, information is not available to determine whether approved growth projections were flawed or if districts built bigger schools than their projections supported because the NSF fund monies they received provided them with the funds to do so. Statute does not appear to have any provisions that reduce the risk that districts could still overbuild their schools today beyond their SFB-approved enrollment projections. Additionally, nothing in statute reduces the risk of districts' projections being substantially incorrect. In light of substantially overbuilt schools that are costly, the Legislature should consider options to reduce the risk of this occurring again in the future. For example, the Legislature could consider whether it is necessary to revise statute to require that any schools built with NSF fund monies be built only to SFB-approved projections. It should also consider adopting additional requirements that districts' enrollment projections demonstrate 2 or more years of accurately projected enrollment growth prior to awarding new school construction monies. If districts accurately projected their enrollment for at least 2 years, this would provide the SFB greater assurance that districts' enrollment growth projections justifying new school construction are reliable and that schools are built to an appropriate size.

Figure 2
Ranges and averages of 12 very small districts' schools' designed capacities used
Fiscal years 2014 through 2018
(Unaudited)



Source: Auditor General staff analysis of fiscal years 2014 through 2018 Arizona Department of Education student membership data and fiscal years 2014 through 2018 building capacity information from the SFB.

Excess capacity identified at districts of all sizes—Hackberry ESD and other very small districts are not the only districts with schools that have designed capacities far larger than their student enrollments. In addition to very small school districts (those that served fewer than 200 students), in fiscal year 2018, 90 other

[2] Arizona Department of Education, "*Roadmap for Reopening Schools, June 2020*."

school districts reported operating a total of 177 schools where students used 50 percent or less of the schools' designed capacities. These districts ranged in size from small (those that served between 200 and 599 students) to very large (those that served more than 20,000 students). Although the reasons for these districts' excess space and whether or how the districts may be responding to their unique situations likely varies, the issue of excess space is not uncommon in Arizona.

Hackberry ESD has not reduced its excess capacity or costs associated with it

Despite the District having excess capacity since its school opened in 2002, successive District governing boards and administrations have not reduced the school's excess capacity or the costs associated with it. However, in fiscal year 2020, the District's administration and governing board expanded the grades the District serves from K-6 to K-8. By adding 7th and 8th grades, District officials hoped to reduce the school's excess capacity. However, this action did not reduce excess capacity as the District's reported fiscal year 2020 enrollment was the same as its fiscal year 2018 enrollment.

There are more actions that the District may have been able to take to reduce its plant operations spending and redirect savings from that area to instruction or other District priorities. For example, the District has not taken any action to determine how many home-schooled students may be living in its boundaries or how many students living within its boundaries may be attending neighboring school districts and what it might do to attract these students back to its school. Additionally, during fiscal year 2019, the District had 4 classrooms that were not used as regular classrooms, with 3 of the classrooms used intermittently for once-weekly music and art classes and as the District's school spirit store for students. Rather than operate all those classrooms, District officials did not consolidate all those activities to a single room and close the other 3 classrooms from use. Doing so could have helped to minimize any custodial services in those rooms and would likely have allowed the District to keep those rooms at optimal energy-conserving temperatures.

Recommendations

The Legislature should:

1. Consider adopting statutory requirements that any schools built with NSF fund monies be built only to SFB-approved projections. It should also consider adopting additional requirements that districts' enrollment projections demonstrate 2 or more years of accurately projected enrollment growth prior to awarding new school construction monies.

The District should:

5. Determine and implement ways to reduce its excess capacity and/or the costs associated with it by doing such things as identifying opportunities and implementing plans to attract any home-schooled students living within its boundaries and to retain any students living within its boundaries who are choosing to attend other school districts. Additionally, the District should identify and close any unused or underutilized space.

District response: As outlined in its **response**, the District agrees with the finding and recommendation and will implement the recommendation.

District produced more meals than it served and had higher food service labor hours than similarly sized peer districts, costing it an estimated $31,500 annually in monies that could have been used for instruction or other District priorities

Table 2 summarizes Hackberry ESD's meal production and food service staffing inefficiencies and their associated estimated costs in fiscal year 2018. These inefficiencies cost the District over an estimated $31,500, or about $1,070 per student, which the District could have spent on instruction or other priorities.

Table 2
Estimated cost of food service inefficiencies
Fiscal year 2018

Inefficiency	Total	Per student
Meal overproduction	$ 15,650	$ 530
Higher labor hours	15,921	540
Total	**$31,571**	**$1,070**

Source: Auditor General staff analysis of fiscal year 2018 District-reported accounting data, meal production records, employment contracts, peer district staffing level survey results, and Arizona Department of Education student membership data.

Meal overproduction resulted in an estimated $15,650 of wasteful spending, or over $530 per student

In fiscal year 2018, the District produced more meals than it actually served through its food service program, resulting in wasteful spending. Meal production records for August, September, and December 2017 show that the District reported producing 456 more meals than it served, which is equivalent to it wasting 25 percent of the total meals it produced during that time period (see Figure 3). Based on the $9.34 the District spent in fiscal year 2018 to produce each meal in its cafeteria, the District wasted nearly $4,260 on meals that it did not serve and for which it did not receive any payments. According to District officials, although the food service director received a daily morning report indicating the number of students planning to eat lunch each day, he always produced more lunches than that. District officials stated he did that to ensure the District never ran short on food if lunch purchases were higher than expected.

Figure 3
Meals wasted over 3 months
Fiscal year 2018

Source: Auditor General staff analysis of District meal production records and records of meals served for August, September, and December 2017.

Based on the 3-month meal production sample we reviewed, the District may have overproduced an estimated 1,675 meals during the school year, or 57 meals per student. This equates to the District having spent at least an estimated $15,650 in fiscal year 2018 on meals that were never served.

The District's food service program operated at a loss of over $44,600 in fiscal year 2018, including the District's meal overproduction loss of at least an estimated $15,650. The District was required to divert monies from other parts of its budget to cover the food service program loss. Had the District not overproduced meals it did not serve, it could have reduced the amount of money diverted to its food service program from other important priorities, including instruction.

District's higher food service labor hours compared to peer districts' cost it nearly $16,000, or approximately $540 per student

Hackberry ESD's food service director was contracted for 203 days during the school year compared to an average of 176 contracted days for food service directors at 5 peer districts that served the most similar number of total meals and meals per student in fiscal year 2018 as Hackberry ESD. Additionally, Hackberry ESD's food service director worked 3 more hours each day than the peer districts' food service directors averaged. Compared to these peer districts, Hackberry ESD's food service director worked 789 more hours in fiscal year 2018 than the average hours food service directors worked at the 5 peer districts. Additionally, Hackberry ESD's food service director had more part-time help than the peer districts' food service directors. Specifically, 3 of the 5 peer district food service directors had no part-time employees to assist them, while 2 of the 5 peer district food service directors each had a part-time employee who worked over 260 fewer hours annually, on average, than Hackberry ESD's part-time cafeteria employee. Therefore, it is unclear why Hackberry ESD's food service director needed to work 789 more hours in fiscal year 2018 than the peer districts' food service directors. When we asked the District's former superintendent about the basis for the food service director's number of contracted days, she indicated that the previous food service director had more part-time help than the current food service director, so the current director's number of contracted days is partially in response to having less help in the cafeteria than in previous years. Additionally, she stated that the food service director's contracted days reflected the District determination of a reasonable amount of time to allow him to complete end-of-the-year reporting requirements, conduct an inventory count during the summer, and begin preparing for the next school year's food service program.

For both the food service director and the part-time cafeteria employee, Hackberry ESD paid for 2,526 labor hours in fiscal year 2018, which was 88 percent more than the total labor hours peer districts paid to operate their food service programs, on average. Specifically, at the food service director's hourly rate, the District spent $10,645 more than if it would have staffed that position at the same level, on average, as the 5 peer districts in fiscal year 2018. Additionally, at the part-time employee's hourly rate, Hackberry ESD spent at least $5,275 more than it would have had it staffed its part-time cafeteria position like the 5 other peer districts, on average.

As previously mentioned, the District had to subsidize its food service program by over $44,600 with monies diverted from other priorities in fiscal year 2018. Had the District staffed the program at a level similar to the 5 peer districts, it could have reduced the amount diverted to its food service program from other important priorities, such as instruction, by almost $16,000.

Recommendations

The District should:

6. Ensure that the food service director stops overproducing meals that the District does not serve by basing meal production on the number of lunch orders that are reported each morning.

7. Reduce food service spending by reducing the number of labor hours it contracts to operate its food service program.

District response: As outlined in its **response**, the District agrees with the finding and recommendations and will implement modifications to the recommendations.

District operated its transportation program at a higher cost in fiscal year 2018 than peer districts and did not perform timely bus preventative maintenance

District operated its transportation program at higher operational cost than peer districts primarily because it leased a large bus

In fiscal year 2018, Hackberry ESD spent $2.89 per mile to operate its transportation program, which transported 9 students to and from school. That was 34 percent, or 73 cents, more per mile than the average for the 8 peer districts that drove the most similar number of miles as the District. The District spent more primarily because it implemented transportation practices that were operationally more expensive than those used by the 8 peer districts, as shown in Table 3. Specifically:

Table 3
Transportation practices that led to high operational spending
Fiscal year 2018

Practice	Total	Per student
Leasing bus	$7,200	$244
Higher fuel spending to operate larger bus than needed	1,404	48
Total	**$8,604**	**$292**

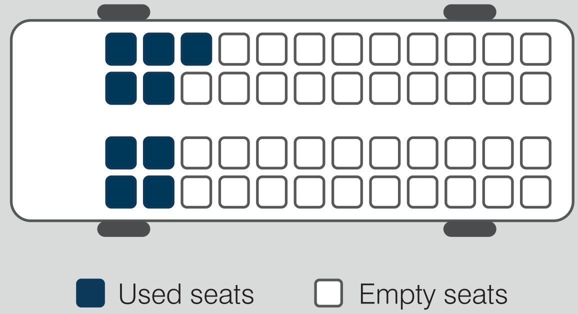
Source: Auditor General staff analysis of fiscal year 2018 District-reported accounting data, bus lease agreement, and Arizona Department of Education student membership data.

District leased its bus, which resulted in operational costs rather than capital costs if it had owned bus—In fiscal year 2018, Hackberry ESD spent $7,200, or 65 cents per mile, leasing its bus from a neighboring school district to transport 9 students to and from school. In contrast, none of the 8 peer districts leased a bus to transport students. Rather 7 of the districts operated buses they owned, and 1 did not operate any buses but instead paid parents to transport their children to and from school. The peer districts that owned their buses purchased them in prior years with capital budget monies. Therefore, they did not have the operational spending Hackberry ESD had to pay to lease a bus. Potential savings identified in this report could help the District purchase a bus if it chose to do so.

