

# Sierra Vista Unified School District Performance Audit

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District inappropriately paid administrators \$34,500 in bonuses and performance pay, incorrectly compensated some employees, and improperly processed some retirement withholdings. It also did not adequately safeguard cash and fuel supplies; comply with conflict-of-interest laws; limit access to IT systems; and ensure all transportation requirements were met to help ensure student safety



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April 18, 2025

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Governing Board  
Sierra Vista Unified School District

Dr. Eric Holmes, Superintendent  
Sierra Vista Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Sierra Vista Unified School District*, conducted pursuant to Arizona Revised Statutes §41-1279.03. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

This school district performance audit assessed the District's spending on noninstructional areas, including administration, student transportation, food service, and plant operations, and made recommendations to the District to maximize resources available for instruction or other District priorities. As outlined in its response, the District agrees with most of the findings and recommendations and plans to implement 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 the District's board members and 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

## Sierra Vista Unified School District Performance Audit

District inappropriately paid administrators \$34,500 in bonuses and performance pay, incorrectly compensated some employees, and improperly processed some retirement withholdings. It also did not adequately safeguard cash and fuel supplies; comply with conflict-of-interest laws; limit access to IT systems; and ensure all transportation requirements were met to help ensure student safety

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### 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

- ▶ District paid administrators \$34,500 in bonuses and performance pay without required contracts or performance goals, reducing monies available for other District priorities and potentially violating the Arizona Constitution's gift clause, and did not ensure that a former administrator who provides consulting services submitted invoices that were sufficiently detailed to ensure payments are appropriate.
- ▶ District incorrectly compensated employees for sick leave and underpaid some employees for additional duties. It also did not report required information about incentive payments to the Arizona State Retirement System (ASRS) and improperly included the incentive and leave payments when calculating ASRS withholding for some employees, which may result in improperly inflated retirement benefits and unfunded liabilities.
- ▶ District did not adequately safeguard cash; made purchases without prior approval and paid invoices without ensuring goods or services were received; and likely had more purchasing cards and authorized users than necessary.
- ▶ Contrary to State laws, the District did not comply with some conflict-of-interest requirements, increasing the risk that employees and Board members did not disclose substantial interests that might influence their official conduct.
- ▶ District allowed some users excessive access to its sensitive computerized data and did not promptly disable users' access to its systems when no longer needed, and its contingency plan lacked key components, increasing the risk of unauthorized access to sensitive information, errors, fraud, and data loss.

- ▶ District did not ensure that all bus drivers were properly certified and tested; school bus preventative maintenance was performed timely; and transportation funding reports were accurate. It also did not fully secure its fuel supplies, increasing the risk of theft or misuse.

## Key recommendations to the District

- ▶ Ensure that any changes to employment terms, including to pay and duties, comply with the USFR, are supported by contract amendments or addendums, and are approved before the work is performed and ensure consulting services invoices are reasonable prior to approving payment.
- ▶ Ensure employee sick leave compensation complies with State law and District policy; correct underpayments to employees; work with the Arizona State Retirement System to identify and correct retirement withholdings and address any unfunded liabilities; and train payroll staff.
- ▶ Develop and implement written procedures for cash handling and purchasing and train employees responsible for these activities, and limit the number of District purchasing cards and authorized users to the minimum necessary for effective purchasing.
- ▶ Ensure all Board members and employees receive periodic conflict-of-interest training and annually complete conflict-of-interest disclosure forms.
- ▶ Limit IT system user access to only those functions necessary for performing job duties and promptly disable user accounts that are no longer needed; implement strong authentication controls; and review and test its IT contingency plan.
- ▶ Oversee its transportation contractor to ensure reports for funding are accurate and standards are met for bus driver testing and certification and school bus maintenance, and secure its bulk fuel supplies and track usage to ensure it is for District purposes.

## Key recommendation to the Board

- ▶ Determine whether it had the legal authority to pay the additional compensation to its CFO and performance pay to its superintendent and, if not, determine its ability to recover the monies; establish, publicly approve, and document performance pay goals and ensure they are met prior to approving any future performance payments.

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- ▶ District paid its Chief Financial Officer \$30,000 in additional compensation for work that was not approved in advance and/or was already compensated as part of regular job duties
- ▶ The additional payments to the CFO may have violated State law and the gift clause, and reduced the monies available for other District purposes, such as increasing teacher pay or reducing class sizes
- ▶ District began receiving financial consulting services from the former CFO immediately after the CFO ended full-time District employment, but has not required sufficient documentation of services provided to ensure that costs are appropriate and supported
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# DISTRICT OVERVIEW

## Sierra Vista Unified School District—FYs 2023 and 2024

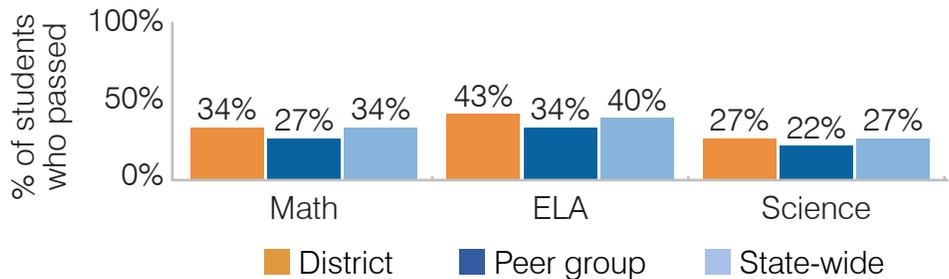
### FY 2023 District information

<b>District locality:</b> City	<b>Grades:</b> Pre-K through 12	<b>Number of schools:</b> 8
<b>County:</b> Cochise	<b>Students attending:</b> 4,487	<b>School letter grades:</b> 3 A, 5 B
<b>Filled certified FTE:</b> 275	<b>Filled classified FTE:</b> 241	<b>Filled board positions:</b> 5 of 5

### Location

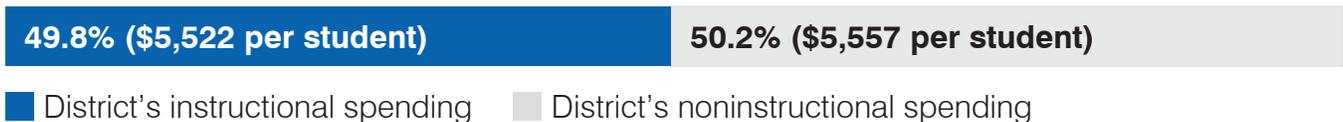


### FY 2023 Student performance on State assessments



### FY 2023 Operational overview

#### Total operational spending—\$49.7 million (\$11,079 per student)



### Administration

#### Higher spending and District did not comply with State laws relating to administrator pay and conflicts of interest and requirements for payroll, cash controls, and IT

The District spent approximately 10% more than its peer districts averaged, primarily because of higher administrative salaries and benefits costs, and had deficiencies in several areas resulting in 6 findings.

Specifically, the District:

- ▶ Paid administrators a total of \$34,500 in additional compensation in fiscal years 2023 and 2024 that was unsupported by employment contracts or Board-approved performance goals (see Finding 1).
- ▶ Made payroll errors resulting in employees being incorrectly compensated and the District potentially owing monies to the Arizona State Retirement System for unfunded pension liabilities (see Findings 2 and 3).

- ▶ Lacked important cash controls and likely has excessive purchasing cards and authorized users (see Finding 4), and did not comply with conflict-of-interest laws, limiting public transparency into District operations (see Finding 5).
- ▶ Allowed excessive access to its sensitive computerized data and had other IT deficiencies that increased the risk of unauthorized access to sensitive information, data loss, errors, and fraud (see Finding 6).

<b>Administrative spending</b>	<b>District</b>	<b>Peer average</b>
Spending per student	\$1,418	\$1,268

## Plant operations

### Spending measures mixed and no reported findings

The District spent a similar amount per square foot and about 15% more per student on plant operations than its peer districts averaged, likely because it employs specialized staff such as an electrician and plumber. We did not report any findings in this area.

<b>Plant spending</b>	<b>District</b>	<b>Peer average</b>
Spending per square foot	\$7.46	\$7.46
Spending per student	\$1,438	\$1,247

## Food service

### Lower spending and no reported findings

The District spent 10% less per meal and 7% less per student than its peer districts averaged, likely due to advantageous contract terms. We did not report any findings in this area.

<b>Food service spending</b>	<b>District</b>	<b>Peer average</b>
Spending per meal	\$3.94	\$4.38
Spending per student	\$384	\$413

## Transportation

### Higher spending and failure to oversee its transportation contractor increased risks to student safety and led to inaccurate reporting

In FY 2023, the District spent 20% more per mile than its peers averaged. As discussed in Finding 7, the District did not properly oversee its transportation contractor, resulting in the District not meeting requirements for driver testing and certifications, school bus maintenance, and transportation records and reporting. Additionally, the District's physical security measures for its fuel tanks were likely insufficient, and it lacked a process to help identify fuel theft or misuse.

<b>Transportation spending</b>	<b>District</b>	<b>Peer average</b>
Spending per mile	\$8.24	\$6.88
Spending per rider	\$2,100	\$1,960

## **District improperly paid administrators \$34,500 in bonuses and performance pay without required contracts or performance goals and has not required its former CFO, who now consults for the District, to provide detailed invoices to ensure payments are appropriate**

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### **Statutory and other restrictions exist related to school district employee compensation, including bonuses and performance pay**

State statute prohibits State employees, including State school district employees, from receiving any payments in excess of their salary provided by law.<sup>1</sup> Additionally, according to Arizona Attorney General Opinion 78-188, school districts are prohibited from paying bonuses unless the bonus is part of a compensation package agreed upon by the employee and the District and is paid in exchange for services rendered during a period covered under the contract. If additional pay is provided to compensate for added duties, the *Uniform System of Financial Records for Arizona School Districts* (USFR) requires any changes to be appropriately documented and approved prior to work being performed.<sup>2</sup> In the case of superintendent compensation, statute requires employment contracts to classify up to 20% of a superintendent's total annual salary as performance pay that can be earned for accomplishing governing board-approved performance goals.<sup>3</sup> Further, 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.<sup>4</sup>

### **District paid its Chief Financial Officer \$30,000 in additional compensation for work that was not approved in advance and/or was already compensated as part of regular job duties**

In fiscal years 2023 and 2024, the District may have violated State statute and unlawfully gifted public monies when it paid its Chief Financial Officer (CFO) a total of \$30,000 in additional compensation that was not included in his employment contract and not approved in advance of

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<sup>1</sup> Arizona Revised Statutes (A.R.S.) §38-601.

<sup>2</sup> The USFR and related guidance is developed by the Arizona Auditor General and the Arizona Department of Education (ADE) 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 accounting practices and federal and State laws.

<sup>3</sup> A.R.S. §15-341(A)(39).

<sup>4</sup> Arizona caselaw interpreting the Arizona Constitution's gift clause, Art. IX, §7, requires that payment of public monies is for a public purpose and the value to be received by the public is not far exceeded by the consideration being paid by the public. *Wisturber v. Paradise Valley Unified School Dist.*, 141 Ariz. 346, 678 P2d 354 (1984), *Turken v. Gordon*, 223 Ariz. 342, 224 P3d 158 (2010), and *Schires v. Carlat*, 250 Ariz. 371, 480 P3d 639 (2021).

the work, as shown in Table 1, page 4. The CFO’s employment contracts for fiscal years 2023 and 2024 both stated that the position may require the performance of duties outside the regular school day and duty hours and that no additional compensation would be provided for this additional work. During these 2 fiscal years, the CFO’s annual salary was \$126,875 (fiscal year 2023) and \$138,469 (fiscal year 2024). However, contrary to the employment contract provisions, the District’s Governing Board (Board) approved additional pay for work that reportedly required additional time but appeared to be related to a CFO’s primary job responsibilities. Additionally, the payments were not in accordance with the USFR, which requires any modification to contracted employees’ employment terms, such as pay or duty changes, to be made through contract amendments or addendums that are approved in advance and include details about additional pay and duties.

