

The October 2023 Owens-Whitney Elementary School District performance audit found that the District did not comply with State laws and *Uniform System of Financial Records for Arizona School Districts* (USFR) requirements in multiple areas, resulting in 2 employees participating in possible substantial interest conflicts, a negative general fund balance at the end of fiscal years 2020 and 2021, and increased risk for loss or misuse of public monies. We made 19 recommendations to the District, and its status in implementing the recommendations is as follows:

Status of 19 recommendations

Implemented	2
Not implemented	17

We will conduct an 18-month followup with the District on the status of the recommendations that have not yet been implemented.

Finding 1: Contrary to State laws, District failed to accept \$30,000 contribution during public meeting, 2 employees improperly participated in possible substantial interests, and District entered into service proposals rather than required IGAs

1. The District should ensure it complies with State laws governing open, public meetings by
 - a. In consultation with legal counsel, strengthening its policy and establishing a written procedure to require:
 - i. The Governing Board (Board) to accept any contributions, gifts, and donations, including those from the mining company, during public meetings.

Not implemented—The District has not worked with its legal counsel to strengthen its policy or establish written procedures to accept contributions, gifts, and donations during public meetings to ensure it complies with State open meeting laws. We will assess the District’s efforts to implement this recommendation at the 18-month followup.
 - ii. The administrator to acknowledge the contribution’s receipt, purpose, and value during public meetings, regardless of a contributor’s request to maintain privacy.

Not implemented—See explanation for recommendation 1a(i).
 - b. Including in its employee training information regarding the importance of complying with the State’s open meeting laws.

Not implemented—The District has not included information regarding the importance of complying with the State’s open meeting laws in its employee training. Instead, District officials reported that to avoid open meeting law violations, the District administrator has provided guidance about open meeting law requirements, as needed, to staff members present at Board meetings. However, relying on the District administrator rather than regular training increases the risk of noncompliance with open meeting law requirements if the District administrator were not present at a Board meeting. Additionally, the District administrator was also the administrator during the audit when we identified that the Board accepted a donation outside of a public meeting, indicating that relying on the administrator may not be sufficient to

ensure compliance with the State's open meeting laws. We will assess the District's efforts to implement this recommendation at the 18-month followup.

2. The District should ensure it complies with State laws governing conflicts of interest by:

- a. In consultation with legal counsel, strengthening existing policies and developing and implementing written policies and procedures governing conflicts of interest in conformance with State laws. These policies and procedures should specifically require District employees to fill out disclosure forms, disallow District employees from participating in matters for which they have a substantial interest, and when the District's administrator has a conflict, require the administrator to disclose the conflict to the Governing Board in a public meeting.

Not implemented—The District has not worked with its legal counsel to strengthen its policy or develop and implement written procedures to ensure it complies with State conflict-of-interest laws. We will assess the District's efforts to implement this recommendation at the 18-month followup.

- b. Ensuring District employees, including the administrator, follow the State conflict-of-interest laws and District policy by following the practices they learned in the District-provided training (see recommendation 2c), including describing their substantial interests on a conflict-of-interest disclosure form as required and refraining from participating in any decision, contract, sale, purchase, or service for which they have a substantial interest.

Not implemented—As reported in recommendation 2c below, although the District indicated it provided conflict-of-interest training to staff present at the August 2023 Board meeting, it did not respond to our multiple requests for documentation supporting the contents of its training. Additionally, we requested fiscal year 2024 conflict-of-interest disclosure forms and found that the District could not provide completed forms for all employees. Specifically, although the District provided forms completed in August 2023 for 3 governing board members and 6 District employees, forms for 2 of the employees were not complete because the employees indicated having a substantial interest but had not provided details of the interest, as the form required. Additionally, the District did not provide a completed disclosure form we requested for 1 other employee.

Further, similar to during the audit, the District's administrator participated in matters for which he had a substantial interest. On his August 2023 conflict-of-interest disclosure form, the District administrator disclosed that he is employed as the superintendent of a nearby school district and provides administrative services to the District through an intergovernmental agreement (IGA).¹ The District administrator's fiscal year 2024 employment contract with the other school district provides for him to receive an additional \$12,000 for performing the services specified in the IGA.