District operated a larger bus than needed for number of student riders, resulting in high fuel spending—The District leased a 48-passenger bus, which was substantially bigger than the size it needed for its 9 riders, who used less than 20 percent of the bus's capacity. Districts that operate efficiently typically use 75 percent of their bus capacities. Operating the large bus likely resulted in higher fuel spending than if the District had operated a smaller bus. In fact, Hackberry ESD spent 47 percent, or 13 cents, more per mile on fuel than the 7 peer districts that also operated buses, which is equivalent to a total of over $1,400 in additional fuel costs for the year. Of the 7 peer districts that operated buses, 3 of them operated smaller buses—1 operated an 11-passenger bus, 1 operated a 22-passenger bus, and 1 operated a 35-passenger bus—which may help explain why Hackberry ESD had higher fuel spending. The other 4 districts operated similarly sized or slightly larger buses than Hackberry ESD; however, those 4 districts transported between 19 and 33 riders, which was 10 to 24 more riders than Hackberry ESD. Therefore, these districts used more of their buses' available seats even though their bus capacity utilizations were still low, in that none of the 4 districts used more than 59 percent of their bus capacities.

In light of the COVID-19 pandemic, Hackberry ESD's excess bus capacity under normal operating circumstances may become a positive development. The Arizona Department of Education's (ADE) June 2020 guidance for school district operations during the pandemic suggests seating 1 student per row on buses and skipping rows when possible. Following this guidance, the District would eliminate its excess bus capacity but not the related operating costs.

Hackberry ESD's riders used only 9 seats on its bus



District may be able to save money by paying parents to transport students rather than operating a transportation program

As mentioned earlier, in fiscal year 2018, 1 of the 8 peer districts paid parents whose children lived 3 miles or more from school to transport their children to school and back home. This district, which is a neighboring district to Hackberry ESD, paid parents a total of $5,470 during the school year to transport 7 students, which was $26,282 less than what Hackberry ESD spent to transport its 9 riders. The peer district paid parents 44.5 cents per mile to transport their children to school and back home, which is the same amount the State of Arizona and Hackberry ESD reimburse their employees when they drive their personal vehicles for official business. The 44.5 cents per mile was 85 percent less than the $2.89 per mile Hackberry ESD spent to operate its transportation program. Hackberry ESD officials indicated that they did not explore paying parents to transport the 9 students instead of operating its own route in fiscal year 2018. In addition to potential cost savings, if District officials considered paying parents to transport their students during the 2020-2021 school year, the District would avoid any logistical accommodations that ADE recommends be made on school buses during the COVID-19 pandemic.

District did not perform timely preventative maintenance on its bus

The District's preventative maintenance records for fiscal years 2018 and 2019 for its 1 leased bus show that the bus did not receive preventative maintenance every 5,000 miles as required by the lease. The lack of preventative maintenance on the District's leased bus at 5,000 miles may also indicate that the bus did not receive systematic preventative maintenance as required by the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards). These Minimum Standards, administered by the Department of Public Safety, help ensure school bus passengers' safety and extend the useful life of buses. Specifically, during that time period, the bus received a total of 2 preventative maintenance services with the District, traveling 16,979 miles between the services, which was nearly 12,000 miles beyond the mileage at which it should have received preventative maintenance service, potentially increasing risk to passenger safety and bus life.

The District's transportation supervisor did not maintain bus service records and did not track the bus's mileage for the purpose of determining when preventative maintenance should occur. Instead, the District relied on the leasing district to contact Hackberry ESD's transportation supervisor to obtain the bus's odometer readings and determine when preventative maintenance service needed to be performed. As the District's preventative maintenance records show, this process was ineffective.

Recommendations

8. The District should evaluate whether it is more cost effective and feasible to purchase an appropriately sized bus of its own, lease a more appropriately sized bus, or pay parents to transport their children to and from school, and make changes accordingly, as pandemic conditions allow.

9. If the District continues using a bus to transport its students, it should track bus mileage and perform preventative maintenance according to its lease agreement or other policies the District may adopt if it purchases its own bus.

District response: As outlined in its **response**, the District agrees with the finding and recommendations and will implement modifications to the recommendations.

District put sensitive student information and public monies at risk because it did not comply with important requirements and standards to protect its monies and sensitive information

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

The *Uniform System of Financial Records for Arizona School Districts* (USFR) and the District's purchasing policies require employees to make purchases only after receiving prior supervisory approval and authorization. Additionally, employees are required to obtain evidence that the District has received its purchases and verified that billings are accurate before paying vendors. However, our review of a sample of 30 fiscal year 2018 purchases found that District employees made:

- 29 purchases that lacked evidence of prior supervisory approval.
- Payments for 6 purchases without first obtaining evidence that the District had received the purchases and that billings were accurate.

These departures from purchasing requirements resulted from employees failing to follow proper procedures. Although we did not identify any purchases in our sample that would indicate fraud, waste, or abuse, the District's failure to consistently follow proper purchasing procedures put 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.

District did not separate cash-handling responsibilities to safeguard cash

In fiscal year 2018, the District collected cash from cafeteria meal sales, student club fundraisers, and private donations. Our review of all 36 cash deposits totaling almost $1,600 from a sample of 3 months during fiscal year 2018 found that the District did not comply with requirements that cash-handling responsibilities be separated to help ensure that all cash the District collected was properly deposited as the USFR requires. Although there were 3 District employees involved in handling cash from the various sources, they did not follow proper procedures to safeguard cash. Specifically, 1 District employee was solely responsible for preparing cash for deposit with the county treasurer's office, as well as reconciling the monthly treasurer statements to the cash receipts the District issued when it received cash. Because neither of the other 2 employees involved in the process verified that the total cash the District had initially collected had been deposited in full with the county treasurer's office, there is a risk that collected cash would not be deposited, which could go undetected.

District wrongly used debit cards rather than credit cards to make purchases, which reduced certain protections available to it if improper purchases were made using the debit cards

In fiscal year 2018, the District issued debit cards to 2 employees that they used to make almost $11,000 of purchases contrary to the USFR's prohibition on districts using debit cards as a payment method. Rather, districts should use credit cards or purchasing cards (p-cards). Using debit cards increases the risk that, if an individual improperly makes a purchase using the District's debit card without proper approval, the District may be unable to recover the monies used to pay for the improper purchase. In contrast, if an unauthorized or improper purchase were to be made with a credit card, the District would have recourse to contest the purchase and possibly avoid having to pay for the purchase. Additionally, by using debit cards, the District risked that the 2 employees could make improper cash withdrawals—a risk mitigated by using credit cards. Even though the District's financial auditors noted the District's inappropriate use of debit cards in their fiscal year 2017 audit, the District was still using them in fiscal year 2019 when we discussed the issue with District officials.

By misclassifying over 12 percent of its operational expenditures, the District misreported its spending by operational category

In fiscal year 2018, because District administrative staff did not adequately adhere to expenditure classification guidance included in the Uniform Chart of Accounts for school districts, the District misclassified over 12 percent, or $99,000, of its $811,000 in operational spending. Specifically, the District did not accurately classify all its 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 members of 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 decreased by 1.3 percentage points to 41.2 percent of its total operational spending. The dollar amounts used for analysis and presented in this report reflect the necessary adjustments.

District's student information system passwords did not meet credible industry standards, putting sensitive information at risk

The District's student information system's password requirements as of June 2019 did not meet 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 its sensitive student information, including student grades, health records, and addresses. District officials indicated that they were unaware of industry standards related to password requirements.

Terminated employees had access to District's student information system

Our May 2019 review of all District student information system (SIS) user accounts found that 4 SIS user accounts were linked to terminated employees. The District allowing terminated employees access to its SIS increased the risk of unauthorized individuals accessing sensitive student information. Although the District had a procedure whereby an administrator was supposed to call the vendor that managed the District's SIS to have terminated employees' access removed from the system, this procedure was evidently not followed in these 4 instances.

District allowed too many people access to and control over its sensitive student information

Our May 2019 review of District SIS user accounts found that 12 SIS user accounts had administrator-level access. Users with administrator-level access have full control over all system settings and can add new users, as well as modify existing users' access levels. Users with administrator-level access can also grant themselves full access to view and edit all system information, which increases a district's risk for errors and fraud. Eleven of the 12 users with administrator-level rights were third-party employees of the vendor that hosted the District's SIS and provided it with SIS services. Based on our judgment and experience, having 12 administrator users for a district's SIS is a high number and does not reflect 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 had not reviewed the access levels the vendor had granted its employees in the District's SIS. By allowing too many users to have administrator-level access, the District increased its risk for errors, such as inaccurate data being entered or data being deleted, as well as its risk that a user could inappropriately access or use students' sensitive school, health, home, or other data. Additionally, the District increased its risk of security breaches because hackers typically target administrator accounts for their greater access privileges. A compromised administrator account could result in unauthorized access to and loss of sensitive data or disruption of some District operations.

District allowed users too much access to its accounting system

District users had too much access—Our March 2019 review of access levels for the District's 2 accounting system users determined that both users had more access to the accounting system than they needed to perform their job duties. Both users were able to initiate and complete payroll and purchasing transactions without any other employee reviewing and approving the transactions. Although we did not identify any improper transactions, the District increased its 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, all without detection. According to District officials, their county school superintendent's office (the County) assigned the access as Hackberry ESD's accounting system host. The 2 Hackberry ESD users stated that they were unaware of the risk their access levels created because neither they nor anyone else at the District had reviewed the appropriateness of the access levels assigned to them.

County users had too much access—The County established 4 accounting system user accounts that allow County employees to initiate and complete District payroll and purchasing transactions without an independent review; however, it is unclear why all 4 County employees need that level of access. Additionally, the County granted administrator-level access to 3 of those 4 County employees. As discussed in the previous section about SIS access, users with administrator-level access have full control over all system settings and can grant themselves full access to view and edit all system information, which increases risk for errors and fraud. The District has not discussed with the County whether these 4 accounts require those levels of access.

Vendor user accounts had too much access—Additionally, 7 accounting system user accounts allowed vendor employees full access to initiate and complete District payroll and purchasing transactions without an independent review. Further, these accounts were not assigned to specific users, limiting the District's and possibly the vendor's ability to tell who performed actions in the system. The District has not discussed with the County or the vendor whether any of these 7 accounts are unnecessary and could be eliminated or could be disabled when not in use, which would help protect the District's sensitive accounting data.

Further, these same 7 vendor user accounts also had administrator-level access. As previously discussed, users with administrator-level access have full control over all system settings and can grant themselves full access to view and edit all system information, which increases risk for errors and fraud. District officials indicated that they had not reviewed the administrator accounts for the accounting system to ensure that they were appropriate.

Recommendations

The District should:

10. Follow required purchasing procedures by ensuring that employees make purchases only after obtaining proper approval and pay vendors only after verifying that all purchases have been received and billings are accurate.

11. Ensure that all monies collected are deposited by requiring that the same individual responsible for preparing

cash deposits is not also responsible for reconciling cash deposited to cash collected.

12. Discontinue the use of debit cards as a payment method.
13. Review the Uniform Chart of Accounts for school districts and implement its guidance to accurately classify all expenditures when reporting its spending.
14. Review credible industry standards, including those from the National Institute of Standards and Technology (NIST), at least annually, and ensure student information system password requirements meet the standards.
15. Work with its vendor to immediately remove all terminated user accounts currently in its SIS and implement additional procedures, such as termination checklists that include attestation that terminated employees' SIS access has been removed, to ensure that it reduces the future risk of unauthorized access to sensitive student information.
16. Work with its vendor to substantially reduce the number of users with administrator-level access in its SIS.
17. Limit accounting system users' access to only those functions needed to perform their job duties and work with the County to determine which vendor accounts, as well as any County accounts, are necessary. Further, the District should remove any unnecessary accounts, disable any necessary accounts when not in use, and substantially reduce the number of users with administrator-level access in its accounting system.