**Table 1**

**District paid CFO \$30,000 in bonus payments that may have been in violation of employment contracts, did not comply with the USFR, and may have violated the State gift clause**

Fiscal years 2021 through 2024

Bonus pay for work performed in fiscal year(s):	Bonus pay amount	Was the bonus pay approved prior to work being performed, as required by the USFR?	Were contract employment terms updated prior to work being performed as required by the USFR?	Could the District demonstrate it had received commensurate value for the bonus pay, as required by the Arizona Constitution?
2021 and 2022	\$15,000	X	X	X
2023	\$5,000	X	X	X
2024	\$10,000	X	X	X

Source: Auditor General staff review of CFO’s fiscal years 2022-2024 contracts and supplemental documentation, the USFR, and the Arizona Constitution.

Specifically, in June 2022, the CFO reported to the Board that he had spent additional time in fiscal years 2021 and 2022 working on projects that he considered to be outside his regular duties, and he asked the Board to approve additional compensation of \$15,000 for this past work. His request cited activities such as implementing a new budget system, centralizing warehousing and printing, digitizing business

**Most activities the CFO cited when requesting bonus pay appear related to a school district CFO’s usual duties.**

records, and contracting for services. Most of these functions appear related to a school district CFO's primary job responsibilities and, therefore, would have been part of his regular contracted duties. Further, the CFO potentially could have delegated some duties to the District's full-time business manager, whose salary and benefits totaled approximately \$64,000 in fiscal year 2023. However, despite these factors and contrary to the USFR, the Board inappropriately approved a \$15,000 payment to the CFO for the work that he had already performed. Further, the Board did not amend or create an addendum to the CFO's employment contract to detail a change in pay and/or duties, as required.

At that same time, the CFO also requested \$5,000 in additional pay for the upcoming fiscal year 2023 and justified the request by recommending the District move certain nonacademic departments such as food services under his supervision. Although the District transferred oversight of certain non-academic departments to the CFO, the Board's approval of additional pay for the CFO did not comply with the USFR. Specifically, although the CFO made the request for additional compensation before fiscal year 2023 began, the Board did not approve a contract addendum until the end of fiscal year 2023, which was after the CFO would have performed any additional work. Additionally, the contract addendum did not include any details about the duties the CFO performed for the additional compensation.

The District made similar payments to the CFO for fiscal year 2024 for performing duties that may have been expected under the original employment contract and that did not comply with the USFR. Specifically, the Board approved a contract addendum that provided the CFO with an additional \$10,000 in performance pay for performing certain duties, such as working with external auditors, maintaining budgets, and preparing financial updates. Although the contract addendum included details about the pay and duties required, many of the duties appear to be related to school district CFOs' primary job responsibilities. Additionally, the Board did not approve the contract addendum for work that was to be completed during the 2023-2024 school year until after the school year ended, and therefore approved the work after it had reportedly been performed, contrary to the USFR.

### **The additional payments to the CFO may have violated State law and the gift clause, and reduced the monies available for other District purposes, such as increasing teacher pay or reducing class sizes**

By not following the CFO's employment contract terms and providing additional compensation to the CFO outside the contracts, the District may have violated State law prohibiting bonuses. The District may have also violated the Arizona Constitution's gift clause because the District could not demonstrate that it had received commensurate value for the additional money it paid to the CFO. The 2 Board members we interviewed indicated they were unaware that the CFO's contracts did not allow for additional compensation for work done outside of regular duty hours until we brought it to their attention during the audit. They both indicated that they thought the CFO deserved additional pay. However, they could not explain why the Board did not review the CFO's employment contracts prior to approving any pay changes and/or why the Board did not ensure the CFO's contracts

**By paying additional bonuses to the CFO, the District may have violated State statute and unlawfully gifted public monies.**

were amended to include any pay changes and approved in advance of the supposed additional duties being performed.

Additionally, any payments to the CFO for duties that should have been required under his standard employment contracts reduced the monies the District had available for other purposes, such as increasing teacher salaries or reducing class sizes. Further, this audit details a number of issues relating to what are normally considered a school district CFO's primary duties, including a lack of internal controls over cash handling, purchasing, and credit cards and a failure to train and oversee payroll staff, that should have been prioritized before adding any additional pay or duties. See Findings 2 through 4, pages 11 through 23, for more information about the deficiencies we identified.

**CFO bonus pay reduced monies available for other District purposes.**

### **District began receiving financial consulting services from the former CFO immediately after the CFO ended full-time District employment, but has not required sufficient documentation of services provided to ensure that costs are appropriate and supported**

The District's former CFO left District employment on January 3, 2025, and immediately began working as a general finance and business office consultant for the District at a rate of \$132 per hour.<sup>5</sup> According to District officials, the District decided to hire the former CFO as a consultant while he was still a full-time employee and prior to obtaining 3 written quotes for services, as required by the USFR and State procurement requirements.<sup>6</sup> To ensure that the District's procurement file would include 3 written consulting services quotes, District business office staff documented hourly rates from 2 existing cooperative services agreements in addition to the CFO's quote. These cooperative services agreements, including the hourly rates for consulting services, are available to members on the cooperatives' websites, but the District could not provide documentation to support who obtained the cooperative contract rates or when they were obtained. As shown in Table 2, page 7, the CFO quoted an hourly consulting rate of \$132—\$3 less per hour than the lowest rate for senior-level financial consultant services charged under the 2 cooperative services agreements. The superintendent accepted the CFO's quote on December 13, 2024, while the CFO was still a full-time District employee, and effective January 6, 2025, the District's procurement staff set up the former CFO as a District vendor using the terms of his written quote. As of February 27, 2025, the District approved payment of 2 invoices to the former CFO totaling \$12,249 for 83.25 hours of consulting services and travel expenses incurred between January 6 and February 22, 2025.

<sup>5</sup> Prior to ending his full-time District employment on January 3, 2025, the former CFO had also begun working part-time at another school district in November 2024, transitioning to full-time status at the new district in January 2025.

<sup>6</sup> A.R.S. §§15-213(A), 15-271, and 41-2535(A), Arizona Administrative Code (A.A.C.) R7-2-1002(C)(3), and the USFR require school districts to engage in a competitive bidding process for purchases that exceed specified thresholds, including obtaining 3 quotes from vendors for purchases of \$10,000 or more to ensure districts are entering into contracts that are advantageous to the district.

## Table 2

### Former CFO's quoted hourly consulting rate was \$3 less per hour than the lower of the 2 documented cooperative service agreement rates

Vendor quotes	Quoted hourly rate for senior financial consulting services
Cooperative services contract 1	\$160
Cooperative services contract 2	\$135
District CFO	\$132

Source: Auditor General staff review of the 3 quotes provided by the District.

In accepting the CFO's quote for services, the superintendent did not ensure that the District would receive sufficiently detailed information about the work performed, and therefore, the District could not verify it received services before approving and paying invoices, as required by the USFR. Specifically, the quote for services and subsequent District purchase order indicates that consulting hours will be recorded using the District's timekeeping system. The timekeeping system shows the hours reportedly worked, but it does not provide the District with any information about what consulting work is performed. Additionally, the former CFO's invoices for consulting work only list the hours charged, supported by a timekeeping system report, and do not provide any supporting documentation or information about what services he provided to the District during the hours charged.

When we asked the superintendent how he monitored the former CFO's consulting work, the superintendent indicated he regularly talked to and emailed the former CFO with tasks for which the District needed consulting assistance. For example, between January 6 and January 24, 2025—a period for which the former CFO reported working 40.5 hours for the District—the superintendent provided emails supporting that the former CFO had prepared financial reports for a January 22, 2025, Board meeting, planned to discuss employee benefits during his next visit to the District, and received an email from the School Facilities Oversight Board related to a delinquent grant closeout. The superintendent also indicated he had regular phone calls with the former CFO to discuss District matters. However, absent more detailed information about the former CFO's consulting work performed, such as an itemized invoice, the District is unable to demonstrate that it received the services it paid for, contrary to the USFR.

Additionally, the District agreed to reimburse the former CFO's travel costs based on the State-approved rates applicable for Tucson, which are higher than the approved rates for the District's location. Specifically, when compared to the rates for Sierra Vista, where the District is located, and Sonoita, where the former CFO traveled on the District's behalf, the allowable nightly lodging rate for Tucson is \$61 higher and the daily allowance for meals and incidental expenses is \$12 higher.<sup>7</sup> For the 4 nights' hotel accommodations billed on the January and February consulting

<sup>7</sup> State-approved maximum mileage, lodging, meal, parking, and incidental expense reimbursement rates are published by the State's General Accounting Office (GAO) in the State of Arizona Accounting Manual (SAAM). For January 1 through February 22, 2025, the approved daily maximum rates for Tucson were between \$169 and \$171 per night for lodging and between \$54 and \$70 per day for meals and incidentals. The approved daily maximum rates for Sierra Vista during the same timeframe were between \$107 and \$110 per night for lodging and between \$49 and \$58 for meals and incidentals.

invoices, the District paid a total of \$682, which was \$245 more than it should have paid for local accommodations using the State-approved rates. Prior to approving the invoices, the District did not require the former CFO to submit any receipts to support the requested reimbursement and verify that travel had occurred.

Finally, our review identified errors in the consulting invoices that the District did not identify or correct before approving payment. For example, the former CFO overcharged the District on 1 invoice by \$1 more per day for meals and incidental expenses than was allowed even at the higher Tucson rates. Although the impact of this and other errors was minimal, they suggest that the District's review of consulting invoices is likely insufficient.

## **District paid \$4,500 in performance pay to its superintendent despite lacking Board-approved performance goals, as required by statute**

Although the superintendent's contract includes a performance pay component, the Board did not set and approve the performance goals the superintendent would have needed to achieve to earn the money. Statute provides specific performance goals that governing boards must use to determine the amount of performance pay their district superintendent receives but also allows boards to create their own performance goals. In February 2022, the District's Board approved a fiscal year 2023 employment contract for its superintendent and determined that it would establish its own performance pay plan.<sup>8</sup> However, it paid the superintendent \$4,500 in performance pay in fiscal year 2023 without setting and approving required performance goals and ensuring payments were appropriate.

Specifically:

### **▶ The Board did not set required fiscal year 2023 performance pay goals for its superintendent**

As allowed by statute, the superintendent's fiscal year 2023 contract designated 3% of the superintendent's \$150,000 salary, or \$4,500, as performance pay. However, the contract did not specify any performance goals for the superintendent to meet to earn this performance pay. Instead, the contract stated that the Board would develop and approve performance-based goals at a public meeting on or before June 30, 2022. The District could not provide any documentation to show that the Board had ever developed or approved any performance-based goals for the superintendent's fiscal year 2023 employment contract, as required. Additionally, our review of Board meeting agendas and minutes from July 2021 through June 2022 did not identify a meeting in which the Board discussed or approved performance goals for the superintendent's performance pay plan. By paying the full performance pay without approving required performance goals, the Board cannot support that the superintendent met the required performance level to earn performance pay, may have circumvented State law, and limited public transparency into what the superintendent was required to do to earn his full performance pay.

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<sup>8</sup> A.R.S. §15-341(A)(39) requires up to 20% of a school district superintendent's annual pay to be classified as performance pay and specifies the performance goals that boards shall use to determine the performance pay earned by a superintendent. The statute also authorizes boards to implement alternative procedures at a public meeting for determining the superintendent's annual performance pay.

► **The superintendent’s contract calls for performance pay to be automatically included in each regular paycheck, which could limit the Board’s ability to ensure future performance goals are met before superintendent receives performance pay**

Although the Board had not established the required performance goals for the superintendent’s performance pay plan, we identified another issue that could impact the Board’s ability to hold the superintendent accountable for any future performance goals it may approve. Specifically, the performance pay provision in the superintendent’s contract appears problematic because it specifies that performance pay is to be prorated and paid automatically along with regular salary across the 26 pay periods in the fiscal year. Structuring the performance payments in this manner, rather than making the payments at a less frequent interval, such as semiannually or annually after the Board’s approval, could limit the Board’s ability to ensure the superintendent meets established performance goals before making performance payments.