Despite our recommendation that the District should ensure it complies with State laws governing conflicts-of-interest by ensuring District employees refrain from participating in any decision, contract, sale, purchase, or service for which they have a substantial interest, the District's administrator continued to participate in matters related to the IGA. District policy specifies that participation includes making recommendations, giving advice, or otherwise communicating with anyone involved in the decision-making process. However, in April 2023, the administrator communicated with the District's legal counsel regarding extending the IGA for fiscal year 2024. Therefore, the administrator may have again acted contrary to State conflict-of-interest laws and District policy by communicating with the District's legal counsel about extending the IGA in which he had a substantial interest. We will assess the District's efforts to implement this recommendation at the 18-month followup.

¹ The District's administrator was also employed at the nearby school district and provided administrative services to the District during fiscal year 2023. We requested his conflict-of-interest disclosure form for that year to determine if he had disclosed his substantial interest at that time; however, the District did not respond to our multiple requests.

- c. Developing and providing periodic training to its employees on its conflict-of-interest requirements, process, and disclosure forms and how they relate to the District's and employee's unique programs, functions, or responsibilities.

Not implemented—District officials reported they provided training to District Board members and staff present at the August 2023 Board meeting. However, the District did not respond to our multiple requests seeking documentation supporting the contents of the training, and therefore, we were unable to assess whether the training the District provided covered the various topics included in the recommendation. We will assess the District's efforts to implement this recommendation at the 18-month followup.

3. The District should ensure it complies with State laws governing IGAs by:

- a. In consultation with legal counsel, developing and implementing written policies and procedures governing IGAs in conformance with State law. These policies and procedures should specifically require agreements to comply with IGA statutory requirements.

Not implemented—The District has not worked with its legal counsel to strengthen its policy or develop and implement written procedures to ensure it complies with State laws governing IGAs. We will assess the District's efforts to implement this recommendation at the 18-month followup.

- b. Ensuring District legal agreements with other school districts are written as IGAs specifying duration, purpose, manner of financing and budgeting, the permissible method(s) to be employed in terminating the agreement and disposing of property, and any other necessary and proper matters; and are reviewed by District attorneys to determine whether the IGAs are in proper form and within the powers and authority granted under State law.

Implemented at 6 months—Our review of the District's only IGA with another school district in fiscal year 2024 found it specified the duration, purpose, manner of financing and budgeting, the permissible methods to be employed in terminating the agreement and disposing of property, and other matters, such as provisions regarding liability and requirements for record inspection and retention (see explanation for recommendation 2b for more information about the District's IGA with a nearby school district for administrative services). Additionally, the IGA was reviewed by District attorneys to ensure the IGA was in proper form and within the powers and authority granted under State law.

- c. Including in its employee training information regarding the importance of complying with State laws related to IGAs.

Not implemented—The District has not updated its training to include information regarding the importance of complying with State laws related to IGAs. We will assess the District's efforts to implement this recommendation at the 18-month followup.

Finding 2: District did not have established process over cash receipts and used debit cards contrary to USFR prohibition, increasing risk of fraud, waste, and abuse

- 4. The District can help ensure its employees comply with USFR requirements by establishing a written cash-receipting process including policies and procedures requiring recording and logging of cash received in person and through the mail, including separating responsibilities between cash-handling and recordkeeping functions.²

Not implemented—Although District officials reported they developed a cash-receipting process in August 2021 for cash received at the District, as of May 2024, they reported that the District has not used this process nor have

² The USFR and related guidance is developed by the Arizona Auditor General and the Arizona Department of Education pursuant to 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.

they documented it.³ District officials explained they did not use their cash-receipting process because the District has only received checks since it revised its cash-receipting process, and District staff were unaware that the USFR considers checks to be a cash payment. By not documenting, implementing, and consistently following a written cash-receipting process that complies with USFR requirements when the District receives cash, including checks, the District increases the risk that monies received are not recorded and deposited, as required. We will assess the District's efforts to implement this recommendation at the 18-month followup.

