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October 3, 2019

The Honorable Rick Gray, Chair
Joint Legislative Audit Committee

The Honorable Anthony T. Kern, Vice Chair
Joint Legislative Audit Committee

Dear Senator Gray and Representative Kern:

We recently completed a 24-month followup of Eloy Elementary School District's implementation status for the 17 audit recommendations presented in the performance audit report released May 2017. As the attached grid indicates:

- 8 recommendations have been implemented.
- 4 recommendations are in the process of being implemented.
- 5 recommendations have not been implemented.

Unless otherwise directed by the Joint Legislative Audit Committee, this report concludes our follow-up work on the District's efforts to implement the recommendations resulting from the May 2017 performance audit.

Sincerely,
Vicki Hanson, Director
Division of School Audits

cc: Governing Board
Ms. Ruby James, Superintendent
Eloy Elementary School District

ELOY ELEMENTARY SCHOOL DISTRICT

Auditor General Performance Audit Report Issued May 2017 24-Month Follow-Up Report

Recommendation	Status/Additional Explanation
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FINDING 1: District’s high administrative costs primarily due to higher staffing and additional compensation

<p>1. The District should review its administrative staffing levels and related salaries and benefits, including additional compensation, and determine if they can be modified to produce cost savings, and make changes accordingly.</p>	<p>Implementation in process Between fiscal year 2015 (the audit year) and fiscal year 2018 (the most recent year for complete data), the District reduced its per pupil administrative salaries and benefits costs by 15 percent, from \$1,210 in fiscal year 2015 to \$1,034 in fiscal year 2018. In addition, based on preliminary cost data for fiscal year 2019, the District is on target to maintain this reduction. Although the District has not reduced the number of administrative positions it employs, it was able to reduce its per pupil salaries and benefits costs because it no longer receives federal and state school improvement grant monies that it previously used as stipends for certain administrative positions. However, despite its reduction in costs, the District’s fiscal year 2018 per pupil administrative salaries and benefits costs were still 14 percent higher than the peer districts’ average. District officials indicated that they plan to continue reviewing the District’s administrative costs to determine whether they can be further reduced.</p>
<p>2. To reduce its administrative travel costs, the District should limit the number of employees attending a given conference, seminar, or district-sponsored event to the key staff members who need to attend. In addition, the District should consider whether to continue paying administrators hourly pay rates in addition to their regular salaries for attendance at district-sponsored events.</p>	<p>Implementation in process District officials reported that they have limited attendance at conferences and reduced payments to administrators for attendance at district-sponsored events. We reviewed cost data and determined that the District reduced its per pupil administrative travel costs by 50 percent between fiscal years 2015 and 2018. Despite the reduced costs, the District’s fiscal year 2018 per pupil administrative travel costs were still substantially higher than the peer districts’ average. However, preliminary fiscal year 2019 cost data suggests the District may have reduced these costs even further so that they are much closer to the peer districts’ average. District officials indicated that they plan to continue reviewing administrative travel costs to determine whether they can be further reduced.</p>

Recommendation	Status/Additional Explanation
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FINDING 2: District lacked adequate payroll and computer controls to protect it from errors and fraud

1. The District should create formal, written policies and procedures to govern its payroll expenditures that outline the process and controls for payroll preparation, processing, and approvals.	Implemented at 24 months
2. The District should ensure that supervisors thoroughly review and approve all time sheets and overtime request forms to help ensure that employee pay amounts are accurate.	Implemented at 18 months
3. The District should ensure that all pay is properly authorized and employees are paid correctly by completing personnel action requests (PARs) with proper approval prior to services being rendered and payments being made.	Implemented at 18 months
4. The District should ensure that district officials review and approve detailed supporting payroll reports each pay period prior to final processing.	Implemented at 6 months
5. The District should limit access to Governing Board signature stamps to only those whose signature they represent.	<p>Not implemented</p> <p>In fiscal year 2019, the District implemented a process requiring its governing board members to sign payment approval documents rather than using signature stamps. According to district officials, the governing board members' signature stamps are now locked in a safe at the district office, and only the superintendent and business manager have access to the safe. However, according to the <i>Uniform System of Financial Records for Arizona School Districts</i>, signature stamps should be accessible only to the people whose signatures they represent.</p>
6. The District should implement and enforce password requirements related to password length, complexity, and expiration.	Implemented at 24 months
7. The District should limit employees' access to the accounting system to only the access necessary to meet their job responsibilities to help ensure that no single employee can initiate and complete a transaction without an independent review.	<p>Not implemented</p> <p>We reviewed the District's July 2019 accounting system user access report for the same five business office accounting system users we reviewed during the last followup and found that four of the five users continue to have more access than necessary to perform their job duties.</p>