The superintendent’s contract specifies that the Board may vote to withhold performance pay for any pay period in which the goals were not met, but the Board neither set goals nor withheld any performance payments in fiscal year 2023. Additionally, as confirmed by our review of fiscal year 2023 Board meeting minutes, the Board did not review performance payments as part of its regular agenda. The Board’s inaction appears to indicate that it was unaware the superintendent was receiving performance pay without its establishing required performance pay goals and reviewing performance. Moreover, performance goals, including those set in statute that the Board opted not to use, are generally longer-term metrics designed to measure improvement over time. Making performance payments biweekly would generally not allow sufficient time to assess the superintendent’s performance for these types of longer-term goals.

## **Recommendations to the District**

- 1.** Ensure that any modification to contracted employees’ employment terms, such as pay or duty changes, are made through appropriate contract amendments or addendums, approved in advance of the work being performed, and maintained in employee personnel files in accordance with USFR requirements.
- 2.** Require itemized invoices for financial services consulting work and documentation to support lodging reimbursements and review the supporting documentation to evaluate what work was performed and whether the hours charged are reasonable, and whether travel expenses are supported and accurate prior to approving payment.
- 3.** Prior to renewing any business office consulting contracts, ensure that the terms, such as agreed-upon travel costs, are in the District’s best financial interest and include provisions to enable the District to ensure services are provided as agreed prior to payment, as required by the USFR.
- 4.** Establish policies and procedures to eliminate its practice of paying performance pay prior to the Board making a determination that performance goals have been met and the pay has been earned.

**District response:** As outlined in its [response](#), the District does not agree with the finding but will implement the recommendations.

## Recommendations to the Board

1. Work with the Arizona Attorney General’s Office to determine whether it had the legal authority to pay the additional compensation to its CFO and performance pay to its superintendent and, if not, determine its ability to recover the monies.
2. Follow requirements in A.R.S. §15-341(A)(39) by relying on the goals established in statute or establishing alternative performance pay goals, approving any alternative performance pay goals at a public meeting, and ensuring the superintendent meets the performance pay goals before approving performance payments.

# District incorrectly compensated employees for sick leave and underpaid other employees for additional duties due to a lack of written procedures, staff training, and supervisory oversight

## District incorrectly compensated employees contrary to requirements

The District has inappropriately compensated employees contrary to statutes, the USFR, or its own policies in 3 areas.

### District incorrectly compensated employees for sick leave benefits over several years

We identified problems with how the District has administered employee sick and personal leave benefits that resulted in some employees being undercompensated.

Specifically:

- ▶ **District's process for administering sick leave resulted in some hourly employees accruing less sick leave than required by statute, and the District did not follow its personal leave policy which could have helped remedy the problem**

In fiscal year 2023, the District's process for administering employee sick leave resulted in hourly employees who started working at the District later in the fiscal year accumulating less sick leave than required by State law.<sup>1</sup> The District's policy called for employees to accrue sick leave for only 20 pay periods in a fiscal year rather than the full 26 pay periods in a fiscal year. District employees began accruing sick leave at the beginning of the school year, which typically occurs about a month after the start of the fiscal year, and stopped accruing sick leave after they had accrued it for 20 pay periods. District employees who worked the full fiscal year would accrue the minimum sick leave required by State law under the District's process.

However, the District did not adjust sick leave accrual pay periods or rates for employees hired after the school year began, and those employees stopped accruing sick leave at the same time in the fiscal year as employees who had worked since the beginning of the fiscal year. Because employees hired later in the year continued to work during pay periods in which they did not accrue sick leave, the District did not provide them the minimum sick leave amounts required by State law. We judgmentally selected and reviewed 5 hourly District employees hired in the latter part of fiscal year 2023 and found that these employees received accrued between 2.4 and 16.7 hours less sick leave than required by State law.

<sup>1</sup> A.R.S. §23-372(A) requires that employees, including school district employees, must accrue at least 1 hour of sick leave for every 30 hours worked if the employer has 15 or more employees, but employees are not entitled to accrue or use more than 40 hours of earned paid sick time per year, unless the employer selects a higher limit. A.R.S. §23-372(E) allows for employers to include other leave plans to meet this minimum accrual requirement, provided that employees are allowed to use that leave for the same purposes and conditions as sick leave.

According to District officials, the District's personal leave policy makes additional leave available for sick leave purposes and helps ensure it complies with State minimum sick leave requirements. However, we found that the District did not follow its policy for awarding employees personal leave. Specifically, we reviewed whether the District had followed its personal leave policy for the 5 employees previously discussed and found that the District failed to follow its personal leave policy for all 5 employees. Contrary to its policy, the District did not grant 4 of the employees any personal leave. For the remaining employee we reviewed, the District provided 2 days of personal leave at the end of the fiscal year rather than in advance as required by its policy. If the District had followed its personal leave policy consistently, 4 of the 5 employees we reviewed would have accumulated sick and personal leave amounts that complied with State law. One employee would still have been short of the minimum amount by 0.7 hours. Further, by not following its personal leave policy, the District withheld personal leave from these employees that they were entitled to receive.

The District revised its sick leave policy in fiscal year 2024 to require sick leave to be accrued in proportion to the hours worked for the full fiscal year. However, although employees now accrue sick leave during each pay period worked, the District's sick leave accrual rate still results in employees not being awarded the minimum sick leave required by State law unless the District also ensures it consistently follows its personal leave policy.

▶ **District improperly imposed a probationary period for hourly employees during which time these employees did not accumulate sick leave they were entitled to receive**

During the audit, the District reported that it had improperly assigned hourly employees to a 90-day probationary employment period during which they did not accrue sick leave. The District identified 190 affected employees hired between fiscal years 2018 and 2023.

The District reported that in July 2023, it compensated 147 affected employees who were still working at the District by retroactively crediting them with sick leave amounts that it had determined should have been accrued during the improperly imposed probationary period. Based on information the District provided, employees were credited with varying amounts of sick leave ranging from 12 to 24 hours. However, the District's process resulted in some employees being credited with either too few or too many sick leave hours as compared to the District's sick leave accrual rates. We judgmentally selected and reviewed 3 employees hired in fiscal year 2023 who the District improperly placed on probationary status for their first 90 days of employment found that the District overcompensated 2 of these employees by a total of 8.4 hours and undercompensated 1 employee by 8 hours.

Additionally, the 43 affected employees who left District employment before the District corrected its error did not receive the sick leave hours they were entitled to during the improperly imposed probationary period. Although District policy does not allow for sick leave to be paid upon termination unless an hourly employee has worked for the District for at least 1 year, these employees were denied the ability to accrue and use potentially necessary sick leave during their District employment. Additionally, those employees who had been employed for at least 1 year were denied the opportunity to have those hours

paid out in accordance with the District's sick leave payout policy. The payout policy allows employees who leave the District after 1 year of employment to receive between \$2 to \$6 for each hour of unused sick leave depending on an employee's years of service.

### **District made approximately \$3,000 in erroneous or unsupported payments to 5 employees**

Inconsistent with USFR requirements, our review of fiscal year 2023 payments made to a judgmentally selected sample of 13 of 721 District employees found that the District made erroneous or unsupported payments to 5 employees we reviewed. For example, the District improperly paid its superintendent \$500 for a cell phone reimbursement in addition to the technology allowance included in his employment contract. According to District officials, the payment was made in error because a business office employee who was unfamiliar with the superintendent's contract inadvertently added the superintendent's name to a list of employees who received cell phone reimbursements. However, if the District had effective controls in place as required by the USFR, such as a secondary review of payroll prior to payments being made, it should have identified the error prior to making the improper payment to the superintendent. District officials reported the payment was recovered from the superintendent after we brought it to their attention during the audit.

The remaining unsupported payments we identified were made to 4 employees and totaled \$2,447. Two of these employees were classroom paraprofessionals who were paid after being required to fill in during teacher absences; 1 employee received back pay after the District failed to update its time card system to adjust for a change in the employee's position, and another employee received an adjustment after their leave status changed. Although the District provided e-mails describing the reasons for all the adjustments, it did not retain sufficient documentation to support the payment amounts as required, such as the hours worked and the approved pay rate. The District also could not demonstrate that the pay calculations were accurate.

### **District underpaid employees who hold on-call positions that require them to report for work during off-duty hours**

Some District employees are scheduled to work during their off-duty hours, and under District policy, these "on call" employees are to be paid for a minimum of 4 hours at their regular hourly rate for each on-call occurrence. In November 2022, the District's Board approved hourly pay rate increases for all hourly employees effective January 1, 2023. However, the District did not consistently apply this Board-approved hourly pay increase to the on-call position rate for all employees, resulting in some employees' on-call hourly rate not matching their regularly hourly rate. Consequently, these employees were undercompensated for their on-call work. We reviewed on-call payments for the 8 employees who earned on-call pay after their regular pay increases became effective on January 1, 2023. We found that 1 employee's on-call pay was correctly increased to match the regular hourly rate, and their on-call payments were correct. However, on-call rate adjustments for 2 employees were delayed by up to 4 months, and 5 employees did not receive an increase to their on-call pay rate, resulting in these 7 employees being underpaid by a total of at least \$77 from January 1 through June 30, 2023.

## **District did not adequately train and oversee staff to ensure that employees are correctly compensated**

The District indicated that it has had turnover among payroll staff that may have resulted in inconsistencies in how payroll functions are carried out. However, it had not taken steps that may have mitigated the effects of turnover. Specifically, based on the problems we identified, it appears payroll staff lacked the necessary guidance and training to ensure that sick and personal leave is credited properly and payments to employees are correct and comply with the USFR, State law, and District policies. For example, although the District has some written procedures for processing payroll, its procedures lack steps to ensure all employees are credited with the leave they are entitled to by District policy. Further, additional training could have helped ensure that payroll staff made timely pay rate adjustments for on-call employees.

Additionally, the District lacked a thorough supervisory review process during fiscal year 2023, which may have helped it to identify and correct the problems we identified. For example, the District was unaware that some employees did not accumulate the minimum sick leave amounts required by State law and that its personal leave policy was not consistently followed. Further, although District officials indicated the issue with the improperly applied probationary period occurred due to previous employees' lack of understanding about the District's processes, a supervisory review process could have identified this problem.

District officials indicated that the District has implemented a new supervisory review process prior to payroll processing, which includes comparing salaried employees' pay across pay periods. However, the District's new supervisory process does not include steps that would allow it to identify the problems we found during our review, such as reviews of payroll supporting documentation, accounting system changes, and new employees' payroll and leave details. Additionally, as reported in Findings 3 and 4, pages 16 through 23, we identified other deficiencies relating to cash handling, purchasing, and retirement contribution withholdings resulting from the District's lack of written procedures, training and/or a thorough supervisory review.

### **Recommendations to the District**

- 5.** Recalculate and correct sick leave accruals for hourly employees since the beginning of fiscal year 2023, and based on these results, determine whether to recalculate and correct sick leave accruals for prior years.
- 6.** Develop written procedures to ensure employees are granted at least the statutorily required minimum number of sick leave hours, including procedures to verify that personal leave is credited to employees accurately and in accordance with District policy.
- 7.** Verify that employees are no longer improperly assigned probationary status in the District's accounting system, and recalculate and correct all incorrectly compensated sick leave for current employees affected by the improper probationary designation between fiscal years 2018 and 2023.

8. Develop and implement policies and procedures in accordance with USFR requirements that include a thorough supervisory review to verify the accuracy and documented support of employee pay.
9. Identify and correct all underpayments for employees who were scheduled for on-call hours after January 1, 2023, and develop written procedures for ensuring on-call payments are made in accordance with District policy.
10. Train payroll staff at least annually, as well as whenever new payroll policies and procedures are introduced, to help ensure payments are correctly and consistently processed in accordance with State law, the USFR, and District policies.

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

# District did not provide required information to ASRS about certain retiree incentives and improperly calculated ASRS withholding for some employees, which may result in improperly inflated retirement benefits and unfunded liabilities

## ASRS needs accurate information from District to administer retirement and other 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. Employers are responsible for withholding employee contributions from employee payroll and remitting all employee and employer contributions to the ASRS.<sup>1</sup> Employers are also required to provide certain employee information to the ASRS that is accurate to help enable the ASRS to administer the retirement and other benefits it provides. However, the District failed to provide the ASRS with required information for 1 program and provided inaccurate information for other employees as detailed below.

