

Gadsden Elementary School District

District paid employees for time not worked, limited public access to some Board meetings and wasted \$65,000 on unnecessary travel, and lacked oversight of transportation program

Performance Audit

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A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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May 7, 2020

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Gadsden Elementary School District

Dr. Raymond Aguilera, Superintendent
Gadsden Elementary School District

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

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

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

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General

Gadsden Elementary School District

District paid employees for time not worked, limited public access to some Board meetings and wasted \$65,000 on unnecessary travel, and lacked oversight of transportation program

Audit purpose

To assess the District's spending on administration, plant operations and maintenance, food service, and transportation and its compliance with certain State requirements.

Key findings

- The District paid hourly employees for time not worked without Board approval, including paying many of them over school breaks even when they did not work or submit time sheets.
- The District limited public access to some Board meetings by holding them in California, which may have violated State law and resulted in more than \$65,000 of public monies being wasted for unnecessary travel expenses.
- The District's inadequate oversight of its transportation program led to potential student safety risk, reporting errors resulting in overfunding, and increased risk of fuel and supplies misuse.

Key recommendations

The District should:

- Ensure that the Board is aware of and approves the number of paid holidays provided to hourly employees and ensure contracts contain all agreed-upon terms of employment.
- Stop holding Board meetings outside District boundaries, and consult with legal counsel to ensure its meetings comply with open meeting law and to determine and implement procedures to address potentially invalid District actions.
- Establish and implement policies and procedures to ensure bus driver certification requirements are met, school buses receive timely preventative maintenance, and miles and riders are accurately reported to the Arizona Department of Education for State funding purposes, and increase controls over its fuel and supplies.



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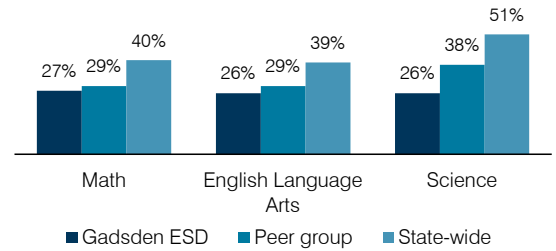
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Rural district in Yuma County
Grades: Kindergarten through 8th
Students attending: 4,999
Number of schools: 8
School letter grades: 1 A, 2 Bs, 4 Cs, 1 D

Students who passed State assessments



Total operational spending—\$37.6 million (\$7,517 per pupil)

Instructional—48.7% (\$3,662 per pupil)

Noninstructional—51.3% (\$3,855 per pupil)

Operational overview	Measure	Gadsden ESD	Peer average
<p>Administration—lower costs but improvements needed</p> <p>The District spent less per pupil on administration than its peer districts, on average, primarily because it served more students, and therefore, its administrative costs were spread across more students. However, the District lacked adequate controls over its payroll process (see Finding 1, page 2), and it inappropriately limited public access to some Governing Board meetings and wasted public monies on unnecessary out-of-State travel (see Finding 2, page 6).</p>	Spending per pupil	\$869	\$1,098
<p>Plant operations—mixed costs but reasonably efficient</p> <p>The District spent less per pupil despite spending more per square foot because it operated and maintained 33 percent fewer square feet per student than its peer districts, on average. Districts that operate substantially fewer square feet per student tend to have higher costs per square foot due to higher usage.</p>	Spending per square foot	\$8.11	\$6.52
	Spending per pupil	\$877	\$1,034
<p>Food service—efficient program with similar costs</p> <p>The District employed efficient practices, such as using all available commodities and limiting food waste, which allowed it to spend a similar amount per meal as its peer districts and cover all its direct costs.</p>	Spending per meal	\$2.92	\$3.10
<p>Transportation—operated with similar costs but lacked oversight</p> <p>The District spent a similar amount per mile and per rider on transportation when compared to its peer districts' averages. However, it needs to improve oversight over the transportation program (see Finding 3, page 10). Specifically, the District lacked adequate procedures to ensure bus drivers met certification requirements and buses were properly maintained, inaccurately reported miles and riders for State funding purposes, and did not adequately track its fuel usage or supplies inventory.</p>	Spending per mile	\$3.98	\$3.96
	Spending per rider	\$764	\$721



District's poor administration of employee pay resulted in hourly employees being paid for holidays and other time not worked without documentation to support Governing Board approval and inappropriate payments to some employees

The District did not adequately administer its payroll process. As a result, it paid hourly employees for holidays and other hours not worked each day without documentation showing Governing Board (Board) approval or awareness of this compensation and allowed inappropriate payments to some employees. Specifically:

Issue 1: District paid hourly employees for time not worked but lacked documentation showing that Board approved or was aware of these payments

District provided substantial paid holidays to hourly employees but lacked documentation showing that its Board approved or was aware of these payments

In fiscal year 2018, the District required all hourly employees to sign contracts that included some agreed-upon terms of employment, such as position and hourly payrate. We reviewed fiscal year 2018 contracts and supporting documentation, such as time sheets, for a sample of 30 hourly employees to determine whether they were paid correctly and determined that many of them were paid over school breaks even when they did not work or submit time sheets. When we asked District staff about this, they said that the District maintains 7 different payroll calendars for full-time hourly employees depending on their assigned department and the number of months they work. Table 1 on page 3 shows the number of months worked, days worked, paid holidays, and total number of paid days for each of these 7 payroll calendars. However, the District did not have any documentation showing that the Board approved these payroll calendars or which positions would be paid on each calendar. Further, the District's hourly employee contracts did not identify which of these calendars the District should use to pay the employees and did not include the agreed-upon number of days or months the employees would work or the holidays for which they would be compensated. This information was also not available in Board minutes or other District documents. Therefore, there is no evidence that the Board had approved or was even aware of the substantial number of paid holidays that the District provided to its hourly employees.