District response: As outlined in its **response**, the District agrees with the finding and recommendations and will implement the recommendations.

Auditor General makes 17 recommendations to the District and 1 recommendation to the Legislature

The District should:

1. Operate more efficiently in administration and redirect savings to instruction or other District priorities (see Finding 1, pages 2 through 4, for more information).

2. Review its administrative staffing levels and implement reductions (see Finding 1, pages 2 through 4, for more information).

3. Ensure that supervisors review all timecards, ensure that those timecards do not include employees' lunch breaks as paid time, and pay employees only for hours worked (see Finding 1, pages 2 through 4, for more information).

4. Ensure employment agreement terms are documented and include any additional employee pay above original contracted pay, either within the contract or in an addendum (see Finding 1, pages 2 through 4, for more information).

5. Determine and implement ways to reduce its excess capacity and/or the costs associated with it by doing such things as identifying opportunities and implementing plans to attract any home-schooled students living within its boundaries and to retain any students living within its boundaries who are choosing to attend other school districts. Additionally, the District should identify and close any unused or underutilized space (see Finding 2, pages 5 through 7, for more information).

6. Ensure that the food service director stops overproducing meals that the District does not serve by basing meal production on the number of lunch orders that are reported each morning (see Finding 3, pages 8 through 9, for more information).

7. Reduce food service spending by reducing the number of labor hours it contracts to operate its food service program (see Finding 3, pages 8 through 9, for more information).

8. The District should evaluate whether it is more cost effective and feasible to purchase an appropriately sized bus of its own, lease a more appropriately sized bus, or pay parents to transport their children to and from school, and make changes accordingly, as pandemic conditions allow (see Finding 4, pages 10 through 12, for more information).

9. If the District continues using a bus to transport its students, it should track bus mileage and perform preventative maintenance according to its lease agreement or other policies the District may adopt if it purchases its own bus (see Finding 4, pages 10 through 12, for more information).

10. Follow required purchasing procedures by ensuring that employees make purchases only after obtaining proper approval and pay vendors only after verifying that all purchases have been received and billings are accurate (see Finding 5, pages 13 through 16, for more information).

11. Ensure that all monies collected are deposited by requiring that the same individual responsible for preparing cash deposits is not also responsible for reconciling cash deposited to cash collected (see Finding 5, pages 13 through 16, for more information).

12. Discontinue the use of debit cards as a payment method (see Finding 5, pages 13 through 16, for more information).

13. Review the Uniform Chart of Accounts for school districts and implement its guidance to accurately classify all expenditures when reporting its spending (see Finding 5, pages 13 through 16, for more information).

14. Review credible industry standards, including those from the National Institute of Standards and Technology (NIST), at least annually, and ensure student information system password requirements meet the standards (see Finding 5, pages 13 through 16, for more information).

15. Work with its vendor to immediately remove all terminated user accounts currently in its SIS and implement additional procedures, such as termination checklists that include attestation that terminated employees' SIS access has been removed, to ensure that it reduces the future risk of unauthorized access to sensitive student information (see Finding 5, pages 13 through 16, for more information).

16. Work with its vendor to substantially reduce the number of users with administrator-level access in its SIS (see Finding 5, pages 13 through 16, for more information).

17. Limit accounting system users' access to only those functions needed to perform their job duties and work with the County to determine which vendor accounts, as well as any County accounts, are necessary. Further, the District should remove any unnecessary accounts, disable any necessary accounts when not in use, and substantially reduce the number of users with administrator-level access in its accounting system (see Finding 5, pages 13 through 16, for more information).

The Legislature should:

1. Consider adopting statutory requirements that any schools built with NSF fund monies be built only to SFB-approved projections. It should also consider adopting additional requirements that districts' enrollment projections demonstrate 2 or more years of accurately projected enrollment growth prior to awarding new school construction monies (see Finding 2, pages 5 through 7, for more information).

APPENDIX

Objectives, scope, and methodology

We have conducted a performance audit of Hackberry 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 2018 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 2018 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 all 19 individuals who received payments in fiscal year 2018 through the District's payroll system and reviewed supporting documentation for 30 of the 767 fiscal year 2018 accounts payable transactions. We did not identify any improper transactions. After adjusting transactions for proper account classification, we reviewed fiscal year 2018 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 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. Hackberry ESD's peer group included Hackberry and 9 other elementary school districts located in towns and rural areas and with poverty rates between 23 and 29 percent. We used this peer group to compare the District's fiscal year 2018 student passage rates on State assessments as reported by the Arizona Department of Education (ADE). However, for very small districts such as Hackberry ESD, year-to-year changes in student populations can greatly impact year-to-year student test scores. We also reported the District's fiscal year 2018 ADE-assigned school letter grade. To compare the District's operational efficiency in administration, plant operations and maintenance, food service, and transportation we developed peer groups consisting of districts that shared the most similar characteristics as Hackberry ESD, such as student enrollment, meals served, and student transportation miles driven.

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 and support staff who were involved in activities we considered significant to the audit objectives.
- **Observations—**To further evaluate District operations, we observed various day-to-day activities in the scoped areas. This included facility tours, food service operations, and transportation services.
- **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.
- **Analysis—**We reviewed and evaluated fiscal year 2018 spending on administration, plant operations and maintenance, food service, and transportation and compared it to the districts in its peer group that shared the most similar characteristics as the District, such as student enrollment, meals served, and student transportation miles driven. We also reviewed and compared the District's administrative and food service staffing to its peers', as well as compared the designed capacity of the District's 1 school to its enrollment to determine how efficiently the District used its space. Additionally, we reviewed various documents demonstrating the District's level of internal control over payroll, purchasing, cash handling, debit cards, bus driver certification, and bus preventative maintenance. Further, we also reviewed the District's food service revenues compared to its costs.

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

Hackberry Elementary School District #3

Cedar Hills School
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Mr. John Ward
Office of the Auditor General 2910 N. 44th Street, Suite 410 Phoenix, AZ 85018

Dear Mr. Ward,

Hackberry Elementary School District #3 has received and reviewed the Performance Audit report conducted for Fiscal Year 2018. The report provided welcome recommendations to enhance and improve district procedures.

The information shared has provided Hackberry Elementary #3 an opportunity to make improvements toward efficiency, accountability, and fiscal responsibility. The District will comply with all recommendations wherever feasible within the limitation of resources, as noted in the District's response.

The District will maintain a tight focus on aligning and maximizing District resources in pursuit of our mission. We look forward to continuing to improve our stewardship of the public's resources for the good of our community and students.

Hackberry Elementary School District #3 would like to thank your audit team for the insight, professionalism, and courtesy throughout the audit process, along with the opportunity to engage in meaningful collaboration.

Please do not hesitate to contact us with any questions or comments regarding our response.

Respectfully Submitted,

Rob Varner
Acting Superintendent
Hackberry Elementary School DistricT #3

Finding 1: Hackberry ESD spent twice as much on administration as peer districts and could redirect an estimated $104,600 annually to instruction or other District priorities by reducing administrative staffing and paying hourly employees only for hours worked

District Response: The District agrees with the finding.
See below

Recommendation 1: The District should operate more efficiently in administration and redirect savings to instruction or other District priorities.

District Response: The District agrees with the recommendation and will implement a modification to the recommendation.
Recommendation 1

Even though the District concurs with this analysis, The AG may not be aware of the growth in the Hackberry area. Our ADM has gone from 29 students in FY 20 to 53 in SY 21 and there are several housing developments that are going from the planning stage to the building stage. It seems we are adding to our numbers weekly. It is in the best interest of the District at this time to keep a business manager separate from the Superintendent/Principal position, but will continue to evaluate as district grows.

Recommendation 2: The District should review its administrative staffing levels and implement reductions.

District Response: The District agrees with the recommendation and will implement a modification to the recommendation.
Recommendation 2

Even though the District concurs with this analysis, The AG may not be aware of the growth in the Hackberry area. Our ADM has gone from 29 students in FY 20 to 53 in SY 21 and there are several housing developments that are going from the planning stage to the building stage. It seems we are adding to our numbers weekly. It is in the best interest of the District at this time to keep a business manager separate from the Superintendent/Principal position

Recommendation 3: The District should ensure that supervisors review all timecards, ensure that those timecards do not include employees' lunch breaks as paid time, and pay employees only for hours worked.

District Response: The District agrees with the recommendation and will implement the recommendation.
Recommendation 3

The District agrees with this and have taken steps to reconcile this by a two-step process. The business manager will review all timecards and the administrator will check the timecards prior to approving the hours.

Recommendation 4: The District should ensure employee agreement terms are documented and include any additional employee pay above original contracted pay, either within the contract or in an addendum.

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

Recommendation 4

The District agrees with this recommendation and have reviewed all contracts with legal counsel. Any additional pay above the contracted agreement must go before the Governing Board and be Board approved.

Finding 2: Hackberry ESD has continually operated its 1 school substantially below its designed capacity, resulting in an estimated $1.3 million of inefficient spending

District Response: The District agrees with the finding.

See below

Recommendation 5: The District should determine and implement ways to reduce its excess capacity and/or the costs associated with it by doing such things as identifying opportunities and implementing plans to attract any home-schooled students living within its boundaries and to retain any students living within its boundaries who are choosing to attend other school districts. Additionally, the District should identify and close any unused or underutilized space.

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

Recommendation 5

The District has already seen significant growth this year as stated in Recommendation 1 and anticipates that the addition of students will continue. As we are not as yet to capacity on our building, the District believes it will be to capacity within a few years

Finding 3: District produced more meals than it served and had higher food service labor hours than similarly sized peer districts, costing it an estimated $31,500 annually in monies that could have been used for instruction or other District priorities

District Response:
The District Agrees with the finding.

See Below

Recommendation 6: The District should ensure that the food service director stops overproducing meals that the District does not serve by basing meal production on the number of lunch orders that are reported each morning.

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

Recommendation 6

With a change of food service director to one with school district experience, we have already seen our reimbursements increase just in the first quarter. The tracking mechanism is based on best practices by USDA and the ADE. There is very little waste from our food service program this year and we are anticipating many times the reimbursements as previous years. Our production of food has been spot-on this year so far.

Recommendation 7: The District should reduce food service spending by reducing the number of labor hours it contracts to operate its food service program.

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

Recommendation 7

We have only one salary employee working in the kitchen. Since this employee comes to us as a former Food Manager for another school district, his salary is higher than previously. However, he understands the reimbursable process and what is required to keep food costs down. I anticipate either a positive account or close to cost neutral.

Finding 4: District operated its transportation program at a higher cost in fiscal year 2018 than peer districts and did not perform timely bus preventative maintenance

District Response:
The District agrees with the finding.
See below

Recommendation 8: The District should evaluate whether it is more cost effective and feasible to purchase an appropriately sized bus of its own, lease a more appropriately sized bus, or pay parents to transport their children to and from school, and make changes accordingly, as pandemic conditions allow.

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

Recommendation 8

The District is in agreement with the AG and we are doing a feasibility study on transportation right now. With CoVid 19, we appreciate the larger size bus so we can spread the children out. We are also reviewing our lease agreement with Kingman Unified and working with Mohave Consortium for the best direction of a new lease or purchase of a bus.