### Issue 1: District did not provide ASRS with required participant information for its termination incentive program, potentially resulting in unfunded pension liabilities

The District offers a termination incentive program for employees hired before July 1, 2002, that provides retirees with incentive payments based on the length of each participant's tenure with the District. The incentive payments are calculated as a percentage of a participant's scheduled salary during their final year of employment and provide a payout of up to 36% of each participant's salary depending on their length of service at the District. According to District officials, the incentive program has been in place since at least 1992.

Despite State administrative rules requiring the District to provide the ASRS with certain information about each program participant within 30 days after the employee's termination, the District failed to do so for 2 participating employees in fiscal year 2023. This information includes the employee's name, date of birth, compensation at termination, termination date, and any

#### Key term

**Termination incentive program:** A program that allows employers to offer incentive pay to eligible employees conditioned on their termination.

Source: Auditor General staff review of A.R.S. §38-749(D).

<sup>1</sup> A.R.S. §38-736(B).

additional pay the employee received or was entitled to receive as a result of participating in the termination incentive program.<sup>2</sup> The ASRS uses this information to calculate any unfunded liability amount resulting from the employee's participation in the termination incentive program.<sup>3</sup> District officials reported that they were not aware of the requirement to provide this information to the ASRS.

By not providing the ASRS with the required termination incentive program and participant information, the District may have incurred unfunded liabilities to the ASRS resulting from incentive payments to program participants. These unfunded liabilities could reduce the monies the ASRS has available to pay benefits for all retirees, not just District retirees. Additionally, if the ASRS determines that the District's termination incentive program resulted in unfunded liabilities for the District, the District will be required to pay all monies due to the ASRS.<sup>4</sup> Such payments could potentially result in the District redirecting monies that could be spent on other District priorities, such as instruction.

## **Issue 2: District improperly included certain payments when calculating ASRS contributions in fiscal year 2023, potentially improperly inflating some employees' future retirement benefits**

In fiscal year 2023, the District did not exclude District termination incentive program or accumulated leave payments for some employees in its reporting to the ASRS as required.<sup>5</sup> As noted above, the ASRS is funded equally by employer and employee contributions, which are calculated as a percentage of each employee's compensation. Statute requires that an employee's compensation be calculated based on an employee's salary and wages, excluding pay associated with retirement incentives such as the District's termination incentive program or payouts for such things as accrued vacation or sick leave.<sup>6</sup>

The District allows employees who retire or terminate employment and who meet certain requirements to receive payouts for accumulated sick and/or annual leave. Our review of all 48 employees, including the 2 termination incentive program participants, who received these additional payments in fiscal year 2023, found that for 29 of these employees, the District improperly included accumulated leave and/or incentive payments when it calculated the employees' ASRS withholdings.

As a result of its improper calculations, the District withheld nearly \$6,800 more in total from these 29 employees' pay than it should have. When both employee and District contributions are included, it paid almost \$13,530 more to the ASRS than required. Because employees' monthly retirement benefits are calculated based on ASRS contributions, these inflated ASRS contributions could improperly result in permanent increases to retired employees' monthly retirement benefits. We estimated the potential retirement benefit increases resulting from the additional improper withholding for the 4 employees who retired in fiscal year 2023 to be as much as 14% for 1 employee and 2% or less for the other 3 employees.

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<sup>2</sup> AAC R2-8-124(E).

<sup>3</sup> AAC R2-8-124(F).

<sup>4</sup> A.R.S. §38-749(C).

<sup>5</sup> A.R.S. §§38-711(7)(a)(i) and (iii).

<sup>6</sup> A.R.S. §38-711(7)(a).

According to District officials, the District does not have procedures outlining which payments to employees should be included as compensation when calculating and reporting ASRS contributions, and the District was unaware that certain payments should have been excluded. Additionally, the District has not trained its payroll staff about ASRS withholding and reporting requirements. To ensure that the District properly reports required information about termination incentive plan participants to ASRS and properly calculates and reports required withholding for accumulated leave payouts, it should develop formal written procedures and provide regular staff training. Further, as noted in Finding 2, pages 11 through 15, increased staff training could better ensure staff are correctly compensated for sick leave and on-call duties.

## Recommendations to the District

Work with the ASRS to:

- 11.** Identify and correct any excess contributions that should not have been included as compensation for the calculation of ASRS benefits.
- 12.** Report required information about past termination incentive program participants and determine if its termination incentive program created any unfunded liabilities to the ASRS and, if so, resolve them.
- 13.** Develop and implement written procedures that address termination incentive program reporting requirements and the types of compensation that should be included in ASRS withholding calculations and remittances to ensure compliance with State laws and ASRS requirements.
- 14.** Train payroll staff at least annually, as well as whenever new payroll policies and procedures are introduced, to help ensure ASRS withholding is correctly and consistently processed in accordance with District policies and ASRS requirements.

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

### **District sometimes did not follow cash-handling and purchasing requirements, placing District monies at risk of loss, theft, misuse, and fraud**

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The District did not always follow USFR or District requirements designed to help protect against loss, theft, misuse, and fraud in several business office and accounting areas. Specifically, our review identified concerns relating to the District's cash-handling and purchasing processes and its use of purchasing cards as detailed below.

#### **Issue 1: District schools did not follow USFR requirements for ensuring that all cash is accounted for and deposited, increasing the risk of loss, theft, misuse, and fraud**

Contrary to USFR requirements, the District did not establish and maintain effective policies and procedures to safeguard cash to prevent its theft, misuse, or fraud.

Specifically, we identified the following deficiencies:

▶ **District schools did not consistently use prenumbered, sequential receipts**

Although the 3 school sites we reviewed used prenumbered, triplicate receipts for cash collections, they did not always issue receipts in sequential order. Our review of all 31 sequentially prenumbered cash receipts from 1 school's receipt book for cash received between October 2022 and April 2024 found that 6 receipts had been unused and skipped, although they remained intact in the receipt book. At a second school, we judgmentally selected and reviewed 1 cash deposit from April 2024 that included 3 cash receipts totaling \$537.99 and found that staff issued 2 of the prenumbered receipts out of sequential order. Finally, at a third school, we judgmentally selected and reviewed 4 cash deposits from August 2023 through September 2023 that included 44 cash receipts totaling \$1,298 and found that staff issued 1 prenumbered receipt out of sequential order and had issued 1 receipt that was not prenumbered. District officials could not explain why a school had used a nonprenumbered receipt book but reported in November 2024 that the school had disposed of the book.

▶ **District schools lacked secondary review for cash collections**

Inconsistent with the District's informal cash-handling procedures, the District lacked evidence its cash deposits had been reviewed by a second District employee. Specifically, we judgmentally selected and reviewed 6 cash deposits from 3 District schools made between July 2023 and April 2024, and found that the cash collection forms associated with the 6 deposits we reviewed were incomplete. All 6 forms included only the name of the employee who prepared the deposit, while the signature line indicating that the deposit had been reviewed by a second District employee was blank.

### ▶ **District schools delayed cash deposits**

Our review of 50 cash payments totaling \$2,428 collected by 3 schools between July 2023 and April 2024 found that 2 schools took longer than 1 week to deposit 10 of these collections, inconsistent with USFR requirements. The schools deposited these cash collections, which totaled \$428, between 8 and 36 days after the money was collected—or up to 29 days later than required by the USFR, which requires cash to be deposited at least weekly or daily when amounts are significant.

Although the District's policy indicates that staff should handle cash in accordance with USFR requirements, staff responsible for cash handling at the school sites we reviewed reported that they received limited training and guidance on how to comply with the USFR and appropriately handle cash and make deposits. Additionally, as indicated by the examples above, the District lacked detailed cash-handling procedures to provide guidance to staff on appropriately handling and accounting for cash receipts. For example, although District officials reported that a business office employee is responsible for reconciling cash received to cash deposited, the reconciliation does not include any review to determine if there are gaps in receipt numbers—a critical step to reduce the District's fraud risk. Because school sites do not consistently and appropriately use prenumbered cash receipts and ensure that at least 2 employees are present when cash is prepared for deposit, the District cannot ensure that all cash collected is deposited, as required. Additionally, delays in making deposits also increase the risk that cash will be lost or misused.

## **Issue 2: District made some purchases that did not comply with USFR requirements, increasing the risk of unallowable purchases or erroneous payments**

Our review of a judgmental sample of 18 of 21,332 District purchases made in fiscal year 2023, found that for 7 of these purchases, the District lacked documentation showing that the purchases had been approved and authorized in advance, and/or that employees verified receipt and billing accuracy before paying vendors, as required by the USFR.

Specifically:

- ▶ 1 purchase totaling \$550 for instruction on and operation of a sound system lacked evidence of prior supervisory approval.
- ▶ 5 purchases totaling \$31,917 for goods and services, such as chairs and DJ services for events, lacked documentation showing employees verified that the purchase was received and billings were accurate before paying.
- ▶ 1 expenditure totaling \$1,907 for bus transportation lacked both evidence of prior approval and that an employee had verified that transportation services had been provided and the billing was accurate before paying.

The USFR requires school districts to implement policies to provide effective internal controls over expenditures and to ensure purchases are made only after receiving prior supervisory approval and authorization. Additionally, employees are required to obtain evidence that the District has received goods and services and verified that billings are accurate before paying vendors. However, by not consistently ensuring that all purchases are authorized and approved in advance and that

purchases are received and accurately billed before paying, the District increases its risk of making erroneous payments or paying for purchases that were not allowable or that were not received.

### **Issue 3: District has more purchasing cards and authorized users than necessary for operations and did not reconcile list of assigned users to physical cards, increasing the risk of purchasing card misuse and unauthorized purchases**

Despite the USFR requiring districts to limit the number of card users to the minimum necessary for effective purchasing, the District has a large number of purchasing cards and more authorized users than is necessary for its operations. According to the USFR, limiting the number of users helps to ensure control of district resources, minimizes oversight costs, and reduces the risk of loss due to unapproved and fraudulent transactions.<sup>1</sup> Further, the District's practices for approving card users does not comply with USFR requirements, and it lacks a process for verifying that its purchasing cards are accounted for and physically secure.

Specifically:

#### **Key term**

**Purchasing Cards:** Also referred to as P-Cards, purchasing cards are very similar to credit cards but allow school districts and other entities more control over their use. As with credit cards, banks issue purchasing cards. However, districts determine the authorized users and can set spending limits for the cards and restrict their use to specific vendors and merchant categories.

Source: Auditor General staff review of the USFR. Retrieved 5/8/24 from [www.azauditor.gov/resources/school-districts/manuals-memorandums](http://www.azauditor.gov/resources/school-districts/manuals-memorandums).

#### **▶ District likely has more purchasing cards and authorized users than necessary for its business operations**

Our review of the District's active list of authorized purchasing card users in November 2023 and card statements for fiscal year 2023 found that the District had at least 85 purchasing cards and 58 authorized users, including 1 Board member, which is likely more users than necessary. The number of authorized users equates to approximately 8% of all District employees. Additionally, approximately 75% of all purchasing card spending was associated with only 17 of the District's cards, suggesting that the number of purchasing cards could be reduced, as required by the USFR, while still facilitating effective and efficient purchasing.

The District reported that it maintains extra cards to allow schools to continue making purchases if a card is deactivated and that some employees in certain administrative or business office positions are authorized as purchasing card users regardless of whether they have requested it or have an identified need to be a card user. These practices likely contributed to the District's unnecessarily large number of cards and authorized users. Additionally, although the District's policy indicates the superintendent is responsible for authorizing users, the District lacks written guidelines for determining which employees should be authorized to use purchasing cards. By reviewing these practices to ensure it

<sup>1</sup> USFR, VI-G-15.

maintains only the cards necessary for its operations and that purchasing card access is limited to staff who need the cards to fulfill their job responsibilities, the District could reduce the risk that cards could be lost or misused while still allowing for necessary purchases.

