

Concho Elementary School District

District did not comply with State conflict-of-interest and open meeting law requirements, limiting transparency; did not appropriately handle cash and calculate payroll; provided food and beverages at District events without prior Board approval; and allowed too much access to its IT network and accounting system, increasing the risk of fraud and abuse

Performance Audit

August 2024
Report 24-211

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





The Arizona 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 **Matt Gress**, Chair

Representative **Tim Dunn**

Representative **Nancy Gutierrez**

Representative **Alma Hernandez**

Representative **Beverly Pingerelli**

Representative **Ben Toma** (ex officio)

Senator **Sonny Borrelli**, Vice Chair

Senator **David C. Farnsworth**

Senator **Anthony Kern**

Senator **Juan Mendez**

Senator **Catherine Miranda**

Senator **Warren Petersen** (ex officio)

Audit Staff

Scott Swagerty, Director

Christine Haidet, Manager

Isiah Alvarez, Team Leader

Ryan Henegar

Todd Miller

Contact Information

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

(602) 553-0333

contact@azauditor.gov

www.azauditor.gov



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

August 12, 2024

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Governing Board
Concho Elementary School District

Ms. Billie Bell, District Administrator
Concho Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Concho 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 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 in a different manner all the recommendations. My Office will follow up with the District in 6 months to assess its progress in implementing the recommendations. I express my appreciation to District Administrator Bell and District staff for their cooperation and assistance throughout the audit.

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

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Concho Elementary School District

District did not comply with State conflict-of-interest and open meeting law requirements, limiting transparency; did not appropriately handle cash and calculate payroll; provided food and beverages at District events without prior Board approval; and allowed too much access to its IT network and accounting system, increasing the risk of fraud and abuse

Audit purpose

To assess the District's efficiency and effectiveness in 4 operational areas—administration, plant operations and maintenance, food service, and transportation—and its compliance with certain State requirements.

Key findings

- Contrary to State conflict-of-interest laws, a Board member and District employees improperly participated in matters in which they had substantial interests; additionally, the District lacked procedures to ensure that all Board members and employees completed required forms, and to review and remediate reported conflicts.
- District did not comply with important cash-handling requirements for receiving and depositing cash; and lacked important controls in its payroll process, which resulted in more than \$1,300 in overpayments to employees as well as incorrect retirement withholdings that could permanently affect monthly retirement benefits.
- Contrary to State laws and District policies, the District failed to accept at least \$4,400 worth of gifts and donations at public meetings and spent nearly \$900 on food and beverages for District events without prior Board approval.
- District allowed some users excessive access to its sensitive computerized data, did not promptly disable users' access to its network and accounting system when no longer needed, and lacked authentication controls which increased the risk of unauthorized access to sensitive information, data loss, errors and fraud.

Key recommendations

The District should:

- Require Board members and employees to at least annually complete conflict-of-interest disclosure forms that either fully describe any substantial interests or attest that no conflicts exist; help Board members identify meeting agenda items involving their interests; ensure Board members and employees refrain from participating in matters involving their substantial interests; and train Board members and employees about conflict-of-interest requirements.
- Develop and implement written procedures to ensure proper cash handling, including issuing sequential, pre-numbered receipts and making timely deposits; separate duties for payroll processing; and identify and correct payroll and retirement contribution errors.
- Ensure that all gifts and donations are accepted in public meetings and for each District event where food and beverages are provided, determine the public purpose and benefit of doing so and obtain prior Board approval.
- Limit user access to only those functions necessary for performing job duties and develop and implement a process for promptly removing unnecessary accounts and reconfiguring system access when job duties change; and implement and enforce strong authentication controls.



TABLE OF CONTENTS

District overview	1
Finding 1: Board members and employees did not comply with conflict-of-interest requirements and recommended practices, which resulted in improper participation in matters in which they had substantial interests and reduced public transparency	3
Statute addresses conflicts of interest for public agency employees and public officers, including school district employees and Board members	
District’s conflict-of-interest procedures were not aligned with State requirements, District policy, and recommended practices, and a Board member and District employees improperly participated in matters in which they had substantial interests	
Recommendations	
Finding 2: District did not comply with important cash-handling and payroll requirements, resulting in overpayments to employees and incorrect retirement withholdings, and increasing risk of errors, fraud, and improper payments	7
Deficiency 1: District did not always prepare receipts or deposit cash timely, increasing the risk of errors and fraud	
Deficiency 2: District did not comply with important payroll requirements and processed payroll without supervisory review, leading to more than \$1,300 in improper payments	
Deficiency 3: District withheld and paid almost \$1,400 more to the ASRS than required, potentially improperly impacting an employee’s future retirement benefits	
Recommendations	
Finding 3: District did not comply with some State laws and District policies, resulting in spending monies without Board approval and limiting public transparency into its activities	10
Issue 1: Contrary to State law and District policy, District failed to accept at least \$4,400 of donations during public meetings, limiting public transparency into its activities	
Issue 2: Contrary to State law and District policy, District spent nearly \$900 on food and beverages for District events without Board approval, limiting public transparency into its activities	
Recommendations	
Finding 4: District’s excessive access to its sensitive computerized data and other IT deficiencies increased risk of unauthorized access to sensitive information, data loss, errors, and fraud	12
District has not complied with important IT security requirements and recommended practices	
Deficiency 1: District did not regularly review and limit user access to its network and accounting system, increasing its risk of unauthorized access to sensitive information, data loss, errors, and fraud	



TABLE OF CONTENTS

Deficiency 2: District lacked a process to monitor external party access to its accounting system, increasing its risk of unauthorized access to sensitive information, data loss, errors, and fraud

Deficiency 3: District did not promptly remove users' access to the District's network and accounting system when no longer needed, increasing the District's risk of unauthorized access to sensitive information and data loss

Deficiency 4: District's authentication controls did not meet USFR requirements, putting District operations at risk

District lacked policies and procedures and reported a lack of knowledge of IT requirements, which contributed to its failures to comply with IT requirements

Recommendations

Summary of recommendations: Auditor General makes 22 recommendations to the District 16

Appendix: Objectives, scope, and methodology a-1

District response

Table

1 Criteria for selecting peer school districts for comparative purposes
Fiscal year 2023 a-2

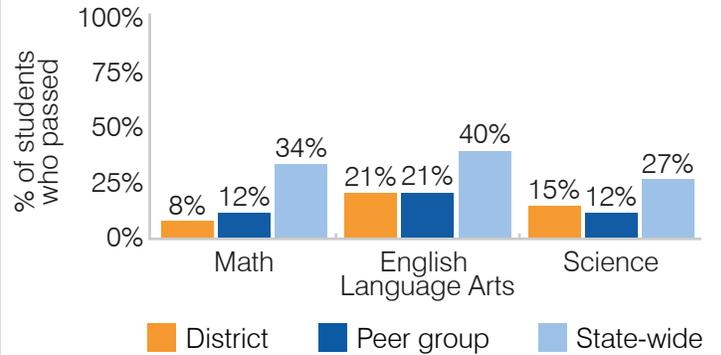
Concho Elementary School District—FY 2023

Demographic information



District type: Rural
County: Apache County
Grades: Pre-kindergarten through 8
Students attending: 166
Number of schools: 1
School letter grade¹: D

Performance on State assessments



¹ If a school receives a “D” or “F” letter grade, the school and district are required to participate in a school improvement program where school and district staff work closely with the Arizona Department of Education (ADE) to perform a comprehensive needs assessment and create an integrated action plan (IAP) that identifies action steps and goals for the school and district to work on during the year to improve student achievement. The District is currently working with ADE to implement its IAP.

