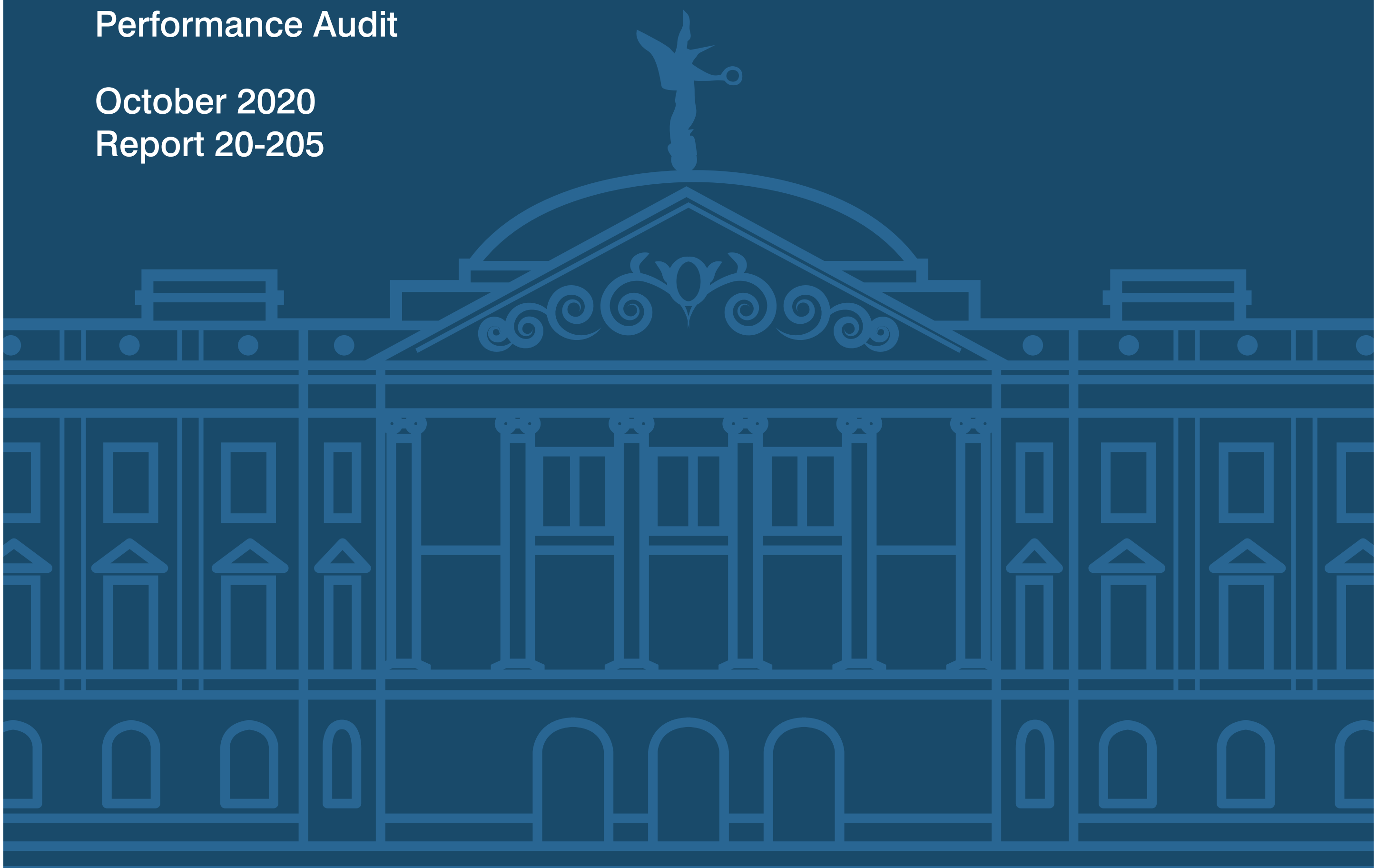
Hackberry Elementary School District

District spent more on administration, plant operations, food service, and transportation than its peer districts and could redirect an estimated $145,000 or more to instruction or other District priorities

Performance Audit

October 2020
Report 20-205



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

ARIZONA Auditor General
Making a Positive Difference

The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

Audit Staff

Vicki Hanson, Director

John Ward, Manager

Scott Tang

Contact Information

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

(602) 553-0333

contact@azauditor.gov

www.azauditor.gov

LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

October 20, 2020

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Hackberry Elementary School District

Dr. Rob Varner, Acting Superintendent
Hackberry Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Hackberry 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 the findings and recommendations and plans to implement or implement a modification to all the recommendations.