▶ **District lacks a process to regularly reconcile its list of assigned purchasing cards to the physical cards**

The District maintains a list of active purchasing cards and their authorized users, including the cards assigned to specific school sites that employees can sign out for occasional purchases. District officials reported some purchasing cards are kept in the possession of their authorized users while others are kept on site at schools or other District facilities to check out as needed. According to District officials, the District lacks a process to regularly reconcile the list of active cards with the physical cards, which would help to ensure that they are being securely maintained and none are lost or stolen. By developing and implementing a process to regularly verify that its purchasing cards are accounted for and physically secure, the District could reduce the risk of misuse or fraudulent transactions.

## Recommendations to the District

15. Develop and implement written procedures for cash-handling to ensure compliance with USFR requirements, which should include requiring a secondary review cash collections and regularly accounting for all sequential, prenumbered receipts.
16. Periodically train employees responsible for cash collection and deposits on how to comply with USFR cash-handling requirements and its newly developed cash-handling policies and procedures.
17. Deposit all cash at least weekly, or daily when amounts are significant.
18. Develop and implement written procedures for purchasing in accordance with USFR requirements, which should include ensuring that all purchases are reviewed and approved in advance by authorized District officials and all goods or services are received and billings are accurate prior to payments being made.
19. Routinely train appropriate staff on its newly developed purchasing procedures to reduce the risk of unapproved purchases or inappropriate payments.
20. Analyze purchasing card spending and use those results to identify any cards that could potentially be eliminated or any authorized users who no longer require purchasing card access to perform their job responsibilities. Take immediate actions to minimize the number of cards and users in accordance with the USFR.

- 21.** Develop and implement written guidance regarding which District employees or job positions require being authorized purchasing card users to perform their job duties.
- 22.** Develop and implement a process for periodically reconciling the District's records of authorized users and assigned purchasing cards to the physical cards to ensure no cards are lost or stolen, and take appropriate action if missing cards are identified.

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

## District did not comply with some conflict-of-interest requirements, increasing the risk that employees and Board members did not disclose substantial interests that might influence or could affect their official conduct

### Statute addresses conflicts of interest for school district employees and board members

State conflict-of-interest laws and District policy require District 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.<sup>1</sup> Additionally, according to the USFR, districts should establish procedures to help ensure that all employees and board members comply with conflict-of-interest laws.

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.<sup>2,3</sup> The interest must be disclosed in the District’s official records, either through a signed document or the Board’s official minutes. Further, 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 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.<sup>4</sup>

#### 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 1/27/2025 from <https://www.azag.gov/outreach/publications/agency-handbook>.

<sup>1</sup> A.R.S. §38-503(C) contains an exception applicable to purchases from school board members related to purchasing supplies, materials, and equipment.

<sup>2</sup> A.R.S. §§38-502 and 38-503(A) and (B).

<sup>3</sup> 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.

<sup>4</sup> A.R.S. §§38-509 and 38-502.

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.<sup>5</sup> 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.<sup>6</sup> 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**

As discussed below, we identified issues with the District’s conflict-of-interest policies and practices that could increase the risk that employees or Board members may not disclose substantial interests that may influence or could affect their official conduct and may limit public transparency into the District’s operations.

Specifically:

▶ **The District does not enforce its requirement for employees to complete conflict-of-interest disclosure forms annually and does not require annual disclosures for Board members**

Contrary to recommended practices, the District lacks a policy requiring Board members to submit annual conflict-of-interest disclosure forms, and it does not enforce its policy requiring employees to do so. District officials indicated that despite its policy requiring employees to annually complete conflict-of-interest forms, employees have only been expected to do so if they have a substantial interest requiring disclosure. For fiscal year 2023, the District reported no employees or Board members had substantial interests to disclose and no forms had been filed. We also requested the District’s statutorily required special file containing all disclosed substantial interests. The District reported it did not have any conflict-of-interest forms on file from previous years, indicating that no substantial interests had ever been disclosed. However, given the District’s size and number of employees, it is unlikely that an employee or Board member has never had a substantial interest to disclose. Thus, the District’s process for employees and Board members to disclose conflicts of interest is likely insufficient to ensure all interests are disclosed as required.

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<sup>5</sup> 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*.

<sup>6</sup> 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>

▶ **The District lacks policies to help identify potential conflicts for staff with relatives working at the District**

Despite being aware that some District employees have family members working for the District, District officials reported that the District does not require employees to disclose familial relationships with other District staff on conflict-of-interest disclosure forms. Although the District indicated that no employee would be allowed to supervise a close relative, it does not have a policy specifically prohibiting this practice. Absent a process for employees to disclose their relatives who also work at the District, it is unclear how the District could ensure that an employee would not be in a position to supervise a family member.

▶ **The District does not ensure all staff complete conflict-of-interest training and does not require training for Board members**

Contrary to the District's requirement for staff to take an annual conflict-of-interest training, we identified 13 employees in fiscal year 2023 who did not complete the training. Further, conflict-of-interest recommended practices indicate that Board members, who are in the position of making decisions for the District, should also receive annual conflict-of-interest training. However, District policy does not require conflict-of-interest training for Board members, and District officials reported that the District does not provide this type of training for Board members.

By not requiring all Board members and employees to annually complete conflict-of-interest disclosure forms and training, the District increases the risk that the employees and/or Board members may not disclose or refrain from participating in matters in which they have a substantial interest. Further, by not following conflict-of-interest requirements and recommended practices, such as collecting and maintaining a file of all completed conflict-of-interest forms and making the file available for public inspection, the District limits public transparency into its operations. It also increases the risk that District decisions may serve the self-interests of employees or Board members rather than the District.

## **Recommendations to the District**

- 23.** Develop and/or update and implement conflict-of-interest policies and procedures to require all Board members to complete a conflict-of-interest disclosure form at the start of their terms and annually thereafter, or when circumstances change, including fully describing any substantial interest or attesting that no conflicts exist.
- 24.** Enforce its existing conflict-of-interest policies for employees by requiring them to annually submit conflict-of-interest disclosure forms describing any substantial interests they or their relatives may have in the District's decisions or attesting that no conflicts exist.

25. Maintain all substantial interest disclosures, including disclosure forms and meeting minutes, in a special disclosure file available for public inspection.
26. Require periodic training on its conflict-of-interest requirements, process, and disclosure forms to its Board members and employees that includes information about the importance of complying with the State's conflict-of-interest laws and District policy.

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

### **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**

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#### **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 requirements and recommended standards that help districts safeguard sensitive information and prevent errors, fraud, and data loss. 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.

#### **District did not regularly review and limit user access to its network and critical systems, increasing its risk of fraud, misuse, unauthorized access, and data loss**

The District did not limit user access to its critical IT systems in accordance with the USFR.

Specifically:

- ▶ **Contrary to the USFR, some employees had more access than necessary to carry out assigned job duties, increasing the risk of fraud, misuse, and data loss**

Our review of user accounts on the District's network, accounting, and student information systems identified 5 accounting system users with more access to payroll functions than the USFR allows. The USFR requires access to be limited to only what is necessary for an employee to carry out their assigned job duties. The 5 users we identified had the ability to initiate and complete payroll transactions without another employee reviewing and approving the transactions, increasing the risk of fraud or misuse.

We also found that the District granted unnecessary administrator-level system access to 4 employees, as shown in Table 3, page 29. Administrator-level access provides full control over system settings, such as the ability to view and edit data, add new users, and modify the level of access that users have to various functions. By granting unnecessary administrator access, the District increased the risks of fraud, unauthorized access to sensitive information, and data loss. Additionally, contrary to credible industry standards, the District did not require employees who have administrator-level access to the District's network to use separate, nonadministrator accounts to perform their day-to-day activities. This increases the District's risk of security breaches since hackers typically target administrator accounts for their greater access privileges.

► **The District did not promptly remove unneeded or unused accounts from its IT systems, increasing the risk of unauthorized access to sensitive information, data loss, and fraud**

Our review also identified 45 accounts that were associated with terminated employees or former contractors that the District had not disabled or removed from its systems, contrary to the USFR requirement to immediately disable system access when it is no longer needed. Further, 10 of these accounts had been accessed between 10 days and 170 days after the employees had terminated employment. We did not identify any improper transactions due to these deficiencies, but the District’s failure to limit access to its systems and regularly review and remove unnecessary accounts increases the risk of unauthorized access to sensitive information, data loss, and fraud.

**Table 3**

**District generally did not meet USFR requirements and restrict user access across critical IT systems for accounts we reviewed**

Requirement	Network	Student information system	Accounting system	Summary
Limit the number of users with administrator-level access	✗	✓	✗	We identified 3 network administrator accounts and 1 accounting system administrator account that did not require this level of access.
Adequately remove terminated employees’ access	✗	✗	✗	We identified at least 31 network and 8 SIS accounts and 2 accounting system account associated with terminated employees.
Disable/remove vendor or contractor accounts that no longer need access	✗	✓	✓	We identified 4 network user accounts associated with contractors that were no longer needed.

Source: Auditor General staff analysis of October 2023 District network, January 2024 student information system (SIS), November 2023 accounting system accounts, and May 2024 accounting system access levels.

**District’s authentication controls did not meet USFR requirements and credible industry standards, putting District operations at risk**

As of October 2023, contrary to USFR requirements, the District’s password requirements were not aligned with credible industry standards, such as those developed by NIST, and the District did not always require multifactor authentication (MFA) to sign into some systems. The USFR

requires that districts implement strong passwords that align with credible industry standards as well as MFA for all users with remote access, administrator access, and access to its critical IT systems, or implement compensating controls if any of these systems are not capable of implementing MFA.

### **District IT contingency plan lacked key components, increasing its risk of interrupted operations and data loss**

Our review of the District’s IT contingency plan in November 2023 found that it did not include all of the elements required by the USFR and recommended by credible industry standards to help ensure continued operations and data recovery in the event of a system outage.

Specifically, as indicated in Figure 1, the District’s plan did not identify all critical systems, specify the order in which critical systems should be restored, clearly outline who is responsible for which activities during a system outage or attack, or contain contingencies for continued business operations during a system outage. Additionally, the District had not tested its plan, which may have helped it to identify and address deficiencies.

**Figure 1**  
**District’s contingency plan missing key components**

**Key contingency plan components**

- ✗ Identify all critical systems.
- ✗ Indicate system restoration order.
- ✗ Outline individual responsibilities.
- ✗ Contain plans for business continuity.
- ✔ Include detailed restoration steps.

Source: Auditor General staff review of District’s contingency plan, USFR requirements, and credible industry standards.

### **District lacked written IT policies, procedures, and a comprehensive plan to help safeguard IT systems**

Although the District indicated that it had some informal IT-related processes, the processes were not aligned with USFR requirements and credible industry standards, and staff did not consistently follow them. For example, although the District indicated that it would occasionally identify and remove inactive user accounts from its IT systems, it did not have an established time frame for doing so. Additionally, the District lacked policies and procedures to ensure users’ system access was aligned with their job duties. By developing formal IT policies and procedures to ensure system access is up to date and appropriate, the District could reduce its risk of fraudulent payments and limit the potential for unauthorized system access and/or data loss. Additionally, by prioritizing the development of a comprehensive contingency plan aligned with the USFR and credible industry standards and regularly testing it, the District could better ensure that staff members understand their roles and responsibilities during system outages. It could also reduce the risk of system disruptions and data loss.

## Recommendations to the District

27. Limit employees' access to 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.
28. Limit administrator-level access to its network to only those individuals with a business need for administrator-level access and require these employees to use a separate nonadministrator account for day-to-day activities.
29. Develop policies to address IT system access relative to employee job duties and establish a formal process to periodically review network account access and make necessary updates if the reviews identify accounts with more access than necessary.
30. Develop and implement a formal process to ensure that network, accounting system, and student information system accounts are promptly disabled or removed when no longer needed to reduce the risk of unauthorized access.
31. Implement and enforce strong authentication controls, such as strong passwords and MFA, or compensating controls for any systems that are not capable of implementing MFA, that align with credible industry standards to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.
32. Develop and implement a formal process to review the District's authentication controls against industry standards at least annually.
33. Develop an IT contingency plan that meets USFR requirements and credible industry standards; test its plan at least annually to identify and remedy any deficiencies, which should include testing the District's ability to restore electronic data files for critical systems from backups; and document the test results.