District’s operational spending—\$3.7 million (\$22,051 per student)

■ Instructional spending ■ Noninstructional spending



In fiscal year 2023, Concho Elementary School District was among Arizona’s 58 very small school districts. These districts serve fewer than 200 students and are responsible for providing the same facilities and services, such as transportation, meals, and administration, as larger districts. However, unlike larger districts, very small districts cannot take advantage of economies of scale, and their costs are spread over fewer students. Additionally, even relatively small expenses such as building repairs or hiring an additional staff person can substantially affect costs in a particular operational category. As a percentage of total costs, noninstructional spending exceeded instructional spending at 36 of 58 very small districts in fiscal year 2023, and the instructional percentage for very small districts averaged less than 50 percent.

Operational overview

Operational area	Measure	District	Peer average
<p>Administration—lower spending, but District did not comply with some State laws and other requirements in various areas, and other improvements needed</p> <p>The District's administrative spending per student was 30 percent lower than its peer districts averaged. However, District Governing Board members and employees did not comply with conflict-of-interest requirements and recommended practices, which resulted in improper participation in matters in which they had substantial interests (see Finding 1, page 3). Additionally, the District did not comply with important cash-handling and payroll requirements, resulting in overpayments to employees and incorrect retirement withholdings, and increasing the risk of errors and fraud (see Finding 2, page 7). Further, the District did not comply with some State laws and District policies related to accepting donations and providing food and beverages at District events, resulting in spending monies without Board approval and limiting public transparency into District activities (see Finding 3, page 10). Finally, the District's excessive access to its sensitive computerized data and other IT deficiencies increased the risk of unauthorized access to sensitive information, data loss, errors, and fraud (see Finding 4, page 12).</p>	Spending per student	\$2,966	\$4,259
<p>Plant operations—spending measures mixed and no reported findings</p> <p>The District spent 12 percent more per square foot and 13 percent less per student than its peer districts averaged, likely due to the District operating and maintaining 34 percent fewer square feet per student than its peer districts averaged. We did not report any findings in this area.</p>	Spending per square foot	\$10.55	\$9.40
	Spending per student	\$2,600	\$3,000
<p>Food service—lower spending and no reported findings</p> <p>The District spent 39 percent less per meal and 25 percent less per student than its peer districts averaged, likely due to practices that helped the District avoid waste, such as using daily student attendance counts to plan the number of meals to prepare and repurposing excess food for future meals. We did not report any findings in this area.</p>	Spending per meal	\$4.46	\$7.35
	Spending per student	\$797	\$1,067
<p>Transportation—spending measures mixed and no reported findings</p> <p>The District spent approximately 46 percent less per mile and 29 percent more per rider than its peer districts averaged, likely due to contracting with parents for most of its transportation services and transporting its riders more miles, on average, than its peers. We did not report any findings in this area.</p>	Spending per mile	\$1.68	\$3.12
	Spending per rider	\$2,900	\$2,243



Board members and employees did not comply with conflict-of-interest requirements and recommended practices, which resulted in improper participation in matters in which they had substantial interests and reduced public transparency

Statute addresses conflicts of interest for public agency employees and public officers, including school district employees and Board members

State conflict-of-interest laws and District policy requires public officers and employees to avoid conflicts of interest that might influence or affect their official conduct. To determine whether a conflict of interest exists, employees/public officers must first evaluate whether they or a relative has a “substantial interest” in (1) any contract, sale, purchase, or service to the District or (2) any decision of the District. Additionally, according to the *Uniform System of Financial Records for Arizona School Districts* (USFR), districts should establish procedures to ensure that all employees and Governing Board (Board) members comply with conflict-of-interest laws.¹

If an employee/public officer or a relative has a substantial interest, statute and District policy require the employee/public officer to fully disclose the interest and refrain from voting upon or otherwise participating in the matter in any way as an employee/public officer.^{2,3} The interest must be disclosed in the District’s official records, either through a signed document or the Board’s official minutes. Further,

Key terms

- **Substantial interest**—Any direct or indirect monetary or ownership interest that is not hypothetical and is not defined in statute as a “remote interest.”
- **Remote interest**—Any of several specific categories of interest defined in statute that are exempt from the conflict-of-interest requirements. For example, an employee or public officer who is reimbursed for actual and necessary expenses incurred while performing official duties.

Source: Auditor General staff review of A.R.S. §38-502 and the *Arizona Agency Handbook*. Arizona Office of the Attorney General. (2018). *Arizona agency handbook*. Phoenix, AZ. Retrieved 4/23/2024 from <https://www.azag.gov/outreach/publications/agency-handbook>.

¹ The USFR and related guidance is developed by the Arizona Auditor General and ADE pursuant to Arizona Revised Statutes (A.R.S.) §15-271. The USFR and related guidance prescribe the minimum internal control policies and procedures to be used by Arizona school districts for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements, and are in conformity with generally accepted practices and federal and State laws.

² A.R.S. §§38-502 and 38-503(A) and (B).

³ A.R.S. §38-502(8) defines “public officer” as all elected or appointed officers of a public agency established by charter, ordinance, resolution, State constitution, or statute. According to the *Arizona Agency Handbook*, public officers include directors of State agencies and members of State boards, commissions, and committees—whether paid or unpaid.

conflict-of-interest recommended practices indicate that employees should attest that they do not have any of these potential conflicts, if applicable, also known as an “affirmative no” on their disclosure form. In addition, statute requires public agencies and political subdivisions, including school districts, to maintain a special file of all documents necessary to memorialize all disclosures of substantial interest, including disclosure forms and Board meeting minutes, and to make this file available for public inspection.⁴

In response to conflict-of-interest noncompliance and violations investigated in the course of our work, such as employee/public officers failing to disclose substantial interests and participating in matters related to these interests, we have recommended several practices and actions to various school districts, State agencies, and other public entities.⁵ Our recommendations are based on recommended practices for managing conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements by reminding employee/public officers of the importance of complying with the State’s conflict-of-interest laws.⁶ Specifically, conflict-of-interest recommended practices indicate that all public employees and public officers complete a disclosure form annually. These recommended practices also advise developing a formal remediation process and providing periodic training to ensure that identified conflicts are appropriately addressed and help ensure conflict-of-interest requirements are met.

District’s conflict-of-interest procedures were not aligned with State requirements, District policy, and recommended practices, and a Board member and District employees improperly participated in matters in which they had substantial interests

Contrary to recommended practices, District officials indicated that Board members are only required to complete a conflict-of-interest form when their term commences and again if a conflict arises, and employees are not required to complete a form unless a conflict exists. We reviewed all conflict-of-interest forms the District maintained for fiscal year 2023 and found that no employees had completed a conflict-of-interest form. However, we identified 4 District employees who worked with close relatives, posing potential conflicts of interest that the employees should have disclosed. Additionally, although 5 of 6 Board members who served in fiscal year 2023 had completed conflict-of-interest forms, the 2 Board members who disclosed potential conflicts on their form did not provide enough information to fully disclose their conflicts, failing to include details such as their title, role, responsibilities, relationship, or compensation.⁷ Although the District’s conflict-of-interest forms require that the person reporting a substantial interest describe the substantial interest, the District did not ensure the 2 Board members described the nature of the substantial interests identified on their forms. Finally, although District policy requires employees/public officers to refrain from voting upon or otherwise participating in substantial interests in any way as an employee/public officer, the District does not have any documented procedures to review and remediate disclosed conflicts-of-interest. Further, the District does not provide training on the importance of complying with conflict-of-interest requirements. Establishing documented review and remediation procedures and training would help ensure its Board members and employees refrain from participating in matters in which they have conflicts of interest.

⁴ A.R.S. §§38-509 and 38-502.