For some employees, the holidays for which they were paid were as high as 14.3 percent of their total paid days. For example, most school bus drivers were paid on payroll calendar 2, which provides 30 paid holidays during the school year. This is 21 days more than the 9 federal holidays during the school year. In fiscal year 2018, the District's 19 full-time bus drivers' hourly payrates averaged \$13.07 per hour. Therefore, paying for the 21 additional holidays just for the bus drivers equates to approximately \$41,700 for the year. With approximately 210 full-time hourly employees in fiscal year 2018, these paid holiday amounts were substantial.

Table 1
Breakout of work days and holidays for full-time hourly employees

	Payroll calendar						
	1	2	3	4	5	6	7
Months worked	9.5	9.5	9.5	10	10.5	11	12
Work days	180	181	186	189	199	213	228
Holidays	30	30	31	31	31	31	32
Total paid days	210	211	217	220	230	244	260
Holidays as a % of total paid days	14.3%	14.2%	14.3%	14.1%	13.5%	12.7%	12.3%

Source: Auditor General staff analysis of District payroll calendars for fiscal year 2018.

Although it is allowable for the District to offer paid holidays to hourly employees, it should ensure that its Board is aware of and approves this additional compensation and that employee contracts or other District documents contain all agreed-upon terms of employment, including the number of days, holidays, and hours per day for which an employee will be compensated.

District paid some hourly employees for time not worked during the day but lacked documentation showing that its Board approved or was aware of these payments

Similarly, the District also paid some hourly employees for time during their day that they did not work. Although the District’s contracts with its hourly employees included position and hourly payrate, the contracts did not include the number of hours hourly employees were to work, and this information was not available in other District documents. When reviewing time sheets for a sample of employees, we noted that some employees’ time sheets did not appear to match their work schedules. For example, despite driving only morning and afternoon routes, many bus drivers claimed 8 hours of work each day. When asked about this, District officials stated that in previous years most bus drivers also had a midday route, and when those routes were discontinued, the District did not reduce the number of hours for which these employees were paid. We also confirmed that these employees were not working in any other department during the day to earn that paid time if the morning and afternoon routes did not take 8 hours. We reviewed the District’s current (fiscal year 2020) bus route schedules, which the District confirmed were similar to prior-year schedules, and found that only 2 of the 19 full-time bus drivers are scheduled to work 8 hours each day. The remaining 17 drivers’ scheduled hours range from 6 to 7.75 hours each day, yet according to District officials, each of these employees continues to receive 8 hours of pay daily.

Similar to paying hourly employees for holidays, the District did not have any documentation to show that the Board approved of or was aware that the District was paying these employees for time not spent working.

Recommendations

The District should:

1. Ensure that its Board is aware of and approves the number of paid holidays provided to hourly employees and ensure that hourly employee contracts or other District documents contain all agreed-upon terms of employment, including the number of days, holidays, and hours per day for which an employee will be compensated.

2. Ensure that the Board reviews and approves its hourly employee contracts and related payroll calendars so that all payments made to employees are appropriate and that all paid days are for actual time worked or part of an agreed-upon compensation package.

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

Issue 2: District made inappropriate payments to some employees because it lacked appropriate payroll policies and procedures

District schools and departments inconsistently handled hourly employees' time sheets and overtime, resulting in inappropriate payments to an employee

In fiscal year 2018, the District allowed each of its schools and departments to independently determine their own procedures for hourly employees to fill out time sheets and supervisors to approve them. For example, instead of employees filling in their time sheets with the actual hours they worked each day, it appeared that some employees' time sheets were prefilled with their anticipated work schedules. Employees would then have to edit the time sheets by hand to account for hours they ended up not working, which could lead to employees overstating actual hours worked either in error or fraudulently. Additionally, although District officials stated that employees were supposed to complete overtime request forms and have their supervisors approve the forms before the work was performed, not all schools and departments required employees to complete these forms.

As a result, the District increased its risk of making inappropriate payments. For example, in fiscal year 2017, a school secretary took advantage of the minimal oversight by falsifying time sheets for her husband, another District employee, on days he was not working.¹ This resulted in approximately \$1,550 of inappropriate payments. Although this employee was dismissed and reimbursed the inappropriate payments, the District did not develop and implement appropriate payroll policies and procedures for schools and departments to follow to help reduce the risk of future inappropriate payments.

Inadequate separation of duties in the business office resulted in inappropriate payments

After all time sheets were collected and approved at the schools and departments, they were sent to the District's business office to be processed and paid. The District had 2 payroll employees in fiscal year 2018, 1 who was primarily responsible for processing payroll for full-time hourly and salaried employees, and another who was responsible only for part-time hourly employees. The District's payroll employees were responsible for updating changes to employee payrates and deductions in the accounting system instead of having someone in the District's Human Resources department perform these tasks. This allowed an employee to inappropriately adjust their own payroll deductions for their financial benefit for at least 2 fiscal years without being detected. At the time of this report's release, we were further reviewing the employee's actions.

Recommendations

The District should:

3. Develop and implement formal, written payroll policies and procedures to increase oversight at its schools and departments to ensure that all District payroll policies and procedures are applied consistently to reduce the risk of inappropriate payments.

¹ According to the District's fiscal year 2017 financial audit completed by its contracted external audit firm, the District discovered the time sheet fraud and filed a police report. The employee admitted to falsifying timesheets, and the District's Governing Board dismissed the employee.

4. Separate responsibilities for entering and updating employee payrates and deductions in the accounting system from the responsibilities for processing payroll to reduce the risk of inappropriate adjustments to employee pay and benefits.