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

### **District did not meet some transportation Minimum Standards requirements, inaccurately reported information to ADE, and failed to fully secure its fuel supplies, increasing risks to student safety and potential for theft and misuse**

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We identified 2 main issues with the District's transportation program that relate to its contracted transportation services and the physical security of its fuel supplies, as discussed below.

#### **Issue 1: District did not ensure that its contractor complied with the Minimum Standards for bus maintenance and driver testing and certifications, and that it maintained accurate records for transportation funding purposes**

School districts are statutorily authorized to contract for transportation services, and the District has contracted for transportation services since fiscal year 2023 but did not oversee its contractor, resulting in various problems.<sup>1</sup> Whether operating a transportation program or contracting for transportation services, statute requires all district school buses and school bus drivers to meet the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards) developed by the Arizona Department of Public Safety. Although the District is ultimately responsible for the safety of students on its school buses, it did not ensure that the Minimum Standards were met for school bus driver testing and certification and school bus preventative maintenance. Additionally, we identified errors in the District's transportation records and reporting to ADE that may have resulted in inaccurate transportation funding.

Specifically:

- ▶ **District's transportation contractor did not meet the minimum threshold for driver alcohol testing, and driver certification files were incomplete, potentially putting student safety at risk**

Our review of random drug and alcohol tests conducted on the District's contracted school bus drivers in calendar year 2023 found that the District did not ensure that its contractor met Minimum Standards requirements for randomly testing school bus drivers for alcohol use, potentially increasing student safety risks. Contrary to Minimum Standards, the District's transportation contractor randomly tested 8.6% of the District's school bus drivers rather than the required 10% minimum. According to the District's contractor, due to an oversight, the employee responsible for randomly testing drivers did not schedule the 1 additional driver needed to reach the 10% minimum threshold for random alcohol testing in time for the test to be completed before the end of the year. The District was unaware of this issue until we brought it to their attention during the audit because it did not have processes in place to ensure its contractor was complying with these Minimum Standards.

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<sup>1</sup> Beginning in fiscal year 2023, the District eliminated its in-house transportation program and began contracting with an outside vendor to provide transportation services, including school bus drivers and school bus maintenance. The District employs its own transportation coordinator, who is responsible for working with and overseeing the District's transportation contractor.

Additionally, our review of a judgmental sample of 5 of 35 contracted District school bus drivers' files found that as of April 2024, the District had not ensured that the school bus drivers met all Minimum Standards certification requirements. All 5 of the contractor's driver files we reviewed were missing evidence of 1 or more valid certifications or tests as required by the Minimum Standards.

Specifically:

- 3 drivers' CPR/First Aid certifications had lapsed at some point during the year.
- All 5 drivers' files were missing 1 or more required documents, such as DPS school bus driver certification cards (2 drivers), CPR/First Aid certification (1 driver), physical performance tests (3 drivers), documented medical examination (1 driver), and evidence of an annual drug test (1 driver).

▶ **District did not ensure its transportation contractor conducted required school bus preventative maintenance, potentially increasing risks to student safety and reducing the school buses' useful life**

The District did not ensure that its transportation contractor conducted and documented required routine preventative maintenance on the District-owned school buses. Our review of a judgmental sample of 5 of 31 District school buses' preventative maintenance services performed in fiscal year 2023 found that all 5 buses had exceeded the contractor's established intervals for 2 or more preventative maintenance services. For example, 3 of 5 school buses did not receive a brake inspection in fiscal year 2023 despite the contractor's service intervals requiring brake inspections to take place at least once per year. Additionally, 1 school bus went over the contractor's interval for a fuel filter change by at least 1,470 miles, and another bus went over the interval for an oil change by at least 3,390 miles. By not ensuring its school buses are maintained in accordance with Minimum Standards requirements, the District increases safety risks to students and may reduce the school buses' useful lives.

▶ **Contractor-provided transportation records contained substantial errors and discrepancies, which may have resulted in inaccurate transportation funding**

Our review also found that the transportation data provided to the District by its transportation contractor contained substantial inaccuracies and therefore was unreliable for purposes of required transportation funding reporting. Additionally, the District lacked a process for reviewing and verifying the accuracy of the information and therefore used the erroneous data for its required transportation reporting.

We judgmentally selected 2 days of daily odometer readings and rider counts recorded by the District's transportation contractor for all 30 District school buses used to transport students to and from home and school in fiscal year 2023. We compared this information to a summary spreadsheet the transportation contractor provided to the District, which the District used for its ADE reporting. Our review found that 25 of 60 daily recordings we reviewed, or 42%, contained discrepancies between the original data and the transportation contractor's summary spreadsheet for either the mileage traveled, riders transported, or both. For example, the mileage reported on the daily school bus reports

ranged from 19 fewer to 173 miles more than what was recorded on the contractor's summary spreadsheet, which the District used for its transportation reports. The District's transportation funding may have been inaccurate due to these errors.

Each of the issues above likely occurred because the District had not established effective processes for overseeing its transportation contractor. For example, the District did not require the contractor to provide evidence that it had conducted the driver testing and preventative maintenance required by Minimum Standards. Additionally, the District had not implemented a process to ensure the information provided by its contractor was accurate and complete. Developing and implementing written policies and procedures for overseeing its transportation contractor and clarifying its transportation coordinator's responsibilities would help the District better protect students and District property and ensure accurate transportation reporting and funding.

## **Issue 2: District's fuel costs are substantially higher than its peers, and it lacked controls to properly safeguard its fuel supplies from theft and misuse**

The District's fuel expenditures for vehicles not used for student transportation were substantially higher than its peers, and contrary to the USFR, the District's efforts to secure its bulk fuel supplies are likely insufficient to protect them from theft and misuse. In fiscal year 2023, the District spent more than twice as much as its peers averaged on fuel used for purposes other than student transportation, typically used for vehicles such as cars and pickup trucks—or about \$115,000 compared to its peer district average of approximately \$49,000.

When we asked the District to explain its higher than normal spending on fuel used for purposes other than student transportation, District officials reported that they were unsure why its fuel expenditures were substantially higher than its peers. District officials said higher costs could potentially be related to the District's number of vehicles, the District's remote location resulting in significant distance for trips such as traveling to Phoenix for staff trainings, and the distance between the District's 8 schools and its facilities headquarters. However, the District's peers face similar challenges in terms of size and location. District officials also stated the District's minibuses used to transport small sports teams and clubs use unleaded fuel. However, any fuel expenditures for student transportation should not be reflected in the amounts noted above if the District coded them in accordance with the Uniform Chart of Accounts.<sup>2</sup> We identified other concerns that may have impacted the District's higher fuel spending.

Specifically:

### **▶ District's physical security measures for its fuel tanks were likely insufficient to prevent theft or misuse**

The District's efforts to secure its fuel supplies may not be adequate to prevent theft or misuse. Although the District's fuel tanks are located inside a fenced transportation yard at a District school, the tanks are accessible by both District staff and the transportation contractor's staff, and at the time of our review, the gates were not always locked. According to the District and its transportation contractor, the gates to the transportation yard remain unlocked during the day, and the last employee out of the yard each day is responsible

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<sup>2</sup> The District did not respond to our request for documentation related to its coding of minibus fuel expenditures.

for locking the gate at night. However, the District and its transportation contractor lacked a clear process or procedure for ensuring that this happens consistently. After we brought this issue to the District's attention, the District's contractor assigned an employee responsibility for locking the transportation yard gates each night.

Additionally, the District reported that drivers are required to scan each vehicle's assigned fuel pump fob and input their personal identification number to start the fuel pumps, which should increase security because only staff with fobs and personal identification numbers are allowed access to the fuel. We observed the District's fuel pumps and confirmed that a valid personal identification number was required for the pumps to operate. However, District fueling records we reviewed sometimes lacked the name and/or personal identification number of the person fueling, and District officials could not provide an explanation for why this information was missing. Additionally, drivers were not required to input vehicle mileage before using the fuel pumps, which is a key piece of information for being able to identify discrepancies in fuel usage. During the audit, the District began requiring drivers to input vehicle mileage when fueling District vehicles.

► **The District lacked a process to help identify fuel theft or misuse**

The District lacked a process to review fuel usage logs for reasonability, which could help it to determine whether its higher fuel expenditures were due to fuel theft or misuse. For example, we reviewed fueling reports produced by the District's fueling system for fiscal year 2023 and identified at least 15 instances where vehicles were fueled at unusual times such as late at night or weekends, and neither the District nor the District's transportation contractor could provide documented support that these fuelings were related to a District-authorized trip or for some other authorized purpose. Lacking a process to regularly review fueling reports to identify unusual or unexpected fuelings increases the risk of theft or misuse of District resources.

## Recommendations to the District

34. Develop and implement written policies and procedures for overseeing its transportation contract to ensure that DPS Minimum Standards for drivers and preventative maintenance are met and transportation reports are accurate.
35. Establish procedures for ensuring transportation yard gates are locked overnight.
36. Take steps to ensure fuel usage is tracked to reduce the risk of misuse and theft, including ensuring all fuelings are identified by user in the fueling reporting system or otherwise logged, and requiring mileage information to be input into its fueling system or recorded before fueling.

**37.** Develop and implement a policy and procedure for regularly reviewing fueling reports for appropriateness and reasonableness and investigate any irregularities identified to help ensure appropriate fuel use.

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

# SUMMARY OF RECOMMENDATIONS

## The Arizona Auditor General makes 37 recommendations to the District and 2 recommendations to the Board

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Click on a finding, recommendation, or its page number to the right to go directly to that finding or recommendation in the report.

### Recommendations to the District

#### FINDING 1 3

1. Ensure that any modification to contracted employees' employment terms, such as pay or duty changes, are made through appropriate contract amendments or addendums, approved in advance of the work being performed, and maintained in employee personnel files in accordance with USFR requirements. 9
2. Require itemized invoices for financial services consulting work and documentation to support lodging reimbursements and review the supporting documentation to evaluate what work was performed and whether the hours charged are reasonable, and whether travel expenses are supported and accurate prior to approving payment. 9
3. Prior to renewing any business office consulting contracts, ensure that the terms, such as agreed-upon travel costs, are in the District's best financial interest and include provisions to enable the District to ensure services are provided as agreed prior to payment, as required by the USFR. 9
4. Establish policies and procedures to eliminate its practice of paying performance pay prior to the Board making a determination that performance goals have been met and the pay has been earned. 9

#### FINDING 2 11

5. Recalculate and correct sick leave accruals for hourly employees since the beginning of fiscal year 2023, and based on these results, determine whether to recalculate and correct sick leave accruals for prior years. 14
6. Develop written procedures to ensure employees are granted at least the statutorily required minimum number of sick leave hours, including procedures to verify that personal leave is credited to employees accurately and in accordance with District policy. 14

- 7. Verify that employees are no longer improperly assigned probationary status in the District’s accounting system, and recalculate and correct all incorrectly compensated sick leave for current employees affected by the improper probationary designation between fiscal years 2018 and 2023. 14
- 8. Develop and implement policies and procedures in accordance with USFR requirements that include a thorough supervisory review to verify the accuracy and documented support of employee pay. 15
- 9. Identify and correct all underpayments for employees who were scheduled for on-call hours after January 1, 2023, and develop written procedures for ensuring on-call payments are made in accordance with District policy. 15
- 10. Train payroll staff at least annually, as well as whenever new payroll policies and procedures are introduced, to help ensure payments are correctly and consistently processed in accordance with State law, the USFR, and District policies. 15

**FINDING 3** 16

Work with the ASRS to:

- 11. Identify and correct any excess contributions that should not have been included as compensation for the calculation of ASRS benefits. 18
- 12. Report required information about past termination incentive program participants and determine if its termination incentive program created any unfunded liabilities to the ASRS and, if so, resolve them. 18
- 13. Develop and implement written procedures that address termination incentive program reporting requirements and the types of compensation that should be included in ASRS withholding calculations and remittances to ensure compliance with State laws and ASRS requirements. 18
- 14. Train payroll staff at least annually, as well as whenever new payroll policies and procedures are introduced, to help ensure ASRS withholding is correctly and consistently processed in accordance with District policies and ASRS requirements. 18