⁵ See, for example, Auditor General reports: 21-402 *Higley Unified School District—Criminal indictment—Conspiracy, procurement fraud, fraudulent schemes, misuse of public monies, false return, and conflict of interest*, 19-105 *Arizona School Facilities Board—Building Renewal Grant fund*, and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

⁶ Recommended practices we reviewed included: Organization for Economic Cooperation and Development (OECD). (2022). *Recommendation of the council on OECD guidelines for managing conflict of interest in the public service*. Paris, France. Retrieved 4/29/24 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource*. Arlington, VA. Retrieved 4/29/2024 from <https://www.ethics.org/wp-content/uploads/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; Controller and Auditor General of New Zealand. (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 4/29/24 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>

⁷ The District could not provide documentation of a completed conflict-of-interest form for 1 District Board member who retired from the Board in December 2022 and was replaced by a newly appointed Board member in January 2023.

The deficiencies in the District's conflict-of-interest process described above likely contributed to instances we identified in which Board members or District employees improperly participated in matters in which they may have had substantial interests. Specifically:

- **Contrary to statute and District policy, a Board member approved more than \$7,000 in District payments to a business for which he had a substantial interest**—One District Board member serves as the director for the District's internet and IT technical support services provider.⁸ In January 2023, the Board member disclosed this substantial interest on his conflict-of-interest form only by including the name of the business without fully describing his substantial interest. Specifically, the Board member failed to disclose details about his job title, role, or responsibilities associated with the substantial interest. During fiscal year 2023, the Board member signed 5 voucher forms and voted on consent agenda items in 7 public meetings to approve District payments totaling \$7,125 to the business for which he had disclosed a substantial interest.⁹ District officials indicated that they were not aware that his participation in the voucher forms and consent agenda voting related to the disclosed conflict was improper. However, by participating in the approval of District payments to the business for which he had a substantial interest, the Board member may not have complied with State conflict-of-interest laws designed to protect public monies, thereby limiting transparency into the District's activities.
- **Employees did not disclose potential substantial interests that likely contributed to a \$671 overpayment to an employee**—As previously discussed, during our review, we identified at least 4 District employees who had not completed a conflict-of-interest form and who therefore had not disclosed potential substantial interests that they should have disclosed. In the case of 2 of these employees, an undisclosed conflict-of-interest between a former acting District administrator and his spouse likely contributed to an overpayment of \$671 to the former acting District administrator (See Finding 2 for more information about the District's payroll deficiencies, which also contributed to this overpayment). Specifically, for 10 days in March and April 2023, the employee served as the acting District administrator. At a Board meeting on April 11, 2023, where the employee was in attendance, the Board approved paying the employee an additional \$140 per day for the 10 days he served as acting District administrator. Following the Board meeting, on April 12, 2023, the former acting District administrator submitted and approved a form granting himself 17 hours of compensatory time for time he spent working as the acting District administrator, which was processed by his spouse who was responsible for the District's payroll. He used the 17 hours of compensatory time to take leave from work, costing the District \$671 and effectively compensating himself twice for the same duties. The District identified the \$671 overpayment and brought it to our attention during the audit. The District reported it planned to take action to seek repayment from the former acting District administrator, but as of July 2024, it had not yet done so.

When we discussed this overpayment with the former acting District administrator, he stated the compensatory time used was accrued at a workshop he attended unrelated to his acting administrator duties. However, our review found that the former acting District administrator used the compensatory time he accrued for the workshop in a previously submitted absence report and current District officials agreed the \$671 was an overpayment. Although the former District administrator should not have approved his own compensatory time and his spouse should not have been involved in processing payroll for him, if the District had required employees to annually disclose conflicts-of-interest and took action to remediate disclosed conflicts, it could have taken action to ensure that the acting administrator's spouse was not involved in approving or processing payments to the acting administrator and may have helped prevent the overpayment.

District officials reported that due to the District's small size, policies and procedures related to conflict-of-interest remediation were not necessary as the involved employees or Board members would be aware of any conflicts and not participate in business related to the conflicts. Similarly, District officials stated the District's

⁸ We reviewed the District's procurement of its internet and IT technical support services and did not identify concerns related to the procurement.

⁹ All 5 District Board members signed the 5 voucher forms to approve District payments to the business for which the Board member had disclosed a substantial interest, and the District's Board members voted unanimously to approve consent agenda items in the 7 public meetings.

small size and familiarity with employees allowed them to be aware of any potential conflicts-of-interest absent formal disclosure forms and therefore, did not require all employees to complete conflict-of-interest disclosure forms. However, as previously discussed, the District did not identify or take action to remediate the conflicts of interest previously discussed due to deficiencies in the District's conflict-of-interest procedures. Additionally, the District did not have a process to identify or otherwise notify Board members of any payments within meeting packets that posed a conflict of interest so Board members knew to refrain from approving the voucher form or voting on consent agenda items related to their substantial interests. As a result, District employees and a Board member may have acted contrary to the State's conflict-of-interest laws when they participated in matters in which they may have had a substantial interest.

By not following key conflict-of-interest requirements, the District increases the risk that other Board members or employees may not disclose matters in which they have a substantial interest or refrain from participating in those matters that could influence or affect their official conduct. Further, conflict-of-interest requirements and recommended practices help provide transparency to the public by ensuring the decisions of employees/public officers are made in the interest of the public and not in the self-interest of the employee/public officer. The District establishing a written procedure requiring Board members and employees to annually disclose on a District form substantial interests and affirm that they will refrain from participating in approving any contract, sale, purchase, or service to the District or any decision of the District representing a substantial interest would help ensure its Board members and employees comply with the State's conflict-of-interest laws and improve transparency into the District's activities. Additionally, the District including information about the importance of employees complying with the State's conflict-of-interest laws and District policy as part of its trainings could help further assist with this compliance.

Recommendations

The District should:

1. Develop and/or update and implement conflict-of-interest policies and procedures for:
 - a. Requiring all Board members and employees to complete a conflict-of-interest disclosure form upon the start of their terms or upon hire, annually, or when circumstances change, including fully describing any substantial interest or attesting that no conflicts exist, if applicable.
 - b. Helping Board members identify meeting agenda items involving their interests, such as notating Board meeting agendas and/or adding vendor names to the voucher forms or consent agenda items, to identify items for which Board members have conflicts based on the interests listed on their forms.
 - c. Ensuring Board members and employees refrain from participating in any decision, contract, sale, purchase, or service for which they have a substantial interest.
2. Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure forms to its Board members and employees, including how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

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



District did not comply with important cash-handling and payroll requirements, resulting in overpayments to employees and incorrect retirement withholdings, and increasing risk of errors, fraud, and improper payments

As part of our review, we identified 3 primary deficiencies in the District's internal controls and failure to follow requirements set forth by the USFR and State laws that resulted in an increased risk of errors, fraud, and improper payments. See the details below.

Deficiency 1: District did not always prepare receipts or deposit cash timely, increasing the risk of errors and fraud

The USFR requires districts to establish and maintain effective policies and procedures to safeguard cash, prevent its loss or misuse, provide prompt and intact depositing, and ensure accurate recording.¹⁰ The USFR further requires districts to prepare evidence of receipt, such as by using sequential, prenumbered receipts, for each cash payment received. Additionally, the USFR requires districts to deposit cash at least weekly, or daily when amounts are significant. In accordance with USFR requirements, District policy states that all monies collected shall be receipted, accounted for, and directed without delay to the proper location of deposit. However, our review of all 15 cash transactions totaling \$7,536 that the District deposited with the County in November 2022 found that the District did not prepare evidence of receipt for 7 of 15 transactions, totaling \$5,519.¹¹ Further, the District's front office collects cash for services such as notarizations, faxes, and copies. We reviewed all cash collected by the front office in fiscal years 2022 and 2023, totaling \$519, and found that the District does not consistently timely deposit cash the front office collects in accordance with USFR and District policy requirements. Specifically, due to the small amount of cash the front office collects, the District reported it created an informal process in which cash the front office collects is deposited at the front office staff's discretion. However, our review of the District's fiscal years 2022 and 2023 front office cash logs identified only 3 instances during these 2 years of the District preparing deposits for cash the front office collected, resulting in an average of 10 months between each deposit.