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



District limited public access to Governing Board meeting by holding it out of State and wasted more than \$65,000 of public monies on unnecessary travel expenses

Contrary to State open meeting law, District held Governing Board (Board) meeting out of State so that it was not easily accessible to the public

School districts are subject to Arizona's Open Meeting Law, which requires all governing board meetings, including work study sessions, be open to the public with limited exceptions in order to maximize public access to the governmental process.² However, our review of the meeting agenda (see Figure 1) and minutes for the Board's June 30, 2018, work study session at a resort on Coronado Island, California, found that this meeting did not fit any criteria where the public may lawfully be excluded. When we asked District officials about their decision to hold this meeting out of State, they responded that the District held this meeting in California to limit interruptions from the public. The District continued to include on the agenda the call to the public item, which would generally be a time when members of the public attending the meeting could voice any questions or concerns directly to the Board. According to the meeting minutes, there were no responses during the call to the public, likely because the District chose to hold the meeting somewhere that would provide them less interruptions.

Figure 1
Posted Board agenda

GADSDEN ELEMENTARY SCHOOL DISTRICT NO. 32	
1350 E. Juan Sanchez Blvd. P.O. Box 6870 San Luis, AZ 85349 (928) 627-6540 FAX: (928) 627-3635	
Dr. Raymond V. Aguilera, Superintendent	"STUDENT CENTERED LEARNING IN AN ENGLISH LEARNING COMMUNITY"
	Governing Board Luis Marquez, President Tadeo De La Hoya, Clerk Guillermina Fuentes Gloria Torres Rosa Varela
GOVERNING BOARD WORK STUDY SESSION	
Saturday June 30, 2018 Coronado Island Marriott Resort & Spa 2000 Second Street Coronado CA 92118 8:00 am -5:00 pm	
CALL TO ORDER	Mr. Marquez
PLEDGE OF ALLEGIANCE	Mr. Marquez
ATTENDANCE	Mr. Marquez
APPROVAL OF THE AGENDA	
1. Approval of the current meeting agenda	Mr. Marquez
CALL TO THE PUBLIC	
Any person wishing to speak concerning an item not on the agenda may present the information at this time. All presentations are limited to a maximum of three minutes.	
INFORMATION/DISCUSSION ITEMS	
2. Review of Governing Board Goals	Dr. Aguilera
3. Business and Financial Information	Mr. Bernhard
4. Personnel	Mrs. Ballesteros
5. Superintendent Pay for Performance to be based on Governing Board Goals	Dr. Aguilera

Source: District records.

² Arizona Revised Statutes §38-431.03 allows a public body to hold an executive session from which the public is excluded for specific reasons, including discussing or considering employment, records exempt by law from public inspection, or consultation with legal counsel.

The Attorney General’s Office publishes an agency handbook that provides guidance to State officers and employees regarding open meeting laws. According to this guidance, the Open Meeting Law requires that “the public body must provide public access to public meetings” and that “this requirement is not met if the public body uses any procedure or device that obstructs or inhibits public attendance at public meetings, such as holding the meeting in a geographically isolated location...”³ The California resort is geographically isolated from the District office in San Luis, Arizona, as the resort is located approximately 400 miles roundtrip from the District office. As this equates to an estimated 6-hour drive, public access and attendance were limited by having the public travel this unreasonable distance to attend the meeting, as further evidenced by no public members attending. Generally, all other meetings throughout the year were held on weekdays at the District office in San Luis, Arizona. We have forwarded our report to the Attorney General’s Office for further review.

In fiscal year 2018, the District wasted more than \$16,000 of public monies on unnecessary travel expenses for 1 Board meeting, which also exceeded State travel policy allowances

In addition to intentionally limiting public access to its Board meeting, the District also spent \$16,309 for Board members and select staff to attend the Coronado Island Board meeting, which was a much greater cost to the District than it would have been if the District had held the meeting locally. Further, lodging and meal costs associated with the trip exceeded maximum amounts allowed by the State’s travel policy.

Unnecessary trip was a waste of over \$16,000—As discussed earlier, the District typically holds its Board meetings on weekdays at its District office in San Luis, Arizona, which does not incur additional travel and rental costs. Choosing to hold the June 2018 meeting at a resort on Coronado Island, California, resulted in the District incurring over \$16,000 for this 1 Board meeting, which was an unnecessary expense because it required them to pay for lodging, meals, conference facilities, and rental cars and fuel that otherwise would not have been necessary (see Table 2). Instead, these monies could have been used for instruction, such as to increase teacher salaries or purchase instructional materials, or for other District priorities.

District exceeded State maximum allowable travel rates—In addition to wasting money on the unnecessary trip, the District also exceeded State travel maximum allowances for this same trip. According to the *Uniform System of Financial Records for Arizona School Districts*, districts are required by statute to prescribe procedures and amounts for reimbursing travel expenses; however, these reimbursements cannot exceed the maximum amounts established by the Arizona Department of Administration (ADOA). ADOA’s travel policy outlines detailed guidance and rate tables for maximum lodging and meal reimbursements when governing board members and staff are on authorized travel status, which is defined as at least 50 miles from the employees’ duty post, or for governing

Table 2
Total fiscal year 2018 trip costs and related maximum reimbursement rates

	2018 actual trip costs	Maximum State rate	Amount in excess of State rate
Lodging	\$ 9,200	\$5,206	\$3,994
Meals	3,719	1,890	1,829
Total reimbursable costs	\$12,919	\$7,096	\$5,823
Conference facilities	1,857	N/A ¹	N/A
Rental cars and fuel	1,533	N/A	N/A
Total trip cost	\$16,309		

¹ State travel policy does not establish maximum reimbursement rates for conference facilities or rental cars and fuel. However, State travel policy does require that all travel arrangements be planned for the convenience of the State agency or school district using the most reasonable and economic means.

Source: Auditor General staff analysis of fiscal year 2018 District travel documentation and the Arizona Department of Administration’s *State of Arizona Accounting Manual* for fiscal year 2018.

³ Arizona Attorney General. (2018). Arizona agency handbook. Retrieved on 11/5/2019 from <https://www.azag.gov/outreach/publications/agency-handbook>.

board members, their home. The District paid the resort directly for lodging and meal costs associated with the Coronado Island Board meeting instead of reimbursing Board members and staff for the costs through its typical travel reimbursement claim process. Although this is allowable, the District did not consider the State’s maximum reimbursement rates when planning the trip, and therefore, it spent more than what State travel policy allowed. As shown in Table 2 on page 7, lodging and meal expenses associated with the Board meeting exceeded State travel policy maximum allowances by over \$5,800 for just this 1 meeting.