**FINDING 4** 19

- 15. Develop and implement written procedures for cash-handling to ensure compliance with USFR requirements, which should include requiring a secondary review cash collections and regularly accounting for all sequential, prenumbered receipts. 22

- 16. Periodically train employees responsible for cash collection and deposits on how to comply with USFR cash-handling requirements and its newly developed cash-handling policies and procedures. 22
  
- 17. Deposit all cash at least weekly, or daily when amounts are significant. 22
  
- 18. Develop and implement written procedures for purchasing in accordance with USFR requirements, which should include ensuring that all purchases are reviewed and approved in advance by authorized District officials and all goods or services are received and billings are accurate prior to payments being made. 22
  
- 19. Routinely train appropriate staff on its newly developed purchasing procedures to reduce the risk of unapproved purchases or inappropriate payments. 22
  
- 20. Analyze purchasing card spending and use those results to identify any cards that could potentially be eliminated or any authorized users who no longer require purchasing card access to perform their job responsibilities. Take immediate actions to minimize the number of cards and users in accordance with the USFR. 22
  
- 21. Develop and implement written guidance regarding which District employees or job positions require being authorized purchasing card users to perform their job duties. 23
  
- 22. Develop and implement a process for periodically reconciling the District’s records of authorized users and assigned purchasing cards to the physical cards to ensure no cards are lost or stolen, and take appropriate action if missing cards are identified. 23

**FINDING 5** 24

- 23. Develop and/or update and implement conflict-of-interest policies and procedures to require all Board members to complete a conflict-of-interest disclosure form at the start of their terms and annually thereafter, or when circumstances change, including fully describing any substantial interest or attesting that no conflicts exist. 26
  
- 24. Enforce its existing conflict-of-interest policies for employees by requiring them to annually submit conflict-of-interest disclosure forms describing any substantial interests they or their relatives may have in the District’s decisions or attesting that no conflicts exist. 26
  
- 25. Maintain all substantial interest disclosures, including disclosure forms and meeting minutes, in a special disclosure file available for public inspection. 27

- 26.** Require periodic training on its conflict-of-interest requirements, process, and disclosure forms to its Board members and employees that includes information about the importance of complying with the State’s conflict-of-interest laws and District policy. **27**

**FINDING 6** **28**

- 27.** Limit employees’ access to 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. **31**

- 28.** Limit administrator-level access to its network to only those individuals with a business need for administrator-level access and require these employees to use a separate nonadministrator account for day-to-day activities. **31**

- 29.** Develop policies to address IT system access relative to employee job duties and establish a formal process to periodically review network account access and make necessary updates if the reviews identify accounts with more access than necessary. **31**

- 30.** Develop and implement a formal process to ensure that network, accounting system, and student information system accounts are promptly disabled or removed when no longer needed to reduce the risk of unauthorized access. **31**

- 31.** Implement and enforce strong authentication controls, such as strong passwords and MFA, or compensating controls for any systems that are not capable of implementing MFA, that align with credible industry standards to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations. **31**

- 32.** Develop and implement a formal process to review the District’s authentication controls against industry standards at least annually. **31**

- 33.** Develop an IT contingency plan that meets USFR requirements and credible industry standards; test its plan at least annually to identify and remedy any deficiencies, which should include testing the District’s ability to restore electronic data files for critical systems from backups; and document the test results. **31**

**FINDING 7** **32**

- 34.** Develop and implement written policies and procedures for overseeing its transportation contract to ensure that DPS Minimum Standards for drivers and preventative maintenance are met and transportation reports are accurate. **35**

- 35.** Establish procedures for ensuring transportation yard gates are locked overnight. **35**

- 36. Take steps to ensure fuel usage is tracked to reduce the risk of misuse and theft, including ensuring all fuelings are identified by user in the fueling reporting system or otherwise logged, and requiring mileage information to be input into its fueling system or recorded before fueling. 35
- 37. Develop and implement a policy and procedure for regularly reviewing fueling reports for appropriateness and reasonableness and investigate any irregularities identified to help ensure appropriate fuel use. 36

## Recommendations to the Board

### FINDING 1 3

- 1. Work with the Arizona Attorney General’s Office to determine whether it had the legal authority to pay the additional compensation to its CFO and performance pay to its superintendent and, if not, determine its ability to recover the monies. 10
- 2. Follow requirements in A.R.S. §15-341(A)(39) by relying on the goals established in statute or establishing alternative performance pay goals, approving any alternative performance pay goals at a public meeting, and ensuring the superintendent meets the performance pay goals before approving performance payments. 10

## Objectives, scope, and methodology

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We conducted a performance audit of Sierra Vista Unified 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:

### Key term

**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 transactions and 338 of the 21,332 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 7 of the 721 individuals who received payments in fiscal year 2023 through the District's payroll system and reviewed supporting documentation for 18 of the 21,332 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; and reviewing controls over reporting various information used for this audit. We reported our conclusions on applicable internal controls in Findings 2 through 5 (see pages 11 through 27) and 7 (see pages 32 through 35).

We also reviewed controls over the District's relevant computer systems and reported our conclusions on applicable controls over the District computer systems in Finding 6 (see pages 28 through 31).

Specifically:

- ▶ To determine whether the District appropriately limited system access to only those functions needed for employees to perform their job duties, we reviewed all active users' accounting information system access and compared their access levels with their job responsibilities. We also reviewed all accounts with administrator-level access to determine whether the District had appropriately granted administrator-level access.
- ▶ To determine whether the District had appropriately terminated user access to its network, SIS, and accounting information system, we compared the District's Active Directory, SIS, and accounting information system user listings with a list of terminated District employees whose District employment ended between November 2, 2020 and September 29, 2023, to identify accounts potentially associated with terminated employees. From these identified accounts, we judgmentally selected and reviewed 30 of 73 network accounts, 30 of 226 SIS accounts, and all 4 accounting information system accounts to determine whether the accounts were associated with terminated employees. To identify contractor accounts and accounts associated with employees whose District employment ended prior to November 2, 2020, we compared the District's Active Directory, SIS, and accounting information system user listings to a list of current employees as of November 30, 2023, and the previously mentioned terminated employee list to identify accounts not associated with users on either list. From these identified accounts, we judgmentally selected and reviewed 30 of 227 network accounts, 30 of 617 SIS accounts, and all 16 accounting information system accounts to determine whether the accounts were associated with terminated employees or former District contractors, and whether the accounts were no longer necessary.

- ▶ To determine whether the District’s authentication controls for critical IT systems were consistent with USFR requirements and credible industry standards, we reviewed the District’s password policies and procedures and its use of MFA for critical IT systems.
- ▶ We assessed the District’s IT contingency plan to determine whether it included key components required by the USFR and recommended by credible industry standards.

## Peer groups

We developed 3 peer groups for comparative purposes. To compare the District’s student achievement, we developed a peer group using district poverty rates, type, and locality 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 grades. To compare the District’s operational efficiency in administration, plant operations and maintenance, and food service, we developed a peer group using district size, type, and locality. To compare the District’s transportation efficiency, we developed a peer group using a 5-year historical average of miles per rider and locality. We used these factors because they are associated with districts’ cost measures in these areas.

Comparison areas	Factors	Group characteristics	Number of districts in peer group
Student achievement	Poverty rate	14% or higher	9
	District type	Unified school districts	
	Locality	Cities and suburbs	
Administration, plant operations and maintenance, and food service	District size	Between 500 and 5,999 students	13
	District type	Unified and Union High school districts	
	Locality	Cities and suburbs	
Transportation	Miles per rider	Between 251 and 300 miles per rider	14
	Locality	Cities and suburbs	

Source: Auditor General staff analysis of district poverty rates from the U.S. Census Bureau; locality data from the National Center for Education Statistics; and district type, number of students, miles, and riders from the Arizona Department of Education.

## Efficiency and effectiveness

In addition to the considerations previously discussed, we used various methods to address the audit objectives as described below:

### ▶ Interviews

We interviewed various District employees in the scoped operational areas about their duties. This included District and school administrators, department supervisors, and other support staff who were involved in activities we considered significant to the audit objectives. We also interviewed various employees of the District's food service and transportation contractors, District Governing Board members, and officials from the Arizona State Retirement System.

### ▶ Observations

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

### ▶ Report reviews

We reviewed various summary reports of District-reported data including its *Annual Financial Report*, District-wide building reports provided by the Arizona Department of Administration's School Facilities Oversight Board, transportation route reports provided by ADE, transportation safety reports provided by the Department of Public Safety, and reports required for the federal school lunch program. We also reviewed District-reported staffing information in the *School District Employee Report* (SDER) provided by ADE and obtained demographic information from our annual *Arizona School District Spending Analysis—Fiscal Year 2023*. Additionally, we reviewed food-service-monitoring reports from ADE and District-submitted compliance questionnaire results that its contracted external audit firm completed.

### ▶ Documentation reviews

We reviewed District procedures and various documentation related to credit cards, purchasing, and cash handling, including credit card statements for fiscal year 2023 and supporting documentation for 22 of 2,344 fiscal year 2023 credit card purchases; supporting documentation for 18 of 21,332 fiscal year 2023 nonpayroll expenditures we judgmentally selected based on various risk factors such as vendor, dollar amount and purchase description; and documentation for a judgmentally selected sample of cash receipts and deposits from 3 schools during fiscal year 2024. Additionally, we reviewed District policies and documentation related to conflicts of interest, on-call pay, ASRS reporting and contributions, and employee leave, including the leave accrual reports for 10 and detailed pay records for 13 of the District's 721 employees in fiscal year 2023. We also reviewed the District's website and Governing Board meeting minutes; food service and transportation contracts; and employment contracts for the superintendent and CFO for fiscal years 2023 and 2024 and related documentation.

For the District's transportation program, we reviewed fiscal year 2023 documentation including bus driver files for 5 of the District's 35 contracted drivers; bus maintenance and repair records for 5 of the District's 49 buses judgmentally selected to ensure we reviewed buses of various ages and types, such as school buses used for regular and special education; and contractor records of miles driven and the number of students transported.

### ► **Analysis**

We reviewed and evaluated fiscal year 2023 spending on administration, plant operations and maintenance, food service, and transportation and compared it to peer districts' spending averages. Our analysis also assessed the appropriateness and accuracy of fiscal year 2023 payments and benefits provided to employees, including ASRS contributions for 48 District employees who received separation benefits or lump sum payments for unused sick or annual leave time; on-call pay for all 8 employees receiving it between January and June 2023; support for payments made to a sample of 13 of 721 employees judgmentally selected based on various risk factors such as job position, such as administrators and business office employees, and employees who received certain payment types, such as payments for back pay; and leave accruals for 3 of 147 employees still employed by the District at the time of the audit who were affected by a District-identified accounting system error. We also reviewed 2 days of daily odometer readings and rider counts for all 30 District school buses used to transport students to and from home and school in fiscal year 2023 and analyzed the District's fuel system logs for completeness and reasonableness. Additionally, we analyzed the District's revenues and expenditures associated with its food service program to determine whether the District was covering its spending.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to the District's board members and staff for their cooperation and assistance throughout the audit.

## DISTRICT RESPONSE

**The subsequent pages were written by the District to provide a response to each of the findings and to indicate its intention regarding implementation of each of the recommendations resulting from the audit conducted by the Arizona Auditor General.**

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April 4, 2025

Sent via email:

Lindsey Perry

Arizona Auditor General

Office of the Auditor General

2910 N 44<sup>th</sup> Street

Phoenix, AZ 85018-7271

Dear Auditor General Perry:

The District is in receipt of the Confidential Findings and related Recommendations regarding Report 25-203. Thank you for the important and helpful information and feedback you have provided.

The administration and Governing Board will be working diligently to address the seven findings and implement the recommendations.

The District would like to share our appreciation to the audit team for their professionalism and patience while conducting the audit.

Pursuant to your request, please see the District's response to the Findings and Recommendations, as set forth below.