District officials reported it was not necessary for the District to issue receipts for every transaction because the District used the physical check as documentation to support the transaction. Additionally, District officials stated that cash the front office collected was not always timely deposited because of the relatively small amount of cash collected and the administrative burden of depositing monies. However, the District is responsible for following USFR requirements, including that its cash collection-procedures appropriately safeguard public monies. Although the District indicated it relied on the physical checks it receives as documentation to support cash transactions, if a physical check is lost or stolen, the District lacks any

¹⁰ The term "cash" used throughout this report includes cash (coins and dollars), checks, and any other physical form of payment, such as money orders.

¹¹ These cash collections included those from extracurricular tax credits, student fundraisers, and other collections.

documentation to support the check's receipt. The District's failure to establish and maintain effective procedures to safeguard its cash increased its risk of errors and fraud and may have resulted in noncompliance with USFR requirements, and the District could not demonstrate that all public monies received had been recorded and deposited. The District formalizing a cash-collection process, including preparing sequential, prenumbered receipts for cash received, and timely depositing cash, would help it ensure it safeguards public monies and complies with USFR requirements.

Deficiency 2: District did not comply with important payroll requirements and processed payroll without supervisory review, leading to more than \$1,300 in improper payments

The USFR requires school districts to maintain separation of duties over payroll processing so that the same employee is not assigned the responsibilities for preparing payroll, authorizing payroll, and distributing warrants. Further, the USFR requires school districts to establish effective internal controls over payroll to comply with statutory requirements and ensure that evidence of review, verification, and approval is maintained. However, our review of all 35 classified employees who received performance payments in fiscal year 2023 found that the District had not established effective internal controls over payroll, including ensuring adequate separation of responsibilities and supervisory review, resulting in an overpayment of \$650 to 1 employee in fiscal year 2023 because the District erroneously paid the employee's performance payment twice. Similarly, during our review, the District identified and reported payments another employee received in fiscal year 2023 for serving as the District's acting administrator. We reviewed these payments and confirmed an overpayment of \$671 because the District incorrectly paid out compensatory time accrued while performing acting administrator duties for which the employee was already compensated (See Finding 1 for more information about the District's noncompliance with conflict-of-interest requirements that likely contributed to this overpayment).

District officials reported they were not aware that the previous payroll specialist had incorrectly overpaid 1 classified staff member a total of \$650 or that the former acting District administrator was overpaid a total of \$671 because, contrary to USFR requirements, the District did not maintain adequate separation of responsibilities, which would have ensured supervisory review for these payments prior to processing payroll. Further, the District did not maintain adequate separation of responsibilities in payroll processing by allowing the former acting District administrator to approve their own compensatory pay. However, as discussed previously, the District is responsible for following USFR requirements, including ensuring that its payroll procedures appropriately safeguard public monies. The District's failure to establish and maintain effective procedures to ensure separation of responsibilities in payroll processing and proper supervisory review of payroll payments and other information in its accounting system increases its risk of errors, fraud, and improper payments being made.

Deficiency 3: District withheld and paid almost \$1,400 more to the ASRS than required, potentially improperly impacting an employee's future retirement benefits

The Arizona State Retirement System (ASRS) provides retirement and other benefits to employees of participating school districts and other State and local governmental entities. The ASRS is funded equally by employer and employee contributions, which are calculated as a percentage of each employee's compensation. However, according to statute, certain payments made to employees should not be included as compensation for this calculation, such as payments made upon termination of employment.¹² Employers are responsible for withholding employee contributions from employee payroll and sending all employee and employer contributions to ASRS. In fiscal year 2023, when the District calculated ASRS contributions for 1 employee who received a termination payment, it improperly included this payment as compensation,

¹² A.R.S. §38-711(7)(a).

which should have been excluded, in accordance with statute.¹³ As a result, the District withheld nearly \$700 more from this employee's pay than it should have and paid almost \$1,400 more to the ASRS than required, which included the employee's and the District's ASRS contributions. Additionally, because average monthly compensation is used to calculate an employee's monthly retirement benefit, improperly including the termination payment as compensation may have resulted in permanent miscalculations to this employee's monthly retirement benefit.

According to District officials, the termination payments were reported to the ASRS the same way they were in the past, and the District did not know why the payments had been included as compensation. District officials further reported that the District has offered similar termination payments to employees since at least 2010 and provided documentation of 16 employees who received these payments in prior years.

Recommendations

The District should:

3. Develop and implement written procedures to ensure compliance with USFR requirements and District policies related to cash-handling, and train District employees with cash-handling responsibilities on these procedures.
4. Prepare and maintain evidence for all cash received, including by issuing sequential, prenumbered receipts, and reconcile deposits to cash collection documentation to ensure all cash received was appropriately deposited.
5. Deposit timely all front office cash collected, such as by depositing these monies at the same time as other routine District deposits.
6. Identify and correct all overpayments made to employees since the beginning of fiscal year 2023.
7. Develop and implement a review process in accordance with USFR requirements to ensure proper separation of responsibilities are established in payroll processing and employees are paid accurately.
8. Work with the ASRS to identify and correct any errors made when making termination payments to former employees.
9. Develop and implement written policies and procedures specifying the types of payments to employees that should be included as compensation for the calculation of ASRS benefits that comply with State laws and regulations.

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

¹³ A.R.S. §38-711(7)(a)(i).



District did not comply with some State laws and District policies, resulting in spending monies without Board approval and limiting public transparency into its activities

In fiscal year 2023, the District did not comply with State law and District policies for accepting donations in public meetings and providing food and beverages at District events. As a result, the District limited public transparency into its activities and spent District monies without demonstrating it had been authorized to do so. See the details below.

Issue 1: Contrary to State law and District policy, District failed to accept at least \$4,400 of donations during public meetings, limiting public transparency into its activities

According to State law, school district governing boards' business is required to be conducted at regular or special meetings, and specifically, the acceptance of a gift by a school board is school business, requiring compliance with open meeting laws.¹⁴ We reviewed the District's fiscal year 2023 accounting records and Board meeting minutes and associated documentation and identified 12 cash donations to the District totaling \$4,479 without evidence that the donations were reported to the Board for review and acceptance. Specifically, consistent with the State's open meeting laws, District policy requires staff to report all donations to the Board for review and action, and to acknowledge the receipt and value of any accepted donation.¹⁵ However, our review of all fiscal year 2023 Board meeting minutes found that, contrary to its policy, District staff had not acknowledged or provided information to the Board about the value of the 12 cash donations we identified that came from various sources, including community members and charitable organizations. Additionally, contrary to requirements, the Board did not vote in public meetings to accept those donations on the District's behalf.

As previously discussed, District policy requires staff to report all donations to the Board for review and action and to acknowledge the receipt and value of donations. However, the District lacked written procedures to help ensure that District staff and the Board complied with District policy and open meeting law requirements when accepting donations, including ensuring that the Board voted to accept donations in public meetings. District officials also indicated that they were unaware of the requirement to accept donations in public meetings. Strengthening its existing policy and establishing written procedures to require that the District publicly acknowledge the receipt, value, and purpose for each donation, and that the District accepts donations only by the Board voting to accept them in public meetings, would help ensure transparency of the District's activities and compliance with the State's open meeting laws.