Recommendation 9: If the District continues using a bus to transport its students, it should track bus mileage and perform preventative maintenance according to its lease agreement or other policies the District may adopt if it purchases its own bus.

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

Recommendation 9

The District is in agreement with the AG. We are in agreement with the AG. As the District leasing the bus from Kingman Unified, we are doing our own accounting on mileage and making better efforts to make sure maintenance is carried forward

Finding 5: District put sensitive student information and public monies at risk because it did not comply with important requirements and standards to protect its monies and sensitive information

District Response:
The District agrees with the finding.
See below

Recommendation 10: The District should follow required purchasing procedures by ensuring that employees make purchases only after obtaining proper approval and pay 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 10

The District agrees with the AG on this recommendation and have put into place a process for working wih vendors and a procedure for purchase orders and purchase requests from the staff. We've aslo presented to staff "after the fact" policy that will keep practices from occurring.

Recommendation 11: The District should ensure that all monies collected are deposited by requiring that the same individual responsible for preparing cash deposits is not also responsible for reconciling cash deposited to cash collected.

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

Recommendation 11

The District agrees with the AG and has already reconciled this concern by using a two-step process. Others will deposit monies and the business manager will do all reconciliations to be signed off by the administrator.

Recommendation 12: The District should discontinue the use of debit cards as a payment method.

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

Recommendation 12

The District has already cancelled the debit card and has received credit cards. No debit cards will be used in any future business of the District.

Recommendation 13: The District should review the Uniform Chart of Accounts for school districts and implement its guidance to accurately classify all expenditures when reporting its spending.

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

Recommendation 13

This has already been inplementated and the use of USFR chart has been received and will be followed. The business manager will be receiving ongoing training from ASBO and its partners in the future to mitigate this issue.

Recommendation 14: The District should review credible industry standards, including those from the National Institute of Standards and Technology (NIST), at least annually, and ensure student information system password requirements meet the standards.

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

Recommedation 14

This issue has been mitigated by District's partnership with NAU ETC who oversees the District technology and systems. All passwords now meet this expectation.

Recommendation 15: The District should work with its vendor to immediately remove all terminated user accounts currently in its SIS and implement additional procedures, such as termination checklists that include attestation that terminated employees' SIS access have been removed, to ensure that it reduces the future risk of unauthorized access to sensitive student information.

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

Recommendation 15

The District has removed all former employees from its SIS system and only currect employees are able to use the system. Other access by outside entities also have been purged from the system.

Recommendation 16: The District should work with its vendor to substantially reduce the number of users with administrator-level access in its SIS.

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

Recommendation 16

Again, the District has taken all the necessary steps to reconcile this issue.

Recommendation 17: The District should limit accounting system users' access to only those functions needed to perform their job duties and work with the County to determine which vendor accounts, as well as any County accounts, are necessary. Further, the District should remove any unnecessary accounts, disable any necessary accounts when not in use, and substantially reduce the number of users with administrator-level access in its accounting system.

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

Recommendation 17

The District concurs with the AG and has taken the necessary steps to eliminate unnecessary users to the current accounting system.

ARIZONA
Auditor General
Making a Positive Difference

The October 2020 Hackberry Elementary School District performance audit found that the District spent more on administration, plant operations, food service, and transportation than its peer districts and could redirect an estimated $145,000 annually or more to instruction or other District priorities. We made 17 recommendations to the District and 1 recommendation to the Legislature, and their status in implementing the recommendations is as follows:

Status of 17 District recommendations

Implemented	8
In process	2
Not implemented	7

Status of 1 legislative recommendation

Not implemented	1

We will conduct a 36-month followup with the District on the status of the recommendations that have not yet been implemented.

Finding 1: Hackberry ESD spent twice as much on administration as peer districts and could redirect an estimated $104,600 annually to instruction or other District priorities by reducing administrative staffing and paying hourly employees only for hours worked

1. The District should operate more efficiently in administration and redirect savings to instruction or other District priorities.

Not implemented—Since our October 2020 report, the District's total administrative spending has increased by 38 percent, or approximately $82,000 annually.[1] Additionally, since the audit, the District has not decreased its administrative staffing levels and in fiscal year 2022, it hired 2 consultants to assist administrative staff with their duties. District officials stated that they had reduced the number of hours for 2 administrative positions by 1 hour per day each for fiscal year 2023 and reported that they expected these changes to result in lower administrative spending. However, our review of the District's fiscal year-to-date 2023 accounting data found that the reduction in hours will likely reduce the District's administrative spending for fiscal year 2023 by approximately $19,000 while the District will likely spend approximately $60,000 for the 2 consultants previously mentioned. Due to the District taking no action to operate more efficiently in administration, it has not saved monies that it could redirect to instruction or other District priorities.

2. The District should review its administrative staffing levels and implement reductions.

Not implemented—See explanation for recommendation 1.

3. The District should ensure that supervisors review all timecards, ensure that those timecards do not include employees' lunch breaks as paid time, and pay employees only for hours worked.

Implemented at 18 months

[1] The District's administrative spending per pupil in fiscal year 2022 was $6,593, or 10 percent less than it spent per pupil during the audit, primarily due to an increase in the District's number of students from 30 during the audit to 45 in fiscal year 2022.

4. The District should ensure employment agreement terms are documented and include any additional employee pay above original contracted pay, either within the contract or in an addendum.

   Implementation in process—The District provided evidence that 1 out of 14 fiscal year 2023 employment contracts was updated to include additional pay above original contracted pay. However, District officials stated that they anticipated assigning additional training duties to employees at the end of fiscal year 2023 that were not included in employees' original contracts because the District did not initially plan these additional training duties at the beginning of the year when contracts were signed. District officials further reported that the additional training duties and associated payments would be documented and approved using contract addendums prior to the trainings taking place and payments being made. We will review the District's efforts to implement this recommendation at the next followup to determine if the District documented and approved these additional training duties and payments prior to the employees performing the additional training duties and receiving payment.

Finding 2: Hackberry ESD has continually operated its 1 school substantially below its designed capacity, resulting in an estimated $1.3 million of inefficient spending

1. The Legislature should consider adopting statutory requirements that any schools built with NSF fund monies be built only to SFB-approved projections. It should also consider adopting additional requirements that districts' enrollment projections demonstrate 2 or more years of accurately projected enrollment growth prior to awarding new school construction monies.

   Not implemented—The Legislature has not yet acted on this recommendation.

5. The District should determine and implement ways to reduce its excess capacity and/or the costs associated with it by doing such things as identifying opportunities and implementing plans to attract any home-schooled students living within its boundaries and to retain any students living within its boundaries who are choosing to attend other school districts. Additionally, the District should identify and close any unused or underutilized space.

   Not implemented—The District has not identified or implemented any plans to attract or retain any students living within its boundaries and has not identified and closed any unused or underutilized space. Although the District's number of students increased from 30 during the audit to 45 in fiscal year 2022, District officials stated this increase was not due to any District efforts to attract or retain students. Further, the District has not analyzed its capacity utilization or identified or closed any unused or underutilized space.

Finding 3: District produced more meals than it served and had higher food service labor hours than similarly sized peer districts, costing it an estimated $31,500 annually in monies that could have been used for instruction or other District priorities

6. The District should ensure that the food service director stops overproducing meals that the District does not serve by basing meal productions on the number of lunch orders that are reported each morning.

   Implemented at 18 months

7. The District should reduce food service spending by reducing the number of labor hours it contracts to operate its food service program.

   Implemented at 24 months—In fiscal year 2022, the District reduced its food service staffing by no longer employing a part-time food service employee and reducing the contracted labor hours for the remaining food service employee. These changes reduced food service spending by about $10,100, or 21 percent, in fiscal year 2022 as compared to its spending during the audit.

Finding 4: District operated its transportation program at a higher cost in fiscal year 2018 than peer districts and did not perform timely bus preventative maintenance

8. The District should evaluate whether it is more cost effective and feasible to purchase an appropriately sized bus of its own, lease a more appropriately sized bus, or pay parents to transport their children to and from school, and make changes accordingly, as pandemic conditions allow.

Implemented at 18 months—The District has evaluated alternatives, including purchasing a bus or paying parents to transport their children to and from school, and determined that continuing to lease a bus is the most cost- effective and feasible option available to it. According to District officials, purchasing a bus was too expensive, and another lease-to-own option would cost them more than their current lease on an annual basis and would not include preventative maintenance and repair services like its current agreement. Further, according to the District, parents are not interested in fully transporting their children to and from school. Due to the District's rural location, some families currently live approximately 45 miles away and already transport their students part of the way to their bus stop.

9. If the District continues using a bus to transport its students, it should track bus mileage and perform preventative maintenance according to its lease agreement or other policies the District may adopt if it purchases its own bus.

Not implemented—The District continues to lease a bus to transport its students under a contract that stipulates intervals for when preventative maintenance should be performed, but the District was unable to provide evidence that it is performing preventative maintenance required by its lease agreement.

Finding 5: District put sensitive student information and public monies at risk because it did not comply with important requirements and standards to protect its monies and sensitive information

10. The District should follow required purchasing procedures by ensuring that employees make purchases only after obtaining proper approval and pay vendors only after verifying that all purchases have been received and billings are accurate.

Not implemented—We reported in the previous followup that the District had implemented new purchasing and payables procedures for fiscal year 2023, but that these new procedures were not always followed, resulting in purchases being made without prior approval and payments being made to vendors without verifying that purchases were received. Similarly, during this followup, our review of a judgmental sample of 10 fiscal year 2023 expenditures found that 5 purchases were made prior to obtaining proper approval and 3 payments were made to vendors prior to verifying that all purchases had been received and billings were accurate, indicating that the District is not following required purchasing procedures.

11. The District should ensure that all monies collected are deposited by requiring that the same individual responsible for preparing cash deposits is not also responsible for reconciling cash deposited to cash collected.

Not implemented—Although the District implemented new cash collection procedures for fiscal year 2023 to separate responsibilities for collecting cash and depositing cash, the District has not yet implemented procedures to reconcile cash deposits to cash collected.

12. The District should discontinue the use of debit cards as a payment method.

Implemented at 6 months—The District has canceled its debit cards. It is now using credit cards, which offer greater protections in the situations where it was previously using debit cards.

13. The District should review the Uniform Chart of Accounts for school districts and implement its guidance to accurately classify all expenditures when reporting its spending.

    Not implemented—District officials stated that the District now works with a consultant to ensure expenditures are accurately classified and that a second employee reviews expenditure classifications monthly to ensure they are accurate. However, our review of the District's fiscal year-to-date 2023 expenditures found that the District continued to incorrectly classify expenditures similarly to what we identified during the audit.

14. The District should review credible industry standards, including those from the National Institute of Standards and Technology (NIST), at least annually, and ensure student information system (SIS) password requirements meet the standards.

    Implemented at 18 months

15. The District should work with its vendor to immediately remove all terminated user accounts currently in its SIS and implement additional procedures, such as termination checklists that include attestation that terminated employees' SIS access has been removed, to ensure that it reduce the future risk of unauthorized access to sensitive student information.

    Implemented at 18 months

16. The District should work with its vendor to substantially reduce the number of users with administrator-level access in its SIS.