- **Lodging**—The District paid for 5 Board members and 9 District and school administrative staff to stay at the resort for 2 nights at a rate of \$259 a night plus tax, totaling \$9,200. However, the maximum allowable reimbursement rate as prescribed by ADOA for that time and location was \$167 a night plus tax, which would have saved the District nearly \$4,000 on rooms alone.
- **Meals**—The District paid for a breakfast buffet, lunch buffet, and snack service through the hotel in addition to reimbursing Board members and staff for meals while traveling to and from Coronado Island. These expenses totaled \$3,719. However, the maximum allowable meal reimbursement rates as prescribed by ADOA for the time of this trip would have been \$40.50 total for breakfast, lunch, and dinner on each of the travel days, and \$54 for the full day on travel status. Based on these requirements, each person could have been reimbursed up to \$135 for the entire weekend, which would have saved the District nearly \$1,900.

District has wasted more than \$65,000 of public monies sending staff and Board members to California since fiscal year 2015

Upon further review of agendas and interviews with District staff, we determined that the District has been holding an annual Board meeting on Coronado Island, California, for more than 10 years. Contrary to best practices, there is no budget provided when planning the trip, and contrary to State requirements, generally little to no procurement is done as, according to District officials, Board members prefer to stay in the same hotel each year when possible.

Based on our review of detailed documentation for credit card charges, travel claims, rental car invoices, and fuel card purchases for the trips dating back to fiscal year 2015, we found that the District spent over \$65,000 for the annual Coronado Island trip for the past 5 fiscal years (see Table 3). As previously discussed, the District held these meetings contrary to open meeting law, at an unreasonable location, which not only limited public access but also resulted in unnecessary costs to the District.

Recommendations

The District should:

5. Consult with legal counsel to ensure its meeting policies and procedures, including the locations selected for conducting meetings, comply with open meeting law.
6. Consult with legal counsel to determine and implement any necessary procedures to address potentially invalid District actions taken at meetings that were not easily accessible to the public.

Table 3
California Board meeting expenses by fiscal year
(Unaudited)

Fiscal year	Estimated expenses ¹
2015	\$11,076
2016	8,619
2017	13,317
2018	16,309
2019	16,129
Total estimated expenses	\$65,450

¹ The estimated expenses were calculated based on examination of available District documentation of purchases and invoices and may not reflect the full cost to the District for each year.

Source: Auditor General staff analysis of District travel documentation from fiscal years 2015 through 2019.

7. Discontinue holding Board meetings outside the District's boundaries, which is contrary to open meeting law and is an unnecessary expense to the District.
8. Follow USFR requirements and implement procedures to ensure that all travel expenditures and reimbursements are planned for the convenience of the District using the most reasonable and economic means and do not exceed ADOA-established maximum rates.

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

Inadequate oversight of District transportation program led to potential student safety risk, reporting errors, and increased risk of fuel and supplies misuse

We identified 3 areas where the District needs to improve its transportation program oversight. Specifically, (1) the District did not sufficiently ensure school bus passengers' safety and welfare, (2) the District incorrectly reported its miles and riders resulting in overfunding from the State, and (3) the District lacked adequate controls over its fuel and supplies inventory increasing risk of misuse.

Issue 1: District did not sufficiently ensure school bus passengers' safety and welfare

District lacked adequate procedures to ensure bus drivers met certification requirements

To help ensure student safety, the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards), administered by the Department of Public Safety (DPS), requires districts to ensure that bus drivers

Table 4
Only 2 of 10 sampled bus drivers met certification requirements in fiscal year 2018

	Driver 1	Driver 2	Driver 3	Driver 4	Driver 5	Driver 6	Driver 7	Driver 8	Driver 9	Driver 10
Proper certification	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Physical exams	✓	✓	✓	✗	✓	✗	✗	✓	✓	✗
Drug and alcohol tests	✓	✓	✓	✗	✓	✓	✓	✓	✓	✗
Physical performance tests	✗	✓	✓	✓	✗	✓	✗	✓	✗	✗
CPR and first aid certification	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓
Refresher training	✗	✓	✓	✓	✓	✓	✓	✗	✓	✓

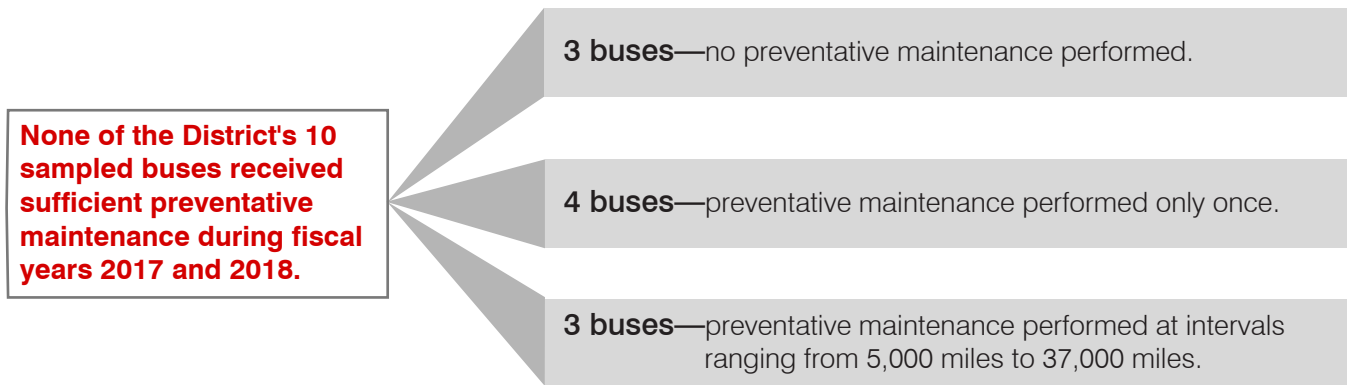
Source: Auditor General staff review of 10 of the District's 20 fiscal year 2018 bus driver files.