¹⁴ In assessing whether the acceptance of a gift by a school board is school business, Op. Ariz. Att'y Gen. I80-156 (August 13, 1980) determined that a school district governing board can accept a gift only through action at an open meeting. A.R.S. §15-321(E) requires school district governing boards' business to be conducted at regular or special meetings, which superseded A.R.S. §15-432(D).

¹⁵ A.R.S. §38-431.01(A) requires that board meetings be open to the public and that the public is permitted to attend and listen to board meeting deliberations and proceedings.

Issue 2: Contrary to State law and District policy, District spent nearly \$900 on food and beverages for District events without Board approval, limiting public transparency into its activities

According to statute, district governing boards may provide food and beverages at district events, including trainings and other official school functions, subject to certain restrictions, including the Arizona Constitution's gift clause and laws pertaining to travel and subsistence.^{16,17} Similarly, District policy indicates that the Board may provide food and beverages at District events, including official school functions and trainings. However, we found that the District may have acted contrary to statute and did not follow its policy when it provided almost \$900 in food and beverages during fiscal year 2023 at District events such as a board meeting, staff orientation, and community events without prior Board approval, resulting in it spending District monies without demonstrating it had been authorized to do so.

The District reported that it believed that it had authority to provide food and beverages at District events without specific Board approval for each event and related expenditure. However, as previously discussed, only governing boards are statutorily authorized to provide food and beverages at District events, subject to the gift clause and other restrictions.¹⁸ By spending public monies on food and beverages without obtaining prior Board approval for each purchase, the District cannot demonstrate that the Board had authorized it to make those purchases, limiting public transparency into its activities and using District monies that could have been redirected for other District priorities, such as instruction. Additionally, the District could not provide documentation supporting the public purpose and benefit the District received from each event for which it provided food and beverages. As a result, the District cannot demonstrate that its food and beverage purchases adhered to the Arizona Constitution's gift clause.

Recommendations

The District should:

10. Ensure it acknowledges the receipt, purpose, and value of donations and that the Governing Board accepts all donations during meetings open to the public.
11. In consultation with legal counsel, strengthen existing policies and develop and implement written policies and procedures governing open meetings. These policies and procedures should specifically require the Governing Board to accept donations in public meetings and require the District to acknowledge the contribution's receipt, purpose, and value during public meetings.
12. Consult with legal counsel and the Arizona Attorney General's Office to ensure that any District actions taken contrary to open meeting laws are appropriately addressed to be made valid.
13. Include in its employee training information regarding the importance of complying with State laws related to open meetings.
14. Stop providing food and beverages for any purposes without prior Board approval.
15. After Board approval, ensure it documents the public purpose and benefit of providing food and beverages at District events. For each allowable District event, the District should document its statutory authority, document the public purpose and benefit of providing food and beverages at the event, ensure the event and all purchases are in accordance with its policies, and maintain documentation supporting all purchases.

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

¹⁶ A.R.S. §15-342(39).

¹⁷ Arizona Constitution, Art. IX, §7, commonly referred to as "Arizona's gift clause," requires that a governmental entity only use public monies for a public purpose and that the value to be received by the public is not to be far exceeded by the consideration being paid by the public.

¹⁸ A.R.S. §15-342(39).



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

District has not complied with important IT security requirements and recommended practices

The USFR and credible industry standards, such as those developed by the National Institute of Standards and Technology (NIST), set forth important IT security practices that help districts safeguard sensitive information and prevent errors, fraud, and data loss.¹⁹ However, our review of the District's IT security practices identified several deficiencies, including noncompliance with USFR requirements and practices inconsistent with credible industry standards, that increased its risk for unauthorized access to sensitive information, data loss, errors, and fraud. See the details below.

Deficiency 1: District did not regularly review and limit user access to its network and accounting system, increasing its risk of unauthorized access to sensitive information, data loss, errors, and fraud

The USFR requires that school districts limit users' access to information and restrict the types of access to only what is necessary for users to carry out their assigned job duties. Credible industry standards recommend that districts develop policies and procedures to regularly review and limit user access, which would help the District ensure it meets this USFR requirement. However, our February 2024 review of accounting system access levels for the District's 11 active users at the time of our review found that 4 District users' access was more than what was necessary to complete their job duties and allowed these users the ability to initiate and complete payroll and/or purchasing transactions without another employee reviewing and approving the transactions. As a result, the District increased its risk for errors and fraud because these users could have completed payroll and/or purchasing transactions or changes without a second employee to verify the transactions or changes were accurate and appropriate. The District also granted administrator-level access in its accounting system to 2 business office employees, providing them with full control over accounting system settings, such as the ability to add new users, modify the level of access users have in the accounting system, and grant themselves full access to view and edit all accounting system data. By not restricting access to its systems consistent with USFR requirements and credible industry standards, the District increases the risk of unauthorized access to sensitive information, data loss, errors, and fraud. For example, users with administrator-level access could process false invoices; change employee pay rates, including their own; or add and pay nonexistent vendors or employees without detection.

¹⁹ National Institute of Standards and Technology (NIST). (2020). *NIST Special Publication 800-53(R5): Security and privacy controls for information systems and organizations*. Gaithersburg, MD. Retrieved 4/15/24 from <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP800-53r5.pdf>

Similarly, we reviewed user accounts on the District's network in September 2023 and found that the District had inappropriately granted administrator-level access to 11 of the District's 205 active user accounts that did not require it. As a result, the District increased its risk of security breaches and data loss because hackers typically target administrator accounts for their greater access privileges. Although we did not identify any improper transactions due to these deficiencies, system access beyond what is needed for an employee's job duties increases the risk of errors and fraud. After bringing this issue to the District's attention, the District removed administrator-level access for all 11 user accounts.

Deficiency 2: District lacked a process to monitor external party access to its accounting system, increasing its risk of unauthorized access to sensitive information, data loss, errors, and fraud

As stated previously, the USFR requires that school districts limit users' access to information and restrict the types of access to only what is necessary for users to carry out their assigned duties. When that is not possible, credible industry standards recommend that entities implement compensating controls to reduce risk to an acceptable level as compensating controls provide alternative and suitable security and privacy protections to facilitate risk management.²⁰ Our February 2024 review of accounting system access levels identified 4 active system users with administrator-level access associated with County employees. Additionally, we identified 2 active system users with broad access associated with County employees that allowed these users to initiate and complete payroll and/or purchasing transactions without another user reviewing and approving the transactions. District officials stated this level of external access was necessary due to the County hosting the District's accounting system and providing support services. However, the District had not implemented compensating controls, such as regularly reviewing County employee user activity logs and documenting these reviews, as recommended by credible industry standards to reduce the risk of these users performing unauthorized activities in the accounting system. As described above, broad system access increases the District's risk of errors and fraud going undetected as well as the risk of unauthorized access to and loss of sensitive data or disruption of some District operations. By not implementing compensating controls to ensure that the activities performed by the County users with administrator-level and broad access are necessary and appropriate, the District increases the risk that unauthorized activities may be performed by these users and may go undetected by the District.

Deficiency 3: District did not promptly remove users' access to the District's network and accounting system when no longer needed, increasing the District's risk of unauthorized access to sensitive information and data loss

The USFR requires that when user accounts are no longer needed, access to information systems should be immediately disabled. However, our September 2023 review of the District's 205 active user accounts with access to the District's network found that 15 network user accounts were active despite no longer being needed. These 15 accounts were associated with District employees or contractors who were not employed by or had not provided services to the District for between 2 months to nearly 2 years prior to our review. Because these terminated users' network accounts were still active, the District increased its risk of unauthorized access to its sensitive information and potential data loss. After we notified the District of these 15 network accounts, District officials disabled all 15 accounts we identified that were no longer necessary. Similarly, our September 2023 review of the District's 14 active user accounts with access to the District's accounting system found that 3 user accounts were active despite being no longer needed and should have been disabled or removed from the system. Although we did not identify any improper transactions due to these deficiencies, the District increased its risk of unauthorized access to sensitive information and data loss. After we notified the District of these 3 accounting system accounts, District officials disabled all 3 accounts.