Sincerely,

Eric B. Holmes, Ed. D.

Superintendent of Schools

Sierra Vista Unified School District #68

Rothery Educational Center Room 315

3305 E Fry Blvd

Sierra Vista, AZ 85635

Office: 520.515.2713

*Achieving Excellence Together*

**Finding 1:** District improperly paid administrators \$34,500 in bonuses and performance pay without required contracts or performance goals and has not required its former CFO, who now consults for the District, to provide detailed invoices to ensure payments are appropriate

District Response: The Auditor General's finding is not agreed to.

Response explanation: The District cannot agree with the overall wording of Finding 1. The District respectfully disagrees that the consultant did not provide the District with a detailed record of work performed. The consultant utilized the District's electronic time card system to track his hours and made entries that provided the District with notice of the time spent on tasks being performed. The District regrets identified errors made regarding the CFO's extra duty compensation and consulting contract. There was no intent by anyone concerned to violate law or the USFR in the handling of those matters. The District is ready, willing and able to make changes that will improve District operations and facilitate expected compliance with Arizona laws and related USFR provisions. As noted below, the District is in agreement with the Auditor General's recommendations relating to Finding 1.

**Recommendation 1:** Ensure that any modification to contracted employees' employment terms, such as pay or duty changes, are made through appropriate contract amendments or addendums, approved in advance of the work being performed, and maintained in employee personnel files in accordance with USFR requirements.

District Response: The audit recommendation will be implemented.

**Recommendation 2:** Require itemized invoices for financial services consulting work and documentation to support lodging reimbursements and review the supporting documentation to evaluate what work was performed and whether the hours charged are reasonable, and whether travel expenses are supported and accurate prior to approving payment.

District Response: The audit recommendation will be implemented.

**Recommendation 3:** Prior to renewing any business office consulting contracts, ensure that the terms, such as agreed-upon travel costs, are in the District's best financial interest and include provisions to enable the District to ensure services are provided as agreed prior to payment, as required by the USFR.

District Response: The audit recommendation will be implemented.

**Recommendation 4:** Establish policies and procedures to eliminate its practice of paying performance pay prior to the Board making a determination that performance goals have been met and the pay has been earned.

District Response: The audit recommendation will be implemented.

Response explanation: The District regrets the errors made regarding the Superintendent's performance pay and understands the concerns raised by the Auditor General regarding the related performance pay schedule. The Board and Superintendent did not act with ill intent and are appreciative of the feedback provided in Report 25-203.

**Recommendation to the Board 1:** Work with the Arizona Attorney General's Office to determine whether it had the legal authority to pay the additional compensation to its CFO and performance pay to its superintendent and, if not, determine its ability to recover the monies.

District Response: The audit recommendation will be implemented.

**Recommendation to the Board 2:** Follow requirements in A.R.S. §15-341(A)(39) by relying on the goals established in statute or establishing alternative performance pay goals, approving any alternative performance pay goals at a public meeting, and ensuring the superintendent meets the performance pay goals before approving performance payments.

District Response: The audit recommendation will be implemented.

**Finding 2:** District incorrectly compensated employees for sick leave and underpaid other employees for additional duties due to a lack of written procedures, staff training, and supervisory oversight.

District Response: The Auditor General's finding is agreed to.

Response explanation: The District discovered an error relating to sick leave accruals and proactively notified the Governing Board of the error when it was discovered. The District also informed the Auditor General, during the audit, of the District's solution. Because it was not possible to identify all hourly employees who may have been affected, the District developed a formula whereby it added sick leave to every employee still employed by the District. In every case, the District assumed that the employees worked their full schedule for the time period in question and made adjustments to their compensation.

**Recommendation 7:** Recalculate and correct sick leave accruals for hourly employees since the beginning of fiscal year 2023, and based on these results, determine whether to recalculate and correct sick leave accruals for prior years.

District Response: The audit recommendation will be implemented.

**Recommendation 8:** Develop written procedures to ensure employees are granted at least the statutorily required minimum number of sick leave hours, including procedures to verify that personal leave is credited to employees accurately and in accordance with District policy.

District Response: The audit recommendation will be implemented.

**Recommendation 9:** Verify that employees are no longer improperly assigned probationary status in the District's accounting system, and recalculate and correct all incorrectly compensated sick leave for current employees affected by the improper probationary designation between fiscal years 2018 and 2023.

District Response: The audit recommendation will be implemented.

**Recommendation 10:** Develop and implement policies and procedures in accordance with USFR requirements that include a thorough supervisory review to verify the accuracy and documented support of employee pay.

District Response: The audit recommendation will be implemented.

**Recommendation 11:** Identify and correct all underpayments for employees who were scheduled for on-call hours after January 1, 2023, and develop written procedures for ensuring on-call payments are made in accordance with District policy.

District Response: The audit recommendation will be implemented.

**Recommendation 12:** Train payroll staff at least annually, as well as whenever new payroll policies and procedures are introduced, to help ensure payments are correctly and consistently processed in accordance with State law, the USFR, and District policies.

District Response: The audit recommendation will be implemented.

**Finding 3:** District did not provide required information to ASRS about certain retiree incentives and improperly calculated ASRS withholding for some employees, which may result in improperly inflated retirement benefits and unfunded liabilities.

District Response: The Auditor General's finding is agreed to.

**Recommendation 13:** Work with the ASRS to identify and correct any excess contributions that should not have been included as compensation for the calculation of ASRS benefits identify and correct any excess contributions that should not have been included as compensation for the calculation of ASRS benefits.

District Response: The audit recommendation will be implemented.

**Recommendation 14:** Work with the ASRS to report required information about past termination incentive program participants and determine if its termination incentive program created any unfunded liabilities to the ASRS and, if so, resolve them.

District Response: The audit recommendation will be implemented.

**Recommendation 15** Develop and implement written procedures that address termination incentive program reporting requirements and the types of compensation that should be included in ASRS withholding calculations and remittances to ensure compliance with State laws and ASRS requirements.

District Response: The audit recommendation will be implemented.

**Recommendation 16:** Train payroll staff at least annually, as well as whenever new payroll policies and procedures are introduced, to help ensure ASRS withholding is correctly and consistently processed in accordance with District policies and ASRS requirements.

District Response: The audit recommendation will be implemented.

**Finding 4:** District sometimes did not follow cash handling and purchasing requirements, placing District monies at risk of loss, theft, misuse, and fraud

District Response: The Auditor General's finding is agreed to.

**Recommendation 17:** Develop and implement written procedures for cash-handling to ensure compliance with USFR requirements, which should include requiring a secondary review cash collections and regularly accounting for all sequential, prenumbered receipts.

District Response: The audit recommendation will be implemented.

**Recommendation 18:** Periodically train employees responsible for cash collection and deposits on how to comply with USFR cash-handling requirements and its newly developed cash-handling policies and procedures.

District Response: The audit recommendation will be implemented.

**Recommendation 19:** Deposit all cash at least weekly, or daily when amounts are significant.

District Response: The audit recommendation will be implemented.

**Recommendation 20:** Develop and implement written procedures for purchasing in accordance with USFR requirements, which should include ensuring that all purchases are reviewed and approved in advance by authorized District officials and all goods or services are received and billings are accurate prior to payments being made.

District Response: The audit recommendation will be implemented.

**Recommendation 21:** Routinely train appropriate staff on its newly developed purchasing procedures to reduce the risk of unapproved purchases or inappropriate payments.

District Response: The audit recommendation will be implemented.

**Recommendation 22:** Analyze purchasing card spending and use those results to identify any cards that could potentially be eliminated or any authorized users who no longer require purchasing card access to perform their job responsibilities. Take immediate actions to minimize the number of cards and users in accordance with the USFR.

District Response: The audit recommendation will be implemented.

**Recommendation 23:** Develop and implement written guidance regarding which District employees or job positions require being authorized purchasing card users to perform their job duties.

District Response: The audit recommendation will be implemented.

**Recommendation 24:** Develop and implement a process for periodically reconciling the District's records of authorized users and assigned purchasing cards to the physical cards to

ensure no cards are lost or stolen, and take appropriate action if missing cards are identified.

District Response: The audit recommendation will be implemented.

**Finding 5:** District did not provide required information to ASRS about certain retiree incentives and improperly calculated ASRS withholding for some employees, which may result in improperly inflated retirement benefits and unfunded liabilities.

District Response: The Auditor General's finding is agreed to.

**Recommendation 25:** Develop and/or update and implement conflict-of-interest policies and procedures to require all Board members to complete a conflict-of-interest disclosure form at the start of their terms and annually thereafter, or when circumstances change, including fully describing any substantial interest or attesting that no conflicts exist.

District Response: The audit recommendation will be implemented.

**Recommendation 26:** Enforce its existing conflict-of-interest policies for employees by requiring them to annually submit conflict-of-interest disclosure forms describing any substantial interests they or their relatives may have in the District's decisions or attesting that no conflicts exist.

District Response: The audit recommendation will be implemented.

**Recommendation 27:** Maintain all substantial interest disclosures, including disclosure forms and meeting minutes, in a special disclosure file available for public inspection.

District Response: The audit recommendation will be implemented.

**Recommendation 28:** Require periodic training on its conflict-of-interest requirements, process, and disclosure forms to its Board members and employees that includes information about the importance of complying with the State's conflict-of-interest laws and District policy.

District Response: The audit recommendation will be implemented.

**Finding 6:** 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

District Response: The Auditor General's finding is agreed to.

**Recommendation 29:** Limit employees' access to 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 audit recommendation will be implemented.

**Recommendation 30:** Limit administrator-level access to its network to only those individuals with a business need for administrator-level access and require these employees to use a separate nonadministrator account for day-to-day activities.

District Response: The audit recommendation will be implemented.

**Recommendation 31:** Develop policies to address IT system access relative to employee job duties and establish a formal process to periodically review network account access and make necessary updates if the reviews identify accounts with more access than necessary.

District Response: The audit recommendation will be implemented.

**Recommendation 32:** Develop and implement a formal process to ensure that network, accounting system, and student information system accounts are promptly disabled or removed when no longer needed to reduce the risk of unauthorized access.

District Response: The audit recommendation will be implemented.

**Recommendation 33:** Implement and enforce strong authentication controls, such as strong passwords and MFA, or compensating controls for any systems that are not capable of implementing MFA, that align with credible industry standards to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.

District Response: The audit recommendation will be implemented.

**Recommendation 34:** Develop and implement a formal process to review the District's authentication controls against industry standards at least annually.

District Response: The audit recommendation will be implemented.

**Recommendation 35:** Develop an IT contingency plan that meets USFR requirements and credible industry standards; test its plan at least annually to identify and remedy any deficiencies, which should include testing the District's ability to restore electronic data files for critical systems from backups; and document the test results.

District Response: The audit recommendation will be implemented.

**Finding 7:** District did not meet some transportation Minimum Standards requirements, inaccurately reported information to ADE, and failed to fully secure its fuel supplies, increasing risks to student safety and potential for theft and misuse

District Response: The Auditor General's finding is agreed to.

**Recommendation 36:** Develop and implement written policies and procedures for overseeing its transportation contract to ensure that DPS Minimum Standards for drivers and preventative maintenance are met and transportation reports are accurate.

District Response: The audit recommendation will be implemented.

**Recommendation 37:** Establish procedures for ensuring transportation yard gates are locked overnight.

District Response: The audit recommendation will be implemented.

**Recommendation 38:** Take steps to ensure fuel usage is tracked to reduce the risk of misuse and theft, including ensuring all fuelings are identified by user in the fueling reporting system or otherwise logged, and requiring mileage information to be input into its fueling system or recorded before fueling.

District Response: The audit recommendation will be implemented.

Response explanation: The fuel system deficiencies have been addressed with the purchase of a new fuel system that controls which vehicles are allowed to receive fuel and automatically logs mileage and maintenance items to the software.

**Recommendation 39:** Develop and implement a policy and procedure for regularly reviewing fueling reports for appropriateness and reasonableness and investigate any irregularities identified to help ensure appropriate fuel use.

District Response: The audit recommendation will be implemented.