are properly licensed and receive physical examinations, random drug and alcohol tests, annual drug tests, physical performance tests, CPR and first aid certification, and refresher training. However, we found that the District did not have documentation to demonstrate that all its fiscal year 2018 bus drivers met these requirements. Specifically, only 2 of the 10 bus driver files we reviewed were complete (see Table 4 on page 10). Further, the District did not have a sufficient process in place for random drug and alcohol testing. The Minimum Standards requires that 25 percent of drivers are randomly tested for drugs and 10 percent of drivers are randomly tested for alcohol per year. Although the District's policy of sending someone for a random drug and alcohol test every other month likely meets the requirements in the Minimum Standards, the District did not have a systematic way of randomly selecting drivers for testing and could not provide documentation for who was tested and what the results were.

District lacked adequate documentation to demonstrate school bus preventative maintenance

According to the State's Minimum Standards, districts must also be able to demonstrate that their school buses receive systematic preventative maintenance and inspections. Preventative maintenance includes items such as periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. These standards are designed to help ensure the school bus passengers' safety and welfare, as well as extend the useful life of buses. However, the District did not follow a formal preventative maintenance policy specifying the maximum miles a bus could travel or maximum time period before requiring bus maintenance. Further, we reviewed fiscal years 2017 and 2018 bus maintenance files for 10 of the District's 34 buses and found that the District could not demonstrate it performed sufficient preventative maintenance on its buses (see Figure 2). We also reviewed calendar year 2018 DPS inspection reports that were available for 20 of the District's buses and found 9 failed inspections with at least 1 significant violation that required the bus to be pulled from service until repaired.

Figure 2
District could not demonstrate it performed sufficient preventative maintenance on buses



Source: Auditor General staff review of fiscal years 2017 and 2018 maintenance records for 10 of the District's 34 buses.

Recommendations

The District should:

9. Develop and implement procedures to ensure that bus driver certification requirements are met and appropriately documented in accordance with the State's Minimum Standards.
10. Establish and implement a policy that states what school bus preventative maintenance work will be completed at what mileage and time frame and perform and document the bus preventative maintenance in a systematic and timely manner in accordance with the policy and the State's Minimum Standards.

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

Issue 2: District incorrectly reported miles and riders resulting in overfunding from State

In fiscal year 2018, the District incorrectly reported to the Arizona Department of Education (ADE) the number of route miles traveled and eligible students transported. The District did not keep track of the miles traveled appropriately, and we estimated that the District overreported its miles by approximately 16,000 miles, or 4 percent of its total miles. Although in total our validated number of miles was similar, the District did not accurately track the different types of miles, which is important because not all miles districts report are eligible to be treated the same for State funding purposes. For example, miles that are associated with field trips or athletics are funded differently than regular route miles and therefore should not be included in the route miles districts report. Additionally, the District did not correctly average its morning and afternoon rider counts, which resulted in an overstatement of over 3,300 riders, which was more than 2 times what we validated based on the District's records.

Arizona school districts receive transportation funding from the State based on a formula that primarily uses the number of route miles traveled during the first 100 school days in the prior fiscal year and secondarily the number of eligible students transported during the same time period. These numbers are used to calculate a district's daily route miles per rider, and statute provides for 2 different State support levels per route mile as shown in the textbox. Because transportation funding is based on miles and riders reported in the prior fiscal year, the District's reporting errors in fiscal year 2018 resulted in the District being overfunded by about \$218,000 in State monies in fiscal year 2019 primarily because it used the incorrect State support level per route mile. We can conclude that the District used the incorrect per mile funding primarily because of the significant overstatement of riders, and it is not likely any miscategorized miles would exceed the amount needed to move the District's route miles per eligible rider back into a higher funding category (see textbox).

Fiscal year 2019 per mile funding rates

These amounts are updated each fiscal year as part of the transportation support level in A.R.S. §15-945. The District's fiscal year 2019 funding was calculated using 0.36 daily route miles per rider, while we determined it was likely closer to 0.94, which results in a lower per mile funding rate.

Daily route miles per rider	State support level per route mile
0.5 or less	\$2.64
More than 0.5 through 1.0	\$2.16
More than 1.0	\$2.64

Recommendations

The District should:

11. Accurately calculate and report to ADE for State funding purposes the number of route and other miles traveled and actual number of eligible students transported.
12. Work with ADE regarding needed corrections to its transportation funding reports until all funding errors that the misreported mileage and riders caused are fully corrected.

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

Issue 3: District lacked adequate controls over fuel and supplies inventory increasing risk of misuse

The District had poor controls over its fuel inventory, preventing it from ensuring that fuel usage was appropriate. The District has fuel tanks located at its transportation office that are accessed using a fuel pump key that was kept in an unsecured area in the transportation office and that any employee could use without supervisory knowledge. Further, although employees fueling vehicles were required to fill out a log including the odometer reading and gallons pumped, the District did not sufficiently review the logs to ensure that all fuel usage was logged or analyze the logs for reasonableness, such as reviewing miles per gallon for each vehicle.

The District also had poor controls over its supplies inventory, which exposed the District to an increased risk of misuse. The District did not monitor or track its general transportation supplies inventory to ensure that it had adequate controls over those supplies. General transportation supplies primarily include the replacement parts and motor oil used to repair and maintain buses. We observed these supplies unsecured and unorganized around the maintenance facility. The District did not maintain a log to keep track of parts used, and as previously discussed, we did not see adequate maintenance records that could have indicated parts used.