    Implemented at 24 months

17. The District should limit accounting system users' access to only those functions needed to perform their job duties and work with the County to determine which vendor accounts, as well as any County accounts, are necessary. Further, the District should remove any unnecessary accounts, disable any necessary accounts when not in use, and substantially reduce the number of users with administrator-level access in its accounting system.

    Implementation in process—The District has removed unnecessary user accounts and substantially reduced the number of users with administrator-level access in its accounting system. However, our November 2022 review of accounting system users' access found that 5 of the District's 8 users had more access than needed to perform their job duties and can initiate and complete a transaction without an independent review and approval.

Hackberry Elementary School District #3

Deb Warren
Administrator

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JOINT LEGISLATIVE AUDIT COMMITTEE
SONNY BORRELLI
HACKBERRY ELEMENTARY SCHOOL DISTRICT
24-Month Follow-Up Report

Finding 1: Hackberry ESD spent twice as much on administration as peer districts and could redirect an estimated $104,600 annually to instruction or other District priorities by reducing administrative staffing and paying hourly employees only for hours worked.

1. **The District should operate more efficiently in administration and redirect savings to instruction or other District priorities.**

   Implemented 2023-24 SY
   Hackberry Elementary School District #3 Conducted an analysis in June 2023 on Admin spending and redirected a larger portion of the money to Instruction, staff development and student academic improvement/interventions beginning July 2023, a savings on Admin of around $50,000 is expected. Another analysis will be conducted in September 2023 when it will be determined if further redirecting will be needed.

2. **The District should review its administrative staffing levels and implement reductions.**

   Implemented 2023-24 SY
   Hackberry Elementary School District #3 July 2023 the district determined that employee positions will be repositioned as follows:

   Administrator: 2200- Instruction/activities associated with assisting the
   (25% for each instructional staff.

area) 2210- Activities for assisting instructional staff in planning, developing, and evaluating the process.

2213- Activities associated with training of instructional personnel and professional development.

2400- Activities concerned with overall administrative responsibilities of the school.

Principal: (25% for each area)

2210- Activities for assisting instructional staff in Planning, developing, and evaluating the process.

2212-Activities that aid teachers in developing the curriculum and preparing and using the materials.

2213- Activities associated with training of instructional and professional development.

2400- Activities concerned with overall administrative responsibilities of the school.

Business Manager: 1900-Direct interaction with students-student council (10%)

2500- Central Services-Activities that support other administrative/instructional services. (90%)

Front Office Secretary: 2100- Support Services- Students-Activities Designed to assess and improve students' well-being. (50%)- 10 month

2400- Support services- School administration (50%)- 10 month

The Front Office Clerk and Health Attendant is the same employee. It was reduced to 10 months. The Principal and Business Manager positions must remain a 12-month contract to be able to perform all the tasks and responsibilities required for a public school to remain open and function to serve this small, rural community and provide an education for the students.

4.The District should ensure employment agreement terms are documented and include any additional employee pay above original contracted pay, either within the contract or in an addendum.

Implemented 2023-24 SY July 2023 the District requested, Robert Hawes, the school attorney, to create employee contracts and addendums if needed. This school year Hackberry Elementary School District #3 has utilized both clause in contracts and addendums for

additional employee compensation.

Finding 2: Hackberry ESD has continually operated its 1 school substantially below its designed capacity, resulting in an estimated $1.3 million of inefficient spending.

5. The District should determine and implement ways to reduce its excess capacity and/or the costs associated with it by doing such things as identifying opportunities and implementing plans to attract any home-schooled students living within its boundaries and to retain any students living within its boundaries who are choosing to attend other school districts. Additionally, the District should identify and close any unused or underutilized space.

Implemented 2022-23 SY
All classrooms have been fully utilized.

Implemented 2023-24 SY.
Mohave County Superintendent's office was contacted, July 2023 for any potential home-schooled students. There is a total of 4 students, not enough to make a significant difference in utilizing capacity. Hackberry Elementary School District #3 has a total of 52 students enrolled, 3 full time teachers and 3 full time Para Pros and each classroom, library, computer lab and all rooms within the building are now in full use. This District has not had any new buildings in over 10 years and utilizes capacity as much as possible.
District will begin searching for other revenue opportunities on excess capacity outside of school hours in September after a follow up analysis will be concluded.

Finding 4: District operated its transportation program at a higher cost in fiscal year 2018 than peers districts and did not perform timely bus preventative maintenance.

9. If the District continues using a bus to transport its students, it should track bus mileage and perform preventative maintenance according to its lease agreement or other policies the District may adopt if it purchases its own bus.

Implemented 2023-24 SY
Purchased used bus in August 2023, from K.U.S.D. #20. Hackberry Elementary School District #3 will no longer lease a bus from K.U.S.D. #20. Joni Bullock, the business manager, communicated with the TRUST (school insurance) and they provided guidelines to follow for an effective preventative maintenance plan, and a bus driver tool kit.

Mileage will be tracked daily. Beginning in August 2023, the District will instruct the bus drivers to keep through records and those records will be turned in to the Business Manager biweekly. The District has also made arrangements with KUSD to continue to provide regularly scheduled maintenance and the District's Maintenance Director will retain all maintenance schedules and reports, the first scheduled maintenance will be during Fall intersession 2023, service reports will also be kept in the Business Managers office for review.

Finding 5: District put sensitive student information and public monies at risk because it did not comply with important requirements and standards to protect its monies and sensitive information.

10. **The District should follow required purchasing procedures by ensuring that employees make purchases only after obtaining proper approval and pay vendors only after verifying that all purchases have been received and billings are accurate.**

Implemented 2023-24 SY

To correct errors in purchasing procedures, the District has implemented updated procedures to reduce and eliminate purchases being made without prior approval and payments made to vendors without proper verification purchase were received. August 2023 additional staff members have been trained to follow procedures for requesting purchases and other staff members are now trained to check in purchases and submit invoices for payment once all documentation has been received and verified.

11. **The District should ensure all monies collected are deposited by requiring that the same individual responsible for preparing cash deposits is not also responsible for reconciling cash deposited to cash collected.**

Implemented 2022-23 SY

The District has updated its procedure for cash collection in July 2023, to include several additional staff members to review and sign off on deposit forms as well as review deposits made through the County. The County as well as the Treasures office verify and review deposits made for the District, during the month-end Cash Reconciliation process, the County employees review and sign off on all cash documents as an additional step. The District has only a single bank account and it goes through Mohave County Treasurer's Office.

13. The District should review the Uniform Chart of Accounts for school districts and implement its guidance to accurately classify all expenditures when reporting its spending.

Implemented 2022-23 SY

USFR- Charts of Accounts is utilized. The Business Manager, beginning in August 2023, has started submitting coding questions to the Auditor General's Office, Accountability Services Division to assure coding's are correct. The Business Manager coordinates with an outside accounting firm more on a daily/weekly basis for coding questions and that firm conducts monthly reviews of the Districts software to assure coding issues are resolved immediately.

15. The District should limit accounting system users' access to only those functions needed to perform their job duties and work with the County to determine which vendor accounts, as well as any County accounts, are necessary. Further, the District should remove any unnecessary accounts, disable any necessary accounts when not in use, and substantially reduce the number of users with administrative- level access in its accounting system.

Implemented 2023-24 SY

NAU-ETC recently completed an update on user roles on 8-1-2023. The Business Manager requested from the Mohave County Superintendent's office a documentation of user roles on 8-2-2023. The most current information for Mohave County user roles is 3 totals. One for payroll, one for payables, and one for the Chief Business Manager. The District will conduct an update in September 2023 to verify users and their rolls.

Additional analysis will be performed in September 2023 on FY23 accounting records to prepare for the AFR starting on 9/1/23 once the encumbrance period is complete.

LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: September 11, 2023

TO: Senator Sonny Borrelli, Chair
Representative Matt Gress, Vice Chair
Members, JLAC

FROM: Lindsey Perry, Auditor General

SUBJECT: Consideration and approval of changes to 2024-2025 performance audit and sunset review schedule

Background

Laws 1978, Ch. 210, established the sunset review process, which requires most State agencies to receive a systematic review typically at least once every 8 years to determine whether they should be continued or terminated. A.R.S. §41-2953(B) directs the Auditor General to provide JLAC a list of agencies scheduled for termination in the next sunset schedule. The Office does not have sufficient resources to conduct all sunset reviews; therefore, JLAC determines which agencies the Office will review and which agencies will conduct self-reviews for the Committees of Reference (CORs).[1]

On November 21, 2022, JLAC approved the 2024-2025 performance audit and sunset review schedule and assigned the sunset reviews on that schedule to the Office or to the agencies to conduct self-reviews for the CORs. However, additional changes to the schedule are needed, as detailed below and shown in ***Attachment A***.

Changes to the 2024-2025 performance audit and sunset review schedule

Legislation passed in the 2023 session gave 2 boards, the Arizona State Board of Dental Examiners and the Arizona State Board of Massage Therapy, 2-year continuations. As a result, both boards are subject to a new sunset review and are placed on the 2024-2025 performance audit and sunset review schedule. In August and September 2022, the Office conducted the sunset reviews for both boards and issued reports to the CORs. Specifically, we found:

- Arizona State Board of Massage Therapy—Our August 2022 performance audit and sunset review found that the Board did not investigate or timely investigate, document, or review all complaints it received; did not issue some initial licenses in accordance with statute and rule; and did not provide some public information in response to our anonymous requests or on its

[1] The essential difference between sunset reviews the Office conducts and agency self-reviews is the depth and scope of the work performed. When the Office performs an agency's sunset review, it conducts a performance audit of the agency to identify ways the agency can operate more efficiently and effectively and independently gathers information to address the statutory sunset factors.

website. We made 27 recommendations to the Board, and in June 2023, we conducted follow-up work to determine the Board's status in implementing all 27 recommendations. During our follow-up review, we found that the Board had implemented only 1 recommendation and was in the process of implementing 3 recommendations. Although the Board verbally reported progress toward implementing other recommendations, it did not provide documentation in response to 2 requests we made for documentation demonstrating its progress toward implementing any of the remaining 23 recommendations. Absent this documentation, we were unable to independently assess the Board's efforts to implement these recommendations, including corroborating any written/verbal statements it made reporting its progress. As a result, we listed these 23 recommendations as not implemented. We will conduct an 18-month followup with the Board in January 2024 on the status of the recommendations that have not yet been implemented. As part of the 18-month follow-up review, we will submit our findings in a publicly released report to JLAC and to the assigned CORs. Additionally, we will be available to present our series of follow-up findings, including the Board's efforts to implement all 27 recommendations, during the Board's sunset review COR hearing, which should be held after the report is issued and when the Legislature is not in session or before the third Friday in January 2025.

- Arizona State Board of Dental Examiners—Our September 2022 performance audit and sunset review found that the Board may not have taken enforcement action consistent with the nature and severity of some complaints' substantiated violations and did not resolve complaints in a timely manner, potentially affecting public health and safety; and had not complied with conflict-of-interest requirements. We made 32 recommendations to the Board, and in September 2023, we conducted follow-up work to assess the Board's status in implementing these recommendations. During our follow-up review, we found that 1 recommendation was not yet applicable, and the Board had implemented 3 recommendations, was in the process of implementing another 20 and had not implemented the remaining 8 recommendations. We will conduct an 18-month followup with the Board in March 2024 on the status of the recommendations that have not yet been implemented. As part of our follow-up review, we will submit our findings in a publicly released report to JLAC and to the assigned CORs. Additionally, we will be available to present our series of follow-up findings, including the Board's efforts to implement all 32 recommendations, during the Board's sunset review COR hearing, which should be held after the report is issued and when the Legislature is not in session or before the third Friday in January 2025.