²⁰ National Institute of Standards and Technology (NIST). (2020). *NIST Special Publication 800-53B: Control baselines for information systems and organizations*. Gaithersburg, MD. Retrieved 3/19/24 from <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP800-53B.pdf>

Deficiency 4: District's authentication controls did not meet USFR requirements, putting District operations at risk

The USFR requires that districts implement multifactor authentication (MFA) for all users with remote access, administrative access, and access to its critical IT systems or implement compensating controls if any of these systems are not capable of implementing MFA. However, as of January 2024, the District did not require MFA to sign in to some systems to adequately secure these systems and related data. As a result, the District increased the risk that unauthorized individuals could access sensitive District information and disrupt District operations.

District lacked policies and procedures and reported a lack of knowledge of IT requirements, which contributed to its failures to comply with IT requirements

The District had not taken steps required by the USFR, such as developing policies and procedures, to ensure it complied with important IT requirements and District officials reported various reasons for the IT deficiencies we identified. Specifically, the District reported it did not limit accounting system and network user access because the District was unaware of the excessive access its users had within the accounting system and network. Additionally, the District reported that it did not regularly review external party activity logs and document these reviews because the District was unaware of the USFR requirements and credible industry standards that recommend doing so. However, the USFR, which districts are required to follow, provides guidance and resources for districts to implement IT requirements. Further, the District did not have a formal process to review access levels or to identify user accounts that were no longer needed within the accounting system and network. According to District officials, the District's IT specialist was not immediately notified when network user accounts were no longer needed due to turnover of the responsible staff member during fiscal year 2023. District officials further reported that they did not implement MFA into its critical IT systems because it was not a high priority for the District, despite it being a critical safeguard for protecting sensitive District systems and information.

Recommendations

The District should:

16. Limit employees' access in the accounting system to only those accounting system functions needed to perform their job duties, including transferring administrator-level access to someone outside the business office.
17. Develop and implement a process to assign new employees appropriate accounting system access, change employees' access if their assigned duties change, and periodically review users' access to help ensure employees have only the system access necessary to perform their job duties.
18. Develop and implement policies and procedures to periodically review network accounts to ensure access aligns with job duties and change access, as necessary, when the periodic reviews identify accounts with more access than necessary or accounts that are no longer needed.
19. Work with the County to review and limit the access of County accounting system user accounts to only those functions needed to support the District and ensure that no single user can initiate and complete a transaction without an independent review and approval. If County users' access cannot be limited due to the responsibilities they perform for the District, the District should implement compensating controls, such as a process for regularly reviewing County employee user activity logs and documenting these reviews, to limit risks of unauthorized access, errors, and fraud.
20. Develop and implement a process to ensure that network and accounting system user accounts are promptly disabled or removed when they are no longer needed.

21. Implement and enforce strong authentication controls such as multifactor authentication for all critical IT systems as required by the USFR, to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.
22. Develop and implement policy and procedures to review the District's authentication controls against USFR requirements at least annually and update its authentication controls as necessary to ensure they align with USFR requirements.

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



SUMMARY OF RECOMMENDATIONS

Auditor General makes 22 recommendations to the District

The District should:

1. Develop and/or update and implement conflict-of-interest policies and procedures for:
 - a. Requiring all Board members and employees to complete a conflict-of-interest disclosure form upon the start of their terms or upon hire, annually, or when circumstances change, including fully describing any substantial interest or attesting that no conflicts exist, if applicable (see Finding 1, pages 3 through 6, for more information).
 - b. Helping Board members identify meeting agenda items involving their interests, such as notating Board meeting agendas and/or adding vendor names to the voucher forms or consent agenda items, to identify items for which Board members have conflicts based on the interests listed on their forms (see Finding 1, pages 3 through 6, for more information).
 - c. Ensuring Board members and employees refrain from participating in any decision, contract, sale, purchase, or service for which they have a substantial interest (see Finding 1, pages 3 through 6, for more information).
2. Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure forms to its Board members and employees, including how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities (see Finding 1, pages 3 through 6, for more information).
3. Develop and implement written procedures to ensure compliance with USFR requirements and District policies related to cash-handling, and train District employees with cash-handling responsibilities on these procedures (see Finding 2, pages 7 through 9, for more information).
4. Prepare and maintain evidence for all cash received, including by issuing sequential, prenumbered receipts, and reconcile deposits to cash collection documentation to ensure all cash received was appropriately deposited (see Finding 2, pages 7 through 9, for more information).
5. Deposit timely all front office cash collected, such as by depositing these monies at the same time as other routine District deposits (see Finding 2, pages 7 through 9, for more information).
6. Identify and correct all overpayments made to employees since the beginning of fiscal year 2023 (see Finding 2, pages 7 through 9, for more information).
7. Develop and implement a review process in accordance with USFR requirements to ensure proper separation of responsibilities are established in payroll processing and employees are paid accurately (see Finding 2, pages 7 through 9, for more information).
8. Work with the ASRS to identify and correct any errors made when making termination payments to former employees (see Finding 2, pages 7 through 9, for more information).

9. Develop and implement written policies and procedures specifying the types of payments to employees that should be included as compensation for the calculation of ASRS benefits that comply with State laws and regulations (see Finding 2, pages 7 through 9, for more information).
10. Ensure it acknowledges the receipt, purpose, and value of donations and that the Governing Board accepts all donations during meetings open to the public (see Finding 3, pages 10 through 11, for more information).
11. In consultation with legal counsel, strengthen existing policies and develop and implement written policies and procedures governing open meetings. These policies and procedures should specifically require the Governing Board to accept donations in public meetings and require the District to acknowledge the contribution's receipt, purpose, and value during public meetings (see Finding 3, pages 10 through 11, for more information).
12. Consult with legal counsel and the Arizona Attorney General's Office to ensure that any District actions taken contrary to open meeting laws are appropriately addressed to be made valid (see Finding 3, pages 10 through 11, for more information).
13. Include in its employee training information regarding the importance of complying with State laws related to open meetings (see Finding 3, pages 10 through 11, for more information).
14. Stop providing food and beverages for any purposes without prior Board approval (see Finding 3, pages 10 through 11, for more information).
15. After Board approval, ensure it documents the public purpose and benefit of providing food and beverages at District events. For each allowable District event, the District should document its statutory authority, document the public purpose and benefit of providing food and beverages at the event, ensure the event and all purchases are in accordance with its policies, and maintain documentation supporting all purchases (see Finding 3, pages 10 through 11, for more information).
16. Limit employees' access in the accounting system to only those accounting system functions needed to perform their job duties, including transferring administrator-level access to someone outside the business office. (see Finding 4, pages 12 through 15, for more information).
17. Develop and implement a process to assign new employees appropriate accounting system access, change employees' access if their assigned duties change, and periodically review users' access to help ensure employees have only the system access necessary to perform their job duties (see Finding 4, pages 12 through 15, for more information).
18. Develop and implement policies and procedures to periodically review network accounts to ensure access aligns with job duties and change access, as necessary, when the periodic reviews identify accounts with more access than necessary or accounts that are no longer needed (see Finding 4, pages 12 through 15, for more information).
19. Work with the County to review and limit the access of County accounting system user accounts to only those functions needed to support the District and ensure that no single user can initiate and complete a transaction without an independent review and approval. If County users' access cannot be limited due to the responsibilities they perform for the District, the District should implement compensating controls, such as a process for regularly reviewing County employee user activity logs and documenting these reviews, to limit risks of unauthorized access, errors, and fraud (see Finding 4, pages 12 through 15, for more information).
20. Develop and implement a process to ensure that network and accounting system user accounts are promptly disabled or removed when they are no longer needed (see Finding 4, pages 12 through 15, for more information).