Recommendation

13. The District should evaluate and implement additional controls over its fuel and supplies inventory to help ensure proper accounting of all fuel and supply usage, including safeguarding fuel keys, reconciling all fuel logs to fuel purchases, maintaining accurate fuel and supplies inventory records, and investigating any discrepancies identified.

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



SUMMARY OF RECOMMENDATIONS

Auditor General makes 13 recommendations to the District

The District should:

1. Ensure that its Board is aware of and approves the number of paid holidays provided to hourly employees and ensure that hourly employee contracts or other District documents contain all agreed-upon terms of employment, including the number of days, holidays, and hours per day for which an employee will be compensated (see Finding 1, pages 2 through 4, for more information).
2. Ensure that the Board reviews and approves its hourly employee contracts and related payroll calendars so that all payments made to employees are appropriate and that all paid days are for actual time worked or part of an agreed-upon compensation package (see Finding 1, pages 2 through 4, for more information).
3. Develop and implement formal, written payroll policies and procedures to increase oversight at its schools and departments to ensure that all District payroll policies and procedures are applied consistently to reduce the risk of inappropriate payments (see Finding 1, pages 4 through 5, for more information).
4. Separate responsibilities for entering and updating employee payrates and deductions in the accounting system from the responsibilities for processing payroll to reduce the risk of inappropriate adjustments to employee pay and benefits (see Finding 1, pages 4 through 5, for more information).
5. Consult with legal counsel to ensure its meeting policies and procedures, including the locations selected for conducting meetings, comply with open meeting law (see Finding 2, pages 6 through 9, for more information).
6. Consult with legal counsel to determine and implement any necessary procedures to address potentially invalid District actions taken at meetings that were not easily accessible to the public (see Finding 2, pages 6 through 9, for more information).
7. Discontinue holding Board meetings outside the District's boundaries, which is not in accordance with open meeting law and is an unnecessary expense to the District (see Finding 2, pages 6 through 9, for more information).
8. Follow USFR requirements and implement procedures to ensure that all travel expenditures and reimbursements are planned for the convenience of the District using the most reasonable and economic means and do not exceed ADOA-established maximum rates (see Finding 2, pages 6 through 9, for more information).
9. Develop and implement procedures to ensure that bus driver certification requirements are met and appropriately documented in accordance with the State's Minimum Standards (see Finding 3, pages 10 through 12, for more information).
10. Establish and implement a policy that states what school bus preventative maintenance work will be completed at what mileage and time frame and perform and document the bus preventative maintenance in a systematic and timely manner in accordance with the policy and the State's Minimum Standards (see Finding 3, pages 10 through 12, for more information).
11. Accurately calculate and report to ADE for State funding purposes the number of route and other miles traveled and actual number of eligible students transported (see Finding 3, page 12, for more information).

12. Work with ADE regarding needed corrections to its transportation funding reports until all funding errors that the misreported mileage and riders caused are fully corrected (see Finding 3, page 12, for more information).
13. Evaluate and implement additional controls over its fuel and supplies inventory to help ensure proper accounting of all fuel and supply usage, including safeguarding fuel keys, reconciling all fuel logs to fuel purchases, maintaining accurate fuel and supplies inventory records, and investigating any discrepancies identified (see Finding 3, page 13, for more information).



Objectives, scope, and methodology

We have conducted a performance audit of Gadsden Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness primarily in fiscal year 2018 in the 4 operational areas bulleted below because of their effect on instructional spending, as previously reported in our annual report, *Arizona School District Spending*. This audit was limited to reviewing instructional and noninstructional operational spending (see textbox). Instructional spending includes salaries and benefits for teachers, teachers' aides, and substitute teachers; instructional supplies and aids such as paper, pencils, textbooks, workbooks, and instructional software; instructional activities such as field trips, athletics, and co-curricular activities, such as choir or band; and tuition paid to out-of-State and private institutions.

Noninstructional spending reviewed for this audit includes the following:

- **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 Board.
- **Plant operations and maintenance**—Salaries, benefits, and other spending related to equipment repair, building maintenance, custodial services, groundskeeping, and security; and spending for heating, cooling, lighting, and property insurance.
- **Food service**—Salaries, benefits, food supplies, and other spending related to preparing, transporting, and serving meals and snacks.
- **Transportation**—Salaries, benefits, and other spending related to maintaining buses and transporting students to and from school and school activities.

Financial accounting data and internal controls—We evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2018 payroll and accounts payable transactions in the District's detailed accounting data for proper account classification and reasonableness. Additionally, we reviewed detailed payroll and personnel records for 40 of the 1,012 individuals who received payments in fiscal year 2018 through the District's payroll system and reviewed supporting documentation for 30 of the 14,906 fiscal year 2018 accounts payable transactions. After adjusting transactions for proper account classification, we reviewed fiscal year 2018 spending and prior years' spending trends across operational categories to assess data validity and identify substantial changes in spending patterns. We also evaluated other internal controls that we considered significant to the audit objectives. This work included reviewing the District's policies and procedures and, where applicable, testing compliance with these policies and procedures; reviewing controls over the District's relevant computer systems; and reviewing controls over reporting various information used for this audit. We reported our conclusions on any significant deficiencies in applicable internal controls and the District's needed efforts to improve them in our findings in this report.

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.

Peer groups—We developed 3 peer groups for comparative purposes. To compare the District’s student achievement, we developed a peer group using district poverty rates as the primary factor because poverty rate has been shown to be associated with student achievement. District type and location were secondary factors used to refine these groups. We used this peer group to compare the District’s fiscal year 2018 student passage rates on State assessments as reported by the Arizona Department of Education (ADE). We also reported the District’s ADE-assigned school letter 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 location. To compare the District’s transportation efficiency, we developed a peer group using a 5-year historical average of miles per rider and location. We used these factors because they are associated with districts’ cost measures in these areas.