The Office does not have the resources to absorb these sunset reviews into our 2024-2025 workload, but we have the resources to conduct a series of follow-up reviews targeting the impactful areas, including the significant deficiencies we found. Therefore, we recommend that both boards be assigned to CORs for a self-review and for the Office to continue to conduct follow-up reviews on both boards to determine if they have corrected deficiencies and implemented all recommendations, and report our findings to JLAC and to the CORs in conjunction with the boards' self-reviews.

Action required

Per statute, JLAC is required to determine whether the Office or the CORs will perform the sunset reviews of the Arizona State Board of Dental Examiners and the Arizona State Board of Massage Therapy. If JLAC assigns both boards to the CORs for a self-review, JLAC can require the Auditor

General to conduct a series of follow-up reviews of all deficient areas and submit its follow-up reports to JLAC and to the CORs, and present its findings to the CORs in conjunction with the boards' sunset review hearings.

Attachment A
2024-2025 performance audit and sunset review schedule

Approved November 21, 2022; Changes proposed September 13, 2023 (highlighted in yellow)

Statutorily mandated audits

Arizona Auditor General conducts

1.	Child Safety, Arizona Department of (A.R.S. §41-1966; 2024—Young Adult Program; 2025 still to be determined)
2.	Corrections, Rehabilitation and Reentry, Arizona Department of (annual audit, Laws 2022, Ch. 327, Sec. 1)
3.	Education, Arizona Department of (includes School Safety Program, A.R.S. §§15-154 and 41-2958)[1]
4.	Sports and Tourism Authority, Arizona (A.R.S. §5-812)
5.	Transportation Excise Tax, Coconino County (A.R.S. §41-1279.03)
6.	Transportation Excise Tax, Gila County (A.R.S. §41-1279.03)

Sunset reviews (agencies terminate in 2025 and 2026)

Arizona Auditor General conducts

7.	Barbering and Cosmetology, Arizona Board of
8.	Behaviorial Health Examiners, Arizona State Board of
9.	Boxing and Mixed Martial Arts Commission, Arizona State
10.	Economic Security, Arizona Department of
11.	Executive Clemency, Arizona Board of
12.	Gaming, Arizona Department of
13.	Housing, Arizona Department of
14.	Insurance and Financial Institutions, Arizona Department of
15.	Land Department, Arizona State
16.	Nursing, Arizona State Board of
17.	Occupational Therapy Examiners, Arizona Board of
18.	Osteopathic Examiners in Medicine and Surgery, Arizona Board of
19.	Pharmacy, Arizona State Board of
20.	Physician Assistants, Arizona Regulatory Board of
21.	Regulatory Review Council, Governor's
22.	Respiratory Care Examiners, Arizona State Board of
23.	School Facilities Oversight Board
24.	Veterinary Medical Examining Board, Arizona State
25.	Followups at 6 and 18 months or longer if not making progress, including Arizona Department of Health Services, long-term care facility complaints and self-reports

CORs conduct

1.	Beef Council, Arizona
2.	Civil Rights Advisory Board, Arizona
3.	Credit Enhancement Eligibility Board
4.	Criminal Justice Commission, Arizona
5.	Exposition and State Fair Board, Arizona
6.	Higher Education, Western Interstate Commission for
7.	Property Tax Oversight Commission

Recommend JLAC assign these agencies with short continuations to CORs and Arizona Auditor General conducts follow-up reviews and submits the review results to the CORs

8.	Dental Examiners, Arizona State Board of
9.	Massage Therapy, Arizona State Board of

[1] The Arizona Department of Education audits are due July 1, 2026.

ARIZONA
AUDITOR GENERAL

LINDSEY A. PERRY
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: September 11, 2023

TO: Senator Sonny Borrelli, Chair
Representative Matt Gress, Vice Chair
Members, JLAC

FROM: Lindsey Perry, Auditor General

SUBJECT: Consideration and approval of additions to 2024 Committee of Reference (COR) assignments for sunset review hearings

Background

JLAC is statutorily required to assign agencies subject to a sunset review to CORs, regardless of whether the Office will conduct the sunset review or the agency will conduct a self-review for the CORs. Agencies are generally assigned to the CORs reflecting the standing committees most likely to be responsible for hearing any legislation affecting that specific agency and have knowledge or expertise in that particular subject area. The CORs are responsible for holding at least 1 public hearing to discuss the audit and/or sunset review report and receive testimony from agency officials and the public. These hearings should be held after the report is issued and when the Legislature is not in session, or before the third Friday in January.

On November 21, 2022, JLAC approved the 2024 COR assignments for sunset review hearings. Subsequently, during the 2023 legislative session, the Legislature reviewed and continued the Arizona State Board of Dental Examiners and the Arizona State Board of Massage Therapy for 2 years, requiring both boards to be assigned to a COR in 2024. As a result, listed in ***Attachment A*** (highlighted in yellow), are the Senate President's and House Speaker's recommendations for the Arizona State Board of Dental Examiners' and the Arizona State Board of Massage Therapy's 2024 COR assignments.

Action required

JLAC may either approve the CORs as recommended by the Senate President and House Speaker or assign different CORs.

Attachment A
2024 performance audit and sunset review schedule
President and Speaker COR recommendations

COR assignments approved November 21, 2022; changes proposed September 13, 2023 (highlighted in yellow)		
Statutory reference	**Agency selected for review**	**COR recommendations**
A.R.S. §41-3025.01	Criminal Justice Commission, Arizona	House: Judiciary Senate: Judiciary
A.R.S. §41-3025.02	Insurance and Financial Institutions, Arizona Department of	House: Commerce Senate: Finance
A.R.S. §41-3025.03	Exposition and State Fair Board, Arizona	House: Land, Agriculture, and Rural Affairs Senate: Commerce
A.R.S. §41-3025.04	Respiratory Care Examiners, Arizona State Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3025.05	Regulatory Review Council, Governor's	House: Government and Elections Senate: Government
A.R.S. §41-3025.06	Housing, Arizona Department of	House: Commerce Senate: Commerce
A.R.S. §41-3025.07	School Facilities Oversight Board	House: Education Senate: Education
A.R.S. §41-3025.08	Property Tax Oversight Commission	House: Ways and Means Senate: Finance
A.R.S. §41-3025.09	Dental Examiners, Arizona State Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3025.10	Massage Therapy, Arizona State Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3025.11	Osteopathic Examiners in Medicine and Surgery, Arizona Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3025.13	Executive Clemency, Arizona Board of	House: Judiciary Senate: Judiciary
A.R.S. §41-3025.14	Behaviorial Health Examiners, Arizona State Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-1279.03	Transportation Excise Tax, Gila County	House: Transportation Senate: Transportation and Technology
A.R.S. §41-1610.02	Corrections, Rehabilitation and Reentry, Arizona Department of	House: Judiciary Senate: Judiciary
A.R.S. §41-1966	Child Safety, Arizona Department of (audit to be determined)	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-1279.03	School Districts	House: Education Senate: Education

LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: September 11, 2023

TO: Senator Sonny Borrelli, Chair
Representative Matt Gress, Vice Chair
Members, JLAC

FROM: Lindsey Perry, Auditor General

SUBJECT: Office presentation regarding July 2023 Followup—Special report on Arizona K-12 education COVID-19 federal relief spending in fiscal year 2022 and in total through June 30, 2022

Background

As required by Laws 2021, Ch. 408, §54, we issued a special report on January 1, 2023, that provides information regarding Arizona school districts' (districts) and charter schools' (charters) reported spending and planned future spending of awarded COVID-19 federal relief monies. This special report also provides the Arizona Department of Education's reported spending and planned future spending of the discretionary relief monies that it received, as required by the law.

Specifically, districts and charters reported spending $2.2 billion, or almost half, of their relief monies through June 30, 2022. ADE reported spending/distributing $84.2 million, or 21 percent, of its discretionary relief monies through June 30, 2022. Districts and charters, and ADE have until September 30, 2024, to spend approximately $2.4 billion and $322 million, respectively, in remaining allocated relief monies. On March 31, 2023, we presented our analysis to JLAC.

Our January 2023 special report included 3 findings and 3 recommendations related to district and charter planned future federal relief spending, noncompliance with statutory federal relief spending reporting requirements, and district- and charter-reported federal relief spending information that appeared inconsistent and potentially misreported. We followed up with districts and charters on their progress toward implementing those recommendations, gathered audited fund balance information for all districts and charters to provide more complete and transparent financial information, and updated our special report with the follow-up information in July 2023.

We were asked to present a summary of the July 2023 follow-up special report, and Meghan Hieger, Accountability Services Division Director, will provide this overview. See ***Attachment A*** for a summary of the July 2023 special report followup. To review the full special report followup, please click on the following hyperlink: Auditor General COVID-19 special report followup or visit our website at www.azauditor.gov.

Action required

None. Presented for JLAC's information only.

Attachment A

ARIZONA Auditor General
Making a Positive Difference

Summary of Special Report Followup
July 2023

Arizona school districts' and charter schools', and ADE's discretionary, COVID-19 federal relief spending—in fiscal year 2022 and in total through June 30, 2022

This special report provides summary information and 4 interactive dashboards with Arizona school districts' and charter schools' (districts and charters) reported spending in fiscal year (FY) 2022 and in total through June 30, 2022, and planned future spending of allocated/awarded (awarded) COVID-19 federal relief monies (relief monies), as required by Laws 2021, Ch. 408, §54.

This special report also provides Arizona Department of Education (ADE)-reported spending in FY 2022 and in total through June 30, 2022, and planned future spending of the discretionary COVID-19 federal relief monies that it received, as required by the law. This information is included below the dashboards and "Report-wide footnotes" sections.

Our January 1, 2023, report included 3 findings and recommendations related to district and charter planned future relief monies spending, noncompliance with statutory reporting requirements, and district- and charter-reported information that appears inconsistent and potentially misreported. In the "Summary" and "Findings, recommendations, and followup" expandable sections, we updated the status of each of our 3 findings. Specifically, we followed up with districts and charters to obtain additional detail about their planned future relief monies spending and to provide them an opportunity to correct noncompliance with reporting requirements. We also gathered audited fund balance information for all districts and charters to provide more complete and transparent financial information.