21. Implement and enforce strong authentication controls such as multifactor authentication for all critical IT systems as required by the USFR, to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations (see Finding 4, pages 12 through 15, for more information).
22. Develop and implement policy and procedures to review the District's authentication controls against USFR requirements at least annually and update its authentication controls as necessary to ensure they align with USFR requirements (see Finding 4, pages 12 through 15, for more information).



Objectives, scope, and methodology

We conducted a performance audit of Concho 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 2023 in the 4 operational areas bulleted below because of their effect on instructional spending, as previously reported in our annual *Arizona School District Spending Analysis*. 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 categories:

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 school 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 2023 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 5 of 64 individuals who received payments in fiscal year 2023 through the District's payroll system and reviewed supporting documentation for 6 of 3,213 fiscal year 2023 accounts payable transactions. We reviewed fiscal year 2023 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 applicable internal controls in Findings 1 through 4 (see pages 3 through 15).

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, type, and location because these factors have been shown to be associated with student achievement. We used this peer group to compare the District’s fiscal year 2023 student passage rates on State assessments as reported by ADE. We also reported the District’s fiscal year 2023 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 Concho ESD, increasing or decreasing student enrollment by just 5 or 10 students or employing 1 additional part-time position can substantially impact the district’s costs per student in any given year. As a result, and as noted in the *Arizona School District Spending Analysis—Fiscal year 2023*, 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 reviews and analysis of the District’s operations.

Table 1
Criteria for selecting peer school districts for comparative purposes
Fiscal year 2023

Comparison areas	Factors	Group characteristics	Number of districts in peer group
Student achievement	Poverty rate	Between 29% and 37%	11
	District type	Elementary school districts	
	Location	Towns and rural areas	
Administration, plant operations and maintenance, food service, and transportation	District size	Fewer than 200 students	58 ¹
	Location	Towns and rural areas	

¹ Very small districts were grouped into the same transportation and operational peer group, but the transportation peer group only includes 53 of these districts as 5 districts do not provide transportation.

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 and number of students 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 operational areas we reviewed 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. We also interviewed District Governing Board members, officials from the Arizona State Retirement System, Arizona Department of Public Safety, ADE, and the Maricopa County School Superintendent’s Office.
- **Observations**—To further evaluate District operations, we observed various day-to-day activities in the operational areas we reviewed. 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 Arizona Department of Administration’s School Facilities Oversight Board, and transportation safety reports provided by the Department of Public Safety. Additionally, we reviewed ADE’s School Health and Nutrition Programs Administrative Review audit reports, and District-submitted compliance questionnaire results that its contracted external audit firm completed.
- **Documentation reviews**—We reviewed various sets of District-provided documentation including all fiscal year 2023 credit card statements; supporting documentation for all credit card purchases made in February 2023; November 2022 bank statements and cash transaction documentation; and all fiscal year 2022 and 2023 front office cash collection logs. Additionally, we analyzed payroll performance pay payments made to all 35 eligible employees in fiscal year 2023. We also reviewed donation policies and all fiscal year 2023 donation acknowledgement forms maintained by the District; District conflict-of-interest policies and all fiscal year 2023 conflict-of-interest disclosure forms; and all fiscal year 2023 Governing Board meeting minutes and associated voucher approval documentation. Additionally, we reviewed driver files for all 7 District school bus drivers and its 1 van driver; all fiscal year 2023 daily school bus pre-trip inspection sheets; the fiscal year 2023 DPS inspection reports for all school buses; fiscal year 2023 maintenance records for the District’s 13 school buses and 2 transport vans that were used for student transportation; the District’s policy for providing food and beverages at District events; and supporting documentation for all 5 fiscal year 2023 food purchases for District events.
- **Analysis**—We analyzed fiscal year 2023 potential conflict-of-interest participation in matters related to substantial interests identified through conflict-of-interest disclosure forms, interviews, the Arizona Corporation Commission entity search, and District reported conflict-of-interest concerns. We also analyzed ASRS contributions using fiscal year 2023 payroll records for 2 District employees who received lump sum payments upon termination for unused leave or accrued compensatory time. 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 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 governing board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE



CONCHO ELEMENTARY SCHOOL DISTRICT #6

P.O. Box 200 • Concho, AZ 85924
Tel. (928) 337-4665 • Fax (928) 337-2455
Billie Bell, District Administrator

August 1, 2024

Lindsey Perry
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018
RE: Performance Audit

Dear Ms. Perry,

Concho Elementary School District 6 has received and reviewed your auditors FY2023 Performance Audit Report. Upon review of the report, the district agrees with the findings and recommendations.

The district will be working on implementing the recommendations and hope to be in total compliance by the next time your staff requests documentation or visits our site.

Concho ESD6 strives to meet the requirements of the USFR, Arizona Revised Statutes, and the Arizona Administrative Code as it relates to a public-school district, unfortunately due to changes in staff or lack of adequate staff areas of non-compliance can occur, but when they are brought to our attention, Concho staff meets the challenge and fixes the problem.

Your staff was very thorough in their audit and we commend them on their strict adherence to protocol and to the letter of the law, all while providing a courteous working relationship.

Sincerely yours,

Billie Bell, MAEd, CPM
District Administrator
(*Superintendent/Principal*)

Finding 1: Board members and employees did not comply with conflict-of-interest requirements and recommended practices, which resulted in improper participation in matters in which they had substantial interests and reduced public transparency

Recommendation 1: The District should develop and/or update and implement conflict-of-interest policies and procedures for:

- a. Requiring all Board members and employees to complete a conflict-of-interest disclosure form upon the start of their terms or upon hire, annually, or when circumstances change, including fully describing any substantial interest or attesting that no conflicts exist, if applicable.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The oversight was without intent and was not intended to create the appearance of non-transparency. Corrective action has been taken to alleviate this problem.

- b. Helping Board members identify meeting agenda items involving their interests, such as notating Board meeting agendas and/or adding vendor names to the voucher forms or consent agenda items, to identify items for which Board members have conflicts based on the interests listed on their forms.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The particular vouchers that caused the appearance of non-transparency has been separated from the other vouchers and are approved separately. This practice will continue when any board member is doing business with the district.

- c. Ensuring Board members and employees refrain from participating in any decision, contract, sale, purchase, or service for which they have a substantial interest.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The district is strengthening its procedures to assure that staff or board members that could have a substantial interest in a contract, sale, purchase or service do not participate in the decision-making process.

Recommendation 2: The District should develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure forms to its Board members and employees including how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: We have fixed this finding and have changed the way that voucher approvals are completed, there was no intent to mislead or defraud. In the past, all staff were made aware of the conflict of interest information annually during orientation, as it is included in Concho's Staff Handbook. It is reviewed again when purchasing decisions are being made. Board Members were required to sign a Conflict of Interest Statement at the beginning of the January term when board elections are held. The district now has a fuller understanding of the Conflict of Interest requirements and will seek a third-party training to lend credibility and importance to Conflict of Interest requirements.

Finding 2: District did not comply with important cash-handling and payroll requirements, resulting in overpayments to employees and incorrect retirement withholdings, and increasing risk of errors, fraud, and improper payments

Recommendation 3: The District should develop and implement written procedures to ensure compliance with USFR requirements and District policies related to cash-handling, and train District employees with cash-handling responsibilities on these procedures.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The district has reexamined the USFR cash handling requirements and have set-up new cash handling procedures.