Comparison areas	Factors	Group characteristics	Number of districts in peer group
Student achievement	Poverty rate District type Location	Between 30 and 33% Elementary school districts Towns and rural areas	12
Administration, plant operations and maintenance, and food service	District size District type Location	Between 600 and 7,999 students Elementary school districts Towns and rural areas	10
Transportation	Miles per rider Location	Less than 245 miles per rider Towns and rural areas	18

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

Efficiency and effectiveness—In addition to the considerations previously discussed, we also considered other information that impacts spending and operational efficiency and effectiveness as described below:

- **Interviews**—We interviewed various District employees in the scoped operational areas about their duties. This included District and school administrators, department supervisors, and other support staff who were involved in activities we considered significant to the audit objectives.
- **Observations**—To further evaluate District operations, we observed various day-to-day activities in the scoped areas. This included facility tours, food service operations, and transportation services.
- **Report reviews**—We reviewed various summary reports of District-reported data including its *Annual Financial Report*, District-wide building reports provided by the School Facilities Board, transportation route reports provided by ADE, transportation safety reports provided by the Department of Public Safety, and reports required for the federal school lunch program. Additionally, we reviewed food-service-monitoring reports from ADE and District-submitted compliance questionnaire results that its contracted external audit firm completed.
- **Documentation reviews**—We reviewed various sets of District documentation, including all credit card statements from fiscal year 2018, cash deposit documentation for September 2017 and April 2018, bus driver files for 10 of the District’s 20 drivers, and bus maintenance and safety records for 10 of the District’s 34 buses. Additionally, we reviewed documentation related to travel expenses for the District’s out-of-State Board meetings in fiscal years 2015 through 2019, including hotel invoices, travel claims, vehicle rentals, and fuel purchases. Further, we reviewed the District’s contract with and invoices from its food service management company.

- **Analysis**—We reviewed and evaluated fiscal year 2018 spending on administration, plant operations and maintenance, food service, and transportation and compared it to peer districts'. We also compared the District's square footage per student and meals served per student to peer districts'. Additionally, we reviewed the District's revenues and expenditures associated with its food service program to determine whether the District was covering all its costs.

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

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

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

DISTRICT RESPONSE

GADSDEN ELEMENTARY SCHOOL DISTRICT NO. 32

1350 E. Cesar Chavez Blvd.
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San Luis, AZ 85349
(928) 627-6540
FAX: (928) 627-3635

Dr. Raymond V. Aguilera, Superintendent

“STUDENT CENTERED LEARNING IN
AN ENGLISH LEARNING COMMUNITY”

Governing Board
Luis Marquez, President
Tadeo De La Hoya, Clerk
Guillermina Fuentes
Gloria Torres
Rosa Varela

April 20, 2020

State of Arizona
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Attn: Lindsey Perry, Auditor General

Dear Ms. Lindsey Perry,

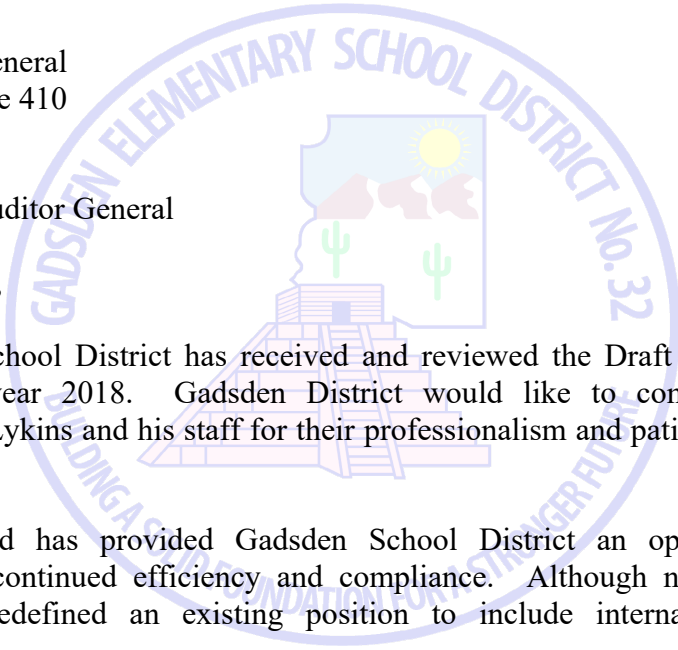
Gadsden Elementary School District has received and reviewed the Draft Performance Audit conducted for fiscal year 2018. Gadsden District would like to commend and extend appreciation to Joshua Lykins and his staff for their professionalism and patience throughout the process.

The information shared has provided Gadsden School District an opportunity to make improvements toward continued efficiency and compliance. Although not reflected in this document, we have redefined an existing position to include internal auditing for all organizational areas.

Please find attached the District’s response to each finding and recommendation.

Sincerely,

Raymond Aguilera, Ed.D
Superintendent of Schools
Gadsden Elementary School District #32



*“From Wild West to Nation’s Best.”
Johns Hopkins University*

Finding 1: District's poor administration of employee pay resulted in hourly employees being paid for holidays and other time not worked without documentation to support Governing Board approval and inappropriate payments to some employees

District Response: The District agrees with the finding.

Gadsden Elementary School District #32 agrees on the findings concerning documentation to Governing Board regarding holiday pay to hourly employees. The District will be reviewing additional guidelines to assist in ensuring that timesheets submitted accurately indicate hours worked.

Recommendation 1: The District should ensure that its Board is aware of and approves the number of paid holidays provided to hourly employees and ensure that hourly employee contracts or other District documents contain all agreed-upon terms of employment, including the number of days, holidays, and hours per day for which an employee will be compensated.

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

Gadsden Elementary School District #32, will ensure, working with district legal counsel, that the Governing Board is presented for approval the number of paid holidays provided to hourly employees and ensure that hourly employee contracts, or other District documents contain all agreed-upon terms of employment, including number of days, holidays, and hours per day for which an employee will be compensated.