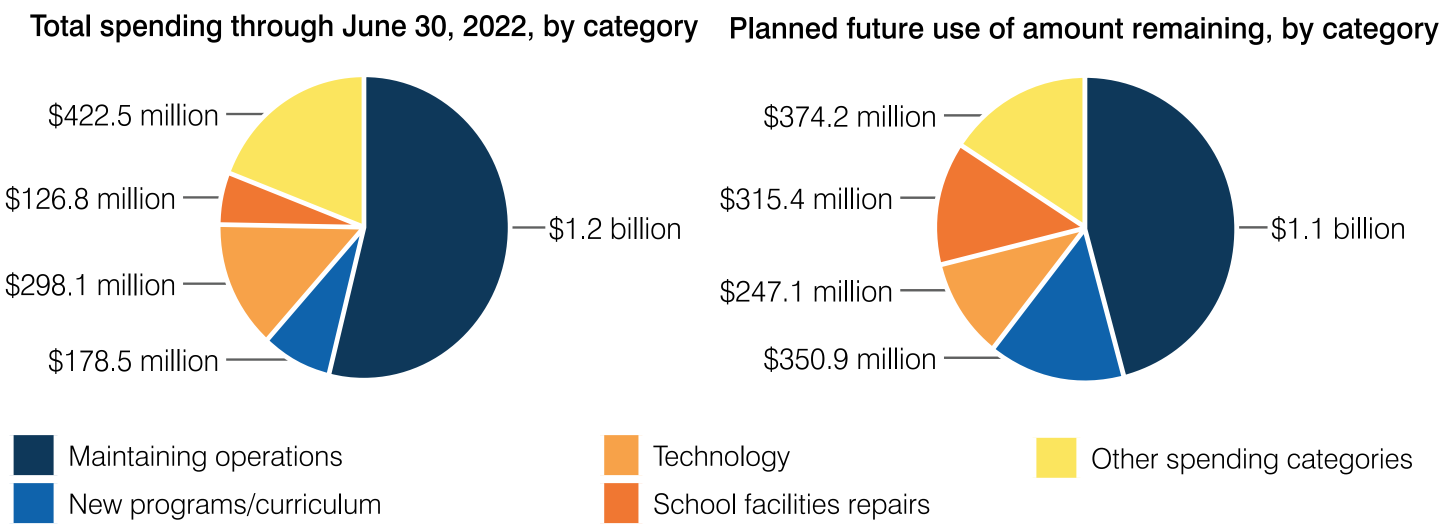
Districts and charters reported spending $2.2 billion, or almost half, of their relief monies through June 30, 2022

Districts and charters reported spending just over $2.2 billion, or 48 percent, of their nearly $4.6 billion allocated relief monies through June 30, 2022. See Dashboard A for additional total spending details and Dashboard B for spending by individual district or charter.

ADE had yet to spend/distribute almost $322 million, or 79 percent, of its discretionary relief monies as of June 30, 2022

ADE identified spending priorities for its discretionary relief monies, of which it had $321.7 million, or 79 percent, yet to spend/distribute as of June 30, 2022. See "ADE's reported spending for FY 2022 and in total through June 30, 2022, and planned future spending" section in the report for more information on ADE's spending and planned future spending.

Districts' and charters' reported largest portion of spending through June 30, 2022, and planned future spending of relief monies on maintaining operations

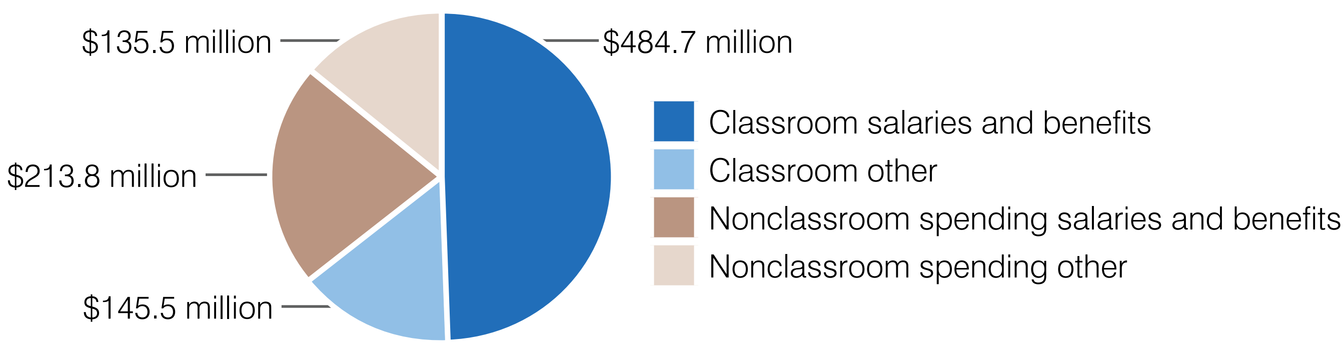


Districts and charters continued to report spending and planning to spend the largest portion of relief monies on maintaining operations, almost $1.2 billion, or 54 percent, spent through June 30, 2022, and almost $1.1 billion, or 45 percent, planned for future spending. In FY 2022, alone, districts and charters reported spending $570.3 million on maintaining operations.

See Dashboards A and B for total spending details and Dashboard D for FY 2022 spending details, including by individual district and charter.

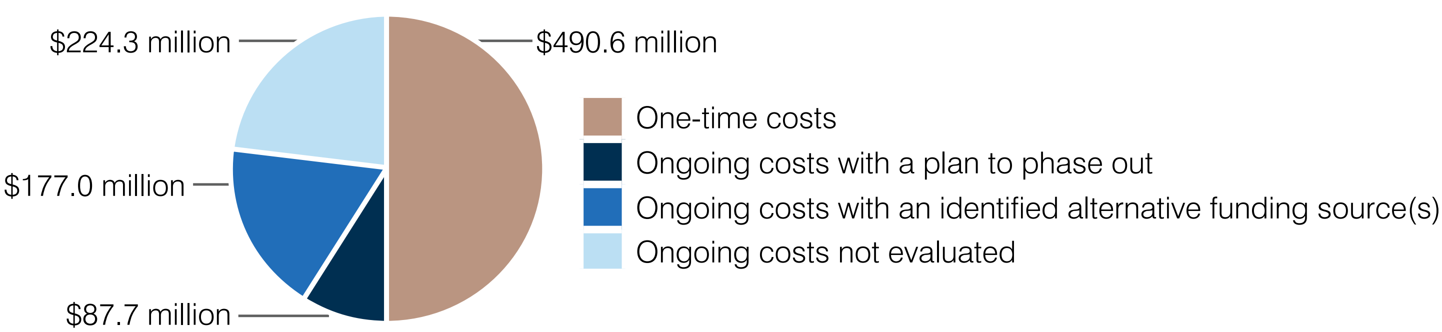
Districts' and charters' reported most planned future spending of relief monies for maintaining operations for salaries and benefits; and most planned costs will be eliminated or phased out when these monies are no longer available

Planned future spending for maintaining operations by category



Of the almost $1.1 billion of remaining relief monies districts and charters reported planning to spend on maintaining operations, districts and charters reported detailed spending for $979.5 million, indicating they plan to spend over $484.7 million, or 49 percent, on classroom salaries and benefits; approximately $213.8 million, or 22 percent, on nonclassroom salaries and benefits; and the remaining $281.0 million, or 29 percent, on other classroom and nonclassroom spending to maintain operations.

Future maintaining operations spending plan details

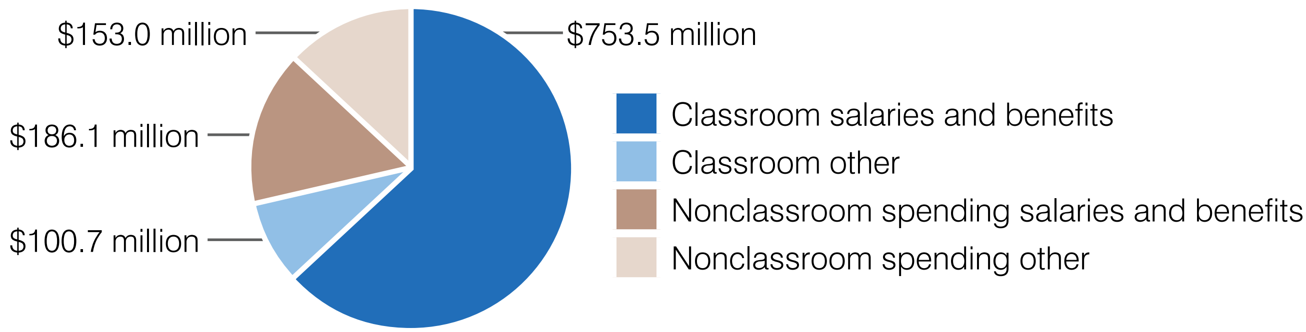


Further, districts and charters reported nearly $578.3 million, or 59 percent, of planned spending would be for one-time costs or ongoing costs that would phase out and approximately $177.0 million, or 18 percent, of the planned spending would be for ongoing costs that will continue to be funded with alternative revenue sources when the relief monies are no longer available. Of the 252 districts and charters planning to support future maintaining operations spending from an alternative revenue source, 79 percent plan to use some State equalization assistance to fund at least a portion of their spending. The other most common revenue sources identified were existing fund balances, followed by other federal grants, and State grants. However, districts and charters reported that they did not evaluate over $224.3 million, or 23 percent, of their planned spending, and they may need to phase out those costs if an alternative funding source cannot be identified before relief monies are no longer available.

See Dashboards A and B for total planned spending details, including by individual district and charter.

Districts and charters reported most relief monies spent to maintain operations through June 30, 2022, were spent on classroom and nonclassroom salaries and benefits

Classroom and nonclassroom spending detail for the maintaining operations category

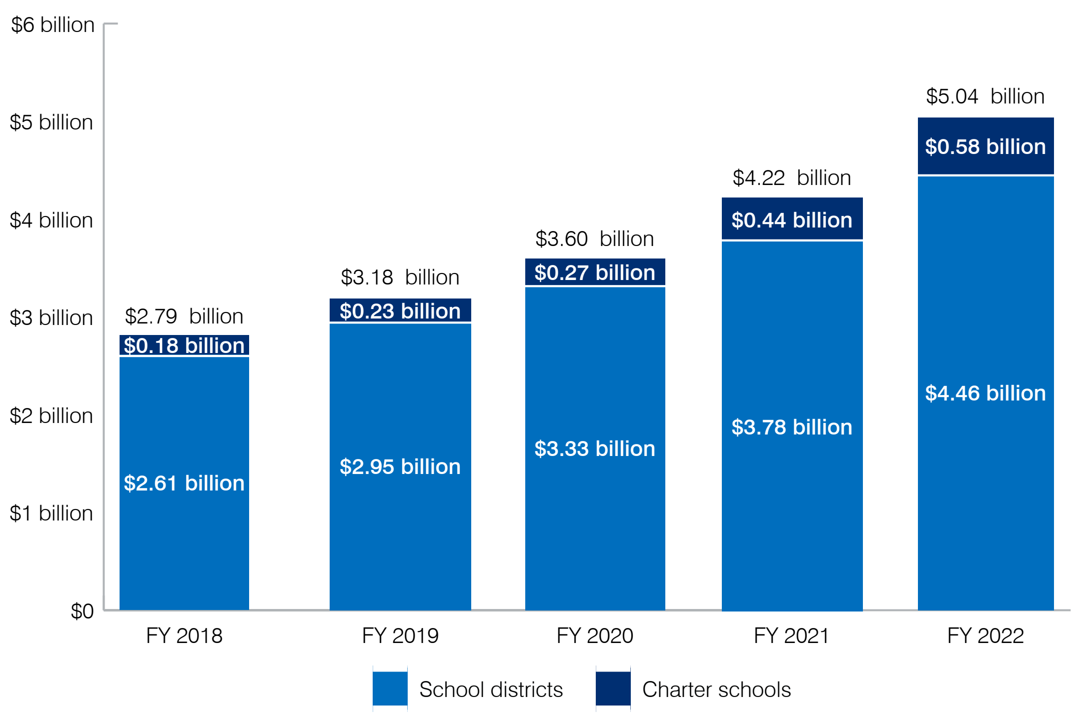


Of the almost $1.2 billion of relief monies districts and charters reported spending on maintaining operations through June 30, 2022, districts and charters reported spending over $854.2 million, or 72 percent, in the classroom, which includes over $753.5 million spent on classroom-related salaries and benefits and almost $100.7 million spent on other classroom-related costs. The remaining over $339.0 million, or 28 percent, spent on maintaining operations was spent on nonclassroom salaries, benefits, and other costs.