Recommendation 4: The District should prepare and maintain evidence for all cash received, including by issuing sequential, prenumbered receipts, and reconcile deposits to cash collection documentation to ensure all cash received was appropriately deposited.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The district has implemented the recommended cash handling procedures to ensure a complete picture of all funds received.

Recommendation 5: The District should deposit timely all front office cash collected, such as by depositing these monies at the same time as other routine District deposits.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The district has implemented a new procedure to handle intermittent receipts of cash in the front office (i.e.: copies, faxes, notary donations, etc.)

Recommendation 6: The District should identify and correct all overpayments made to employees since the beginning of fiscal year 2023.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The district will work with our attorney to determine the best way to handle this situation.

Recommendation 7: The District should develop and implement a review process in accordance with USFR requirements to ensure proper separation of responsibilities are established in payroll processing and employees are paid accurately.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The district is currently working on developing a procedure to fulfill this requirement.

Recommendation 8: The District should work with the ASRS to identify and correct any errors made when making termination payments to former employees.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The district will work with ASRS to determine how to correct any errors or over payments and what compensation caused them.

Recommendation 9: The District should develop and implement written policies and procedures specifying the types of payments to employees that should be included as compensation for the calculation of ASRS benefits that comply with State laws and regulations.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Any errors that were made were not with intent. Information on appropriate ASRS compensation is provided by ASRS, but is not always clear. The district currently has an appointment with an ASRS representative to discuss this problem. Also, when researching this finding for the auditors, it was found that the wrong template was used for the same type of leave balance payout, which provided for some of the payouts to have ASRS funds to be taken out. The District is working to create more clear templates so this mistake does not happen in the future. We are waiting on our meeting with ASRS to move further with this correction.

Finding 3: District did not comply with some State laws and District policies resulting in spending monies without Board approval and limiting public transparency into its activities

Recommendation 10: The District should ensure it acknowledges the receipt, purpose, and value of donations and that the Governing Board accepts all donations during meetings open to the public.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The district has mitigated this finding. The oversight of this requirement was without intent. All donations of any size are now provided to the board for approval. The board was made aware of donations in a general way, especially when they were large, but an agenda item was not included for their approval. It should be noted that although particular donations were not officially approved by the board, every quarter the board receives a financial report which shows ALL the District's funds that includes revenues, expenses, and balances. In this way, the board does see if the District's gifts and donations fund has increased during the last quarter.

Recommendation 11: The District should, in consultation with legal counsel, strengthen existing policies and develop and implement written policies and procedures governing open meetings. These policies and procedures should specifically require the Governing Board to accept donations in public meetings and require the District to acknowledge the contribution's receipt, purpose, and value during public meetings.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: As of July 1, 2024 the Governing Board with consultation of our attorney accepted updated polices which states that "The Governing Board has exclusive authority to accept gifts, grants and donations to the District (3-106)." All donations since learning of this requirement have been brought to the board for approval, previous to this policy being approved.

Recommendation 12: The District should consult with legal counsel and the Arizona Attorney General's Office to ensure that any District actions taken contrary to open meeting laws are appropriately addressed to be made valid.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The district will contact the Attorney General's office to determine if previous donations need to be brought to the board for ratification/approval.

Recommendation 13: The District should include in its employee training information regarding the importance of complying with State laws related to open meetings.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Staff responsible for receiving gifts and donations have been notified that all gifts and donations must be brought to the board for approval, so that the board and public realize that there are funds that can be utilized for either a given purpose (as determined by the giver) or as an amount that can be used for appropriate district expenses.

Recommendation 14: The District should stop providing food and beverages for any purposes without prior Board approval.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The district understood ARS 15:342(39) to allow for schools to provide refreshments at school district events. Unfortunately, district administration did not understand that all expenses needed to be first approved by the governing board **before** any event and not with the consent agenda. Upon further investigation, the district has found an Attorney General Opinion (110-003 (R09-040) that predates the addition of ARS 15:342(39) that further delineates when refreshments may be appropriate, what funds can be used and how the Governing Board should approve them.

Recommendation 15: The District should, after Board approval, ensure it documents the public purpose and benefit of providing food and beverages at District events. For each allowable District event, the District should document its statutory authority, document the public purpose and benefit of providing food and beverages at the event, ensure the event and all purchases are in accordance with its policies, and maintain documentation supporting all purchases.

District Response: The finding of the Auditor General is agreed to, and a different method of dealing with the finding will be implemented.

Response explanation: Concho's Governing Board has chosen to institute a blanket approval to cover the specific meetings, orientation, workshops, and family nights with a public purpose that would necessitate the addition of refreshments to show gratitude/goodwill to staff, parents, and community members for their attendance and will fulfill the requirements of the Attorney General's Opinion (110-003 (R09-040).

Finding 4: District's excessive access to its sensitive computerized data and other IT deficiencies increased risk of unauthorized access to sensitive information, data loss, errors, and fraud

Recommendation 16: The District should limit employees' access in the accounting system to only those accounting system functions needed to perform their job duties, including transferring administrator-level access to someone outside the business office.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The district, as much as can be done in a small district with limited staff, has removed access to areas not needed by particular employees. The district is working on new procedures that will provide double checks in those sensitive areas.

Recommendation 17: The District should develop and implement a process to assign new employees appropriate accounting system access, change employees' access if their assigned duties change, and periodically review users' access to help ensure employees have only the system access necessary to perform their job duties.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: When there are changes to personnel or duties in regards to the finance system, the District will enter a work ticket through the County help desk to make those changes/updates.

Recommendation 18: The District should develop and implement policies and procedures to periodically review network accounts to ensure access aligns with job duties and change access, as necessary, when the periodic reviews identify accounts with more access than necessary or accounts that are no longer needed.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: This recommendation has been implemented Human Resources/Payroll has created a procedure with the Systems Specialist, Registrar, and Facilities Manager to give information about those who are hired, terminated, or change positions, so that the appropriate changes can be made to each different software system that we have. IT will perform an audit of its accounts at least annually to determine the appropriateness of each employee's network access.

Recommendation 19: The District should work with the County to review and limit the access of County accounting system user accounts to only those functions needed to support the District and ensure that no single user can initiate and complete a transaction without an independent review and approval. If County users' access cannot be limited due to the responsibilities they perform for the District, the District should implement compensating controls such as a process for regularly reviewing County employee user activity logs and documenting these reviews to limit risks of unauthorized access, errors, and fraud.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: There does not seem to be a report that can capture the information needed to demonstrate that a review has taken place. The District is investigating the best way to show that it is reviewing the County's access/use.

Recommendation 20: The District should develop and implement a process to ensure that network and accounting system user accounts are promptly disabled or removed when they are no longer needed.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: District Administrative staff has developed a process with IT to remove and/or change network access to those employees who have changed positions or left the district. Previously, the district was unable to remove or change accounting system users, but has since been given access.

Recommendation 21: The District should implement and enforce strong authentication controls such as multifactor authentication for all critical IT systems as required by the

USFR, to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The district has been working on this problem, but has not found a program that works with our system. We have had some success but there have been glitches of one kind or another that has prevented complete compliance. We are currently looking at vendors that have been recommended by our cyber security insurer that looks promising.

Recommendation 22: The District should develop and implement policy and procedures to review the District's authentication controls against USFR requirements at least annually and update its authentication controls as necessary to ensure they align with USFR requirements.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The District will develop and implement a procedure to review the District's authentication controls against USFR requirements at least annually or as IT becomes aware of cyber security problems through webinars and professional development activities.