Recommendation 2: The District should ensure that the Board reviews and approves its hourly employee contracts and related payroll calendars so that all payments made to employees are appropriate and that all paid days are for actual time worked or part of an agreed-upon compensation package.

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

The District will ensure that the Governing Board reviews and approves its hourly employee contracts and related payroll calendars so that all payments made to employees are appropriate and that all paid days are for actual time worked or part of an an agreed-upon compensation package. Employee schedules will be reviewed and modified as needed to reflect accurate time on timesheet.

Recommendation 3: The District should develop and implement formal, written payroll policies and procedures to increase oversight at its schools and departments to ensure that all District payroll policies and procedures are applied consistently to reduce the risk of inappropriate payments.

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

The District is currently in the process of implementing an employee time clock system (TimeClock Plus) for implementation in fiscal year 20/21. This system will only allow employees to clock in/out using employee fingerprint, to reduce any risk of inappropriate payments. Also, the time clock system will be setup to require pre-approval of overtime work by supervisor.

Recommendation 4: The District should separate responsibilities for entering and updating employee payrates and deductions in the accounting system from the responsibilities for processing payroll to reduce the risk of inappropriate adjustments to employee pay and benefits.

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

Procedures in the payroll department have been implemented to assure that each payroll employee cannot update/access their own file, including deductions. Currently, only the HR department can update or modify employees pay rate (except their own) on primary assignments. The District will further review payroll procedures to assure that separations of duties are appropriately applied. The District will implement a new software "Visions" which will improve our entire central office operations.

Finding 2: District limited public access to Governing Board meeting by holding it out of State and wasted more than \$65,000 of public monies on unnecessary travel expenses

District Response: The District agrees with the finding.

The annual district audit from external financial auditors, did not identify this area as a concern. The annual board retreats have always been posted as required by the open meeting law. All future District board retreats and board meetings will be held in Gadsden community with proper posting.

Recommendation 5: The District should consult with legal counsel to ensure its meeting policies and procedures, including the locations selected for conducting meetings, comply with open meeting law.

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

District has conferred with legal counsel in this matter. All board meetings will follow policies and procedures to comply with the open meeting law. District work study sessions have always posted as informational only sessions, and no action taken.

Recommendation 6: The District should consult with legal counsel to determine and implement any necessary procedures to address potentially invalid District actions taken at meetings that were not easily accessible to the public.

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

The District has conferred with legal counsel in this matter. District will ensure that all agendas posted for work study session indicate, information item only. No action items have ever been posted to work study sessions. With the exception of the identified study sessions, all board meetings have been local and conducted as posted in the Gadsden School District community. All future District work study sessions, will be conducted locally and posted, to ensure adequate accessibility to the public

Recommendation 7: The District should discontinue holding Board meetings outside the District's boundaries, which is contrary to open meeting law and is an unnecessary expense to the District.

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

The District will schedule all future governing board meetings and board work study sessions in the Gadsden community to rectify the expenditure issues cited, within the open meeting law.

Recommendation 8: The District should follow USFR requirements and implement procedures to ensure that all travel expenditures and reimbursements are planned for the convenience of the District using the most reasonable and economic means and do not exceed ADOA-established maximum rates.

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

The District will follow USFR requirements and have implemented procedures in place. The District constantly strives to implement best practices regarding travel expenditures and reimbursements.

Finding 3: Inadequate oversight of District transportation program led to potential student safety risk, reporting errors, and increased risk of fuel and supplies misuse

District Response:
The District agrees with the finding.

The District agrees that the Transportation department needs to improve its transportation program oversight. Specifically addressing the three areas stated in the General Auditor report, in addition, will follow the State's Minimum Standards for School Buses and School Bus Drivers.

Recommendation 9: The District should develop and implement procedures to ensure that bus driver certification requirements are met and appropriately documented in accordance with the State's Minimum Standards.

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

The District will ensure that bus drivers meet certification requirements as noted in the report reference to chart on page 10. Presently, we have established adequate procedures and will maintain a spreadsheet to log and track all bus drivers required documents. This practice will prevent inconsistencies in tracking required documentation.

Recommendation 10: The District should establish and implement a policy that states what school bus preventative maintenance work will be completed at what mileage and time frame and perform and document the bus preventative maintenance in a systematic and timely manner in accordance with the policy and the State's Minimum Standards.

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

Gadsden District takes very seriously the tracking and practices of bus preventative maintenance. The Transportation Director has established procedures for the maintenance of all vehicles and buses in the District. The new procedures will ensure that all buses meet the required State's Minimum Standards.

Recommendation 11: The District should accurately calculate and report to ADE for State funding purposes the number of route and other miles traveled and actual number of eligible students transported.

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

The District has corrected the calculation worksheet to accurately report the number of route miles and any other miles traveled. The District has also corrected the calculation of the eligible students transported. This worksheet was modified in FY 2019 revised budget.

Recommendation 12: The District should work with ADE regarding needed corrections to its transportation funding reports until all funding errors that the misreported mileage and riders caused are fully corrected.

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

The District has corrected and submitted transportation funding reports to ADE properly since FY 2019 budget revision.

Recommendation 13: The District should evaluate and implement additional controls over its fuel and supplies inventory to help ensure proper accounting of all fuel and supply usage, including safeguarding fuel keys, reconciling all fuel logs to fuel purchases, maintaining accurate fuel and supplies inventory records, and investigating any discrepancies identified.

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

The District will ensure that adequate procedures are established to address preventative measures. The District, has implemented additional controls over fuel and supplies inventory, to help ensure proper accounting of all district fuel and supply usage, including safeguarding fuel keys, reconciling all fuel logs to fuel purchases, maintaining accurate fuel and supplies inventory records, and investigating any discrepancies identified. The District has made every effort to sufficiently oversee the transportation program, but will look to the Auditor General and ADE (Minimum Standards) to consider how to best support and implement innovative practices such as monitoring and tracking mileage, service and inspections, fuel usage, repair orders and parts inventory.