Recommendation	Status/Additional Explanation
8. The District should ensure proper oversight of its time clock system by periodically reviewing system logs that are automatically generated when time sheet changes are made.	Implemented at 24 months
9. The District should review its contingency plan to ensure it is complete and test it periodically to identify and remedy deficiencies.	Implementation in process The District has continued to revise its contingency plan, but the plan is still missing some key components, including order of system restoration, detailed individual responsibilities, contingencies for continued business operations, detailed restoration procedures, and testing and backup procedures.

FINDING 3: High costs led to food service program shortfall

1. To help reduce meal overproduction and waste, the District should implement food production controls, such as varying meal production based on past popularity of meals or having classroom teachers submit expected lunch counts.	Implemented at 18 months
2. The District should ensure proper oversight of its food inventory by conducting frequent physical inventory counts and reconciling counts to inventory records, ensuring that all food items ordered are received or the appropriate refunds are issued, ensuring it follows its first-in, first-out inventory policy, and ensuring that all food purchased is used in meal production rather than being disposed of while it is still safe to eat.	Implemented at 6 months

FINDING 4: District had much higher transportation costs and should strengthen controls

1. The District should explore options that would allow it to obtain bus maintenance and repair services at lower costs, such as performing these services in-house or obtaining services from lower cost vendors.	Implementation in process During prior followups, district officials indicated that they were not interested in performing these services in-house because of the large equipment purchases and complicated diesel repairs that would be needed. Since the last follow-up report, the District has obtained quotes from a couple of vendors for bus maintenance and repair services, but it has not yet analyzed the quotes to determine if any of the vendors could provide these services at a lower cost than its current vendor.
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Recommendation	Status/Additional Explanation
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<p>2. The District should develop and follow a formal preventative maintenance policy that meets the State's <i>Minimum Standards</i> and includes the maximum number of miles and the maximum amount of time a bus can travel before it receives preventative maintenance services. Additionally, the District should ensure that it receives and maintains documentation of the specific maintenance services and repairs that are performed on each bus.</p>	<p>Not implemented The District failed to develop a formal bus preventative maintenance policy that meets the State's <i>Minimum Standards</i> and includes the maximum number of miles and amount of time a bus can travel before it receives preventative maintenance services. Further, the District is not maintaining documentation of the specific maintenance services and repairs that are performed on each bus.</p>
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<p>3. The District should accurately calculate and report miles driven and students transported to the Arizona Department of Education for state funding purposes.</p>	<p>Not implemented Based on a review of the District's fiscal year 2019 reported numbers, it appears that the District reported a more reasonable number of students transported than it did during the audit year. However, the District's reported miles do not appear to be accurate, and the District failed to provide us with documentation demonstrating how it calculated the reported miles or riders. Therefore, we cannot verify the accuracy of the District's reported miles driven and students transported.</p>
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OTHER FINDINGS: District should ensure that revenues from a transportation Intergovernmental Agreement (IGA) cover costs

<p>1. To ensure that the transportation IGA revenues cover its costs, the District should track and document the time its employees spend on IGA-related activities, as well as any other costs associated with it. If the District finds that its costs are not being covered, it should consider renegotiating the IGA's terms and charges or potentially ending its participation in the IGA.</p>	<p>Not implemented Although the District had previously identified the types of activities that Eloy ESD staff perform related to the IGA, it is not requiring district staff to track and document the dates and actual time spent on specific IGA-related activities, and the District is not tracking other costs associated with implementing the IGA. Therefore, the District is still not able to determine whether its actual costs are being covered by IGA revenues.</p>
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