See Dashboard A for the classroom and nonclassroom spending details for all spending categories, State-wide or by county or legislative district; and see Dashboard B for related details by individual district or charter.

State-wide district and charter ending fund balances have increased every year since FY 2018, including a $1.44 billion increase after FY 2020 when they first received relief monies

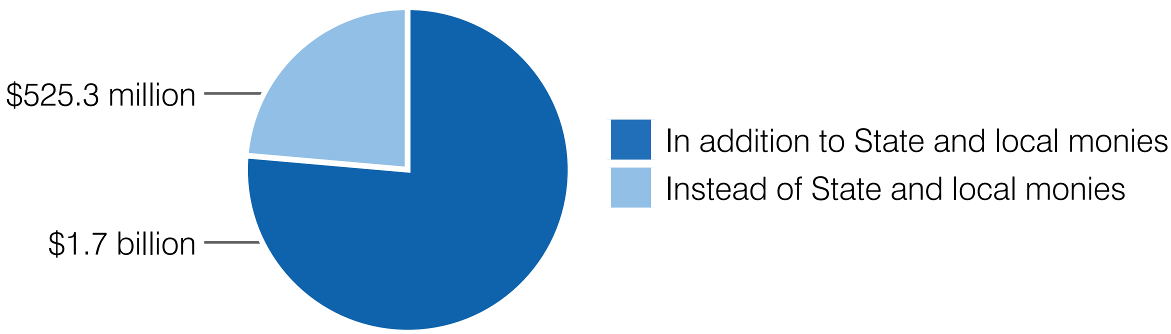
District and charter ending fund balances for FYs 2018 through 2022



While some districts and charters have experienced decreasing fund balances, most districts and charters increased fund balances between FYs 2018 and 2022. State-wide ending fund balances increased over $1.44 billion, or approximately 40 percent, after FY 2020, the first-year districts and charters received relief monies. Specifically, since FY 2020 district fund balances increased $1.13 billion, or 34 percent, and charter fund balances increased approximately $0.31 billion, or 115 percent.

Districts and charters reported spending the majority of relief monies through June 30, 2022, in addition to their available State and local monies but fund balance information appears to contradict and raises questions

COVID-19 federal relief spending through June 30, 2022, in addition to or instead of available State and local monies available State and local monies

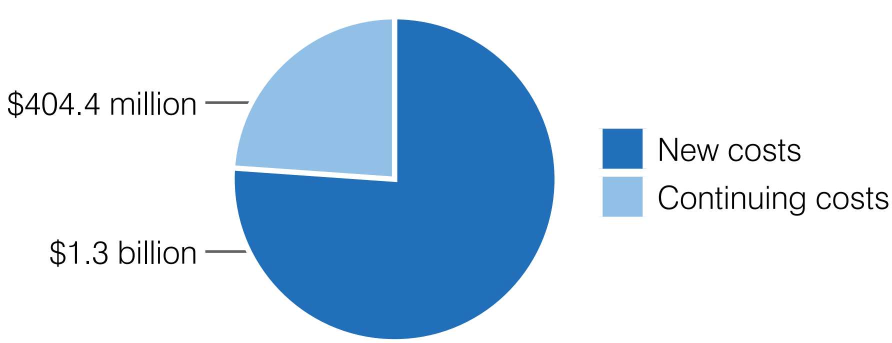


Through June 30, 2022, districts and charters reported spending almost $1.7 billion, or 76 percent, of the total $2.2 billion relief monies they spent as being in addition to available State and local monies and just under $525.3 million, or 24 percent, as being instead of available State and local monies.

However, 213 districts and charters reported relief monies spending that appears to contradict fund balance information, which raises questions about the reliability of the information they reported (see The Summary Findings, Recommendations, and Followup on page 6 through 7 and the "Finding 3, recommendation, and followup" section in the report for more details).

Districts' and charters' reported spending relief monies through June 30, 2022, in addition to available State and local monies primarily for new costs

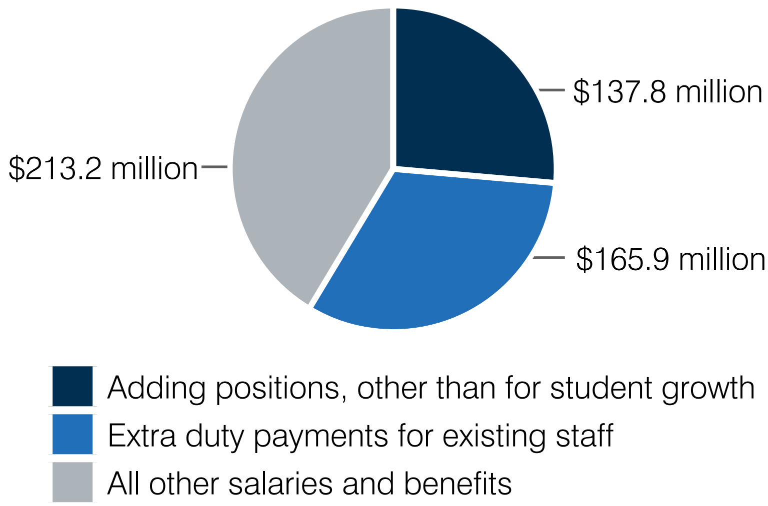
COVID-19 federal relief monies spent in addition to available State and local monies for new and continuing costs



Of the $1.7 billion districts and charters reported spending in addition to available State and local monies, almost $1.3 billion, or 76 percent, was reported as spent on new costs that were not similar to costs districts and charters incurred prior to March 2020, the start of the COVID-19 pandemic. See the pie charts below for the types of new costs districts and charters reported incurring.

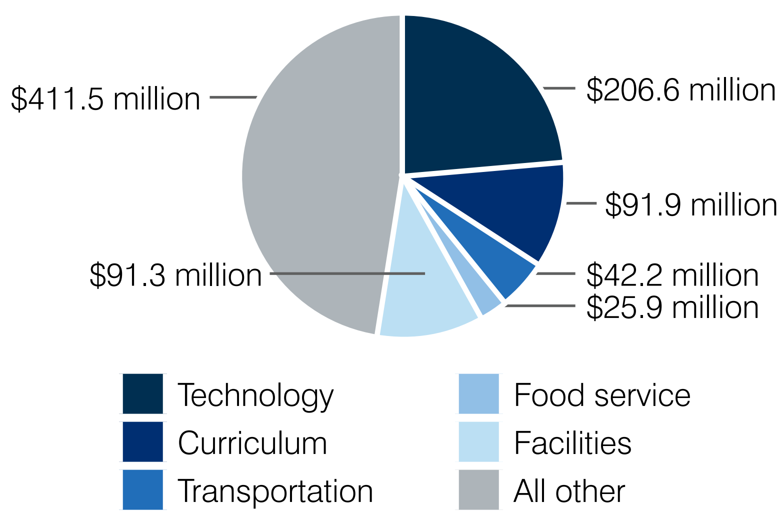
Districts and charters reported incurring new costs after the start of the pandemic in March 2020, such as salaries and benefits costs including extra duty pay for existing staff and technology

New costs for salaries and benefits costs



Districts and charters reported spending just under $517.0 million on new salaries and benefits costs with just over $137.8 million, or 27 percent, spent for adding positions for other than student population growth and just over $165.9 million, or 32 percent, spent for extra duty pay to existing staff.

New costs for all other spending



Districts and charters also reported spending almost $869.4 million on all other new costs with almost $206.6 million, or 24 percent, spent for technology. Costs reported as "other" can include purchased professional and technical services; employee training and professional development services; safety items such as PPE; purchased property services such as utilities and trash disposal; community services; tuition; and debt service payments for principal and interest.

See Dashboard C for additional reported spending details, including how districts and charters reported spending relief monies in addition to or instead of available State and local monies within each spending purpose shown.

Findings, recommendations, and followup

Our January 2023 report contained 3 findings and recommendations related to district and charter planned future relief monies spending, noncompliance with reporting requirements, and district- and charter-reported information that appears inconsistent. The implementation status of those recommendations is as follows:

Finding 1: Districts and charters plan to spend $1.1 billion of remaining COVID-19 federal relief monies that expire in 2024 for ongoing expenses to maintain operations; therefore, they need to develop plans for operational needs supported by these monies

Implementation status: Approximately one-third of districts and charters reported having a written plan for supporting operations once their federal relief monies planned for maintaining operations are no longer available; however, some districts and charters without a written plan were able to classify most reported planned maintaining operations spending into 3 categories: one-time costs, ongoing costs that will be phased out, and ongoing costs that will be supported from alternative funding sources.

Specifically, of the 593 districts and charters that reported maintaining operations planned spending, only 220 reported they had a written plan for meeting operational needs when these relief monies are no longer available after September 2024, while 329 reported they did not have a written plan. Additionally, 44 districts and charters failed to respond to our request for plan information. See "Finding 1, recommendation, and followup" section in the report and Dashboards A and B for additional details about the maintaining operations planned spending classifications.

Finding 2: Some districts and charters failed to report statutorily required financial information necessary for relief spending special report, limiting transparency and completeness of information for decision-makers, stakeholders, and public

Implementation status: Most districts and charters we previously cited for noncompliance with statutorily required reporting resubmitted reporting forms that corrected their noncompliance; however, some districts and charters did not correct their noncompliance, and some districts and charters did not submit required follow-up reporting.

Specifically, of the 21 districts and 64 charters that originally did not comply with the statutory reporting requirements:

- 12 districts and 48 charters resubmitted COVID-19 reporting forms that corrected their cited noncompliance item(s).
- 9 districts and 16 charters did not correct their cited noncompliance item(s).

Further, 27 districts and 26 charters did not submit required follow-up reporting. See the "Report-wide footnotes" section below for information on the specific reporting noncompliance; the data file for filtering instructions for how to generate a list of the noncompliant districts and charters by the specific nature of the noncompliance; and "Finding 2, recommendation, and followup" section below for additional information.

Finding 3: Some districts and charters reported financial information that appears inconsistent when compared to other financial information, indicating they may have misreported information and limiting the availability of complete and transparent information on relief money spending impacts

Implementation status: Dashboard C includes fund balance information from audited financial statements or annual financial reports when financial statements were not available and shows that 213 districts and charters reported relief money spending in addition to or instead of State and local monies that appears to contradict their reported fund balance increase or decrease.

Therefore, to increase transparency and provide decision-makers, other stakeholders, and the public more complete financial information, the Auditor General will add additional fund balance/reserve reporting to district and charter FY 2023 annual financial reports and FY 2025 budget forms. See "Finding 3, recommendation, and followup" section in the report and Dashboard C for additional detail about reported relief spending and fund balances.

ARIZONA
Auditor General
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