5. The District can help ensure its employees comply with USFR requirements by discontinuing using bank account debit cards as a payment method and instead implementing purchasing or credit cards.

Not implemented—As of May 2024, District officials confirmed that District staff still use bank account debit cards as a payment method, contrary to USFR requirements. In September 2023, the District applied for a credit card. However, according to District officials, the District did not receive a response to its credit card application, and District staff were unable to resolve the issue with the credit card provider. District officials further indicated that they are looking into other options for credit cards. We will assess the District's efforts to implement this recommendation at the 18-month followup.

6. The District can help ensure its employees comply with USFR requirements by developing and requiring training for the responsible employees about USFR requirements, including requirements for cash receipting and credit cards.

Not implemented—District officials reported that the District does not provide formal trainings on USFR requirements, including those related to cash receipting and credit cards, and instead, the District administrator provides guidance to the appropriate staff, as needed. However, District staff have continued to not comply with USFR requirements in various areas, as explained in recommendations 4 and 5. We will assess the District's efforts to implement this recommendation at the 18-month followup.

Finding 3: District's budgeting, revenue monitoring, and purchasing processes did not comply with USFR requirements, resulting in \$233,000 of underfunding, a negative fund balance, and purchases the District could not pay for in fiscal year 2021

7. The District should comply with USFR requirements and good business practices related to budgeting, revenue amounts, and purchasing to help ensure it has enough cash to meet its financial obligations by:

- a. Implementing procedures to ensure that it accurately calculates the transportation support level (TSL) and transportation revenue control limit (TRCL) when preparing its annual budget.

Not implemented—District officials reported that the District has contracted out most of its financial responsibilities to a consultant, including calculating the TSL and TRCL during its annual budgeting process, since July 2021. However, the District did not respond to our requests for supporting documentation related to the consultant's responsibilities. Therefore, we could not confirm the services the consultant performs for the District or assess whether the provided services are completed timely and accurately. We will assess the District's efforts to implement this recommendation at the 18-month followup.

- b. Provide training to District staff responsible for calculating the TSL and TRCL about the procedures for accurately calculating TSL and TRCL when preparing the District's annual budget, including information on the date that property tax rates must be set and that any revisions impacting funding that are made after this date will not result in any changes to local property tax rates.

Not implemented—As discussed in the explanation for recommendation 7a, District officials reported that the District contracts with a consultant to prepare its annual budget. However, although District staff no longer prepare the District's annual budget, they should still be trained on accurately calculating the TSL and TRCL to ensure the consultant's work is completed timely and accurately and the District receives all

³ The term "cash" used throughout this report, and as defined in the USFR, includes cash (coins and dollars), checks, and any other physical form of payment, such as money orders.

monies it is entitled to receive. We will assess the District's efforts to implement this recommendation at the 18-month followup.

- c. Performing monthly reconciliations of its cash balance records by fund to the county school superintendent's office (CSSO) records.

Not implemented—See explanation for recommendation 7a.

- d. Verifying that sufficient cash is available prior to approving and making purchases.

Not implemented—See explanation for recommendation 7a.

- e. Developing and implementing adequate supervisory reviews to ensure its staff timely and accurately complete all USFR required budget analyses and cash reconciliations.

Not implemented—See explanation for recommendation 7a.

- f. Continuing to work with the CSSO, as necessary, to levy additional property taxes to eliminate its cash deficit.

Implemented at 6 months—As discussed in our October 2023 audit report, the Mohave County Board of Supervisors approved additional property tax levies in fiscal years 2022 and 2023 to address the District's cash deficit issue in the amounts of \$93,000 and \$90,044, respectively. During the followup, we confirmed with the CSSO that the District's cash deficit has been resolved.

- 8. The District should, in consultation with legal counsel, determine if the District is responsible for repaying the \$30,000 to Bagdad USD and, if so, create a legal agreement between the District and Bagdad USD that includes a plan for repayment.

Not implemented—District officials reported meeting with the District's legal counsel regarding the \$30,000 it may owe to Bagdad USD. However, the District has not yet determined if it is responsible for repaying the \$30,000 to Bagdad USD. We will assess the District's efforts to implement this recommendation at the 18-month followup.