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

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General

Hackberry Elementary School District

District spent more on administration, plant operations, food service, and transportation than its peer districts and could redirect an estimated $145,000 or more to instruction or other District priorities

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

- District spent twice as much on administration as peer districts and could redirect an estimated $104,600 annually to instruction.
- District has continually operated its 1 school substantially below designed capacity, resulting in an estimated $95,300 of inefficient spending in fiscal year 2018.
- District produced more meals than it served and had higher food service labor hours than similarly sized peer districts, costing an estimated $31,500 annually in monies that could have been used for instruction.
- District operated its transportation program at a higher cost in fiscal year 2018 than peer districts and did not perform timely bus preventative maintenance.
- District did not follow credible industry standards for access to its student information system, putting sensitive information at risk.

Key recommendations

The District should:

- Operate more efficiently by reviewing administrative staffing levels and implementing reductions.
- Ensure supervisors review all timecards and pay employees only for hours worked.
- Determine and implement ways to reduce its excess capacity and/or the costs associated with it.
- Ensure meals are not overproduced by using the number of lunch orders as the basis for food preparation.
- Reduce the number of labor hours used to conduct its food service program.
- Evaluate the cost effectiveness of purchasing or leasing an appropriately sized bus or paying parents to transport students.
- Track mileage and perform timely preventative maintenance if it continues to use a bus.
- Implement credible industry standards regarding access to and oversight of its student information system.

We also made a recommendation to the Legislature to consider adopting statutory requirements to reduce the risk of districts substantially overbuilding schools in the future.

See Performance Audit Report 20-205, October 2020, at www.azauditor.gov.

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October 2020

ARIZONA AuditorGeneral
Making a Positive Difference

Rural district in Mohave County

Grades: Kindergarten through 6th

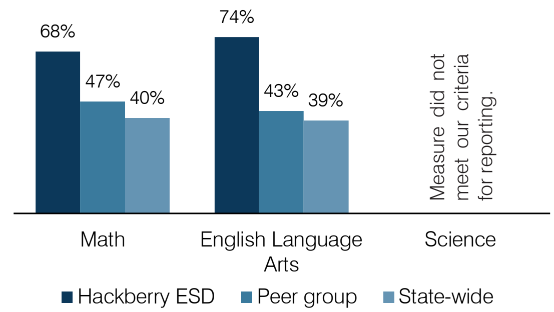
Students attending: 29.5[1]

Number of schools: 1

School letter grade: A

[1] 29.5 is the average student enrollment during the first 100 days of school.

Students who passed State assessments



Total operational spending—$811,358 ($27,504 per pupil)

Instructional—41.2% ($11,341 per pupil)	Noninstructional—58.8% ($16,163 per pupil)

Operational overview	Measure	Hackberry ESD	Peer average
Administration—spent more than peer districts and put sensitive information and public monies at risk Hackberry ESD spent almost twice its peer districts' average primarily because it had higher staffing. It also improperly paid hourly employees for their lunch breaks. This resulted in almost $104,600 in inefficient spending that could be redirected to instruction. Additionally, the District put sensitive information and public monies at risk (see Finding 1, page 2, and Finding 5, page 13).	Spending per pupil	$7,353	$3,949
Plant operations—excess school space resulted in high costs The District spent over one-third more per pupil on plant operations than its peer districts averaged because it operated that much more space per student than peers averaged. The District used only 18 percent of its school's designed capacity and spent about $95,300, or $3,230 per pupil, operating the unused space. Although the COVID-19 pandemic has resulted in new physical distancing guidance, even if Hackberry ESD adheres to this guidance, it will continue to operate a substantial amount of excess space (see Finding 2, page 5).	Spending per pupil	$4,433	$3,305
	Square footage per pupil	618	456
Food service—higher spending due to inefficient practices The District spent 7 percent more per meal and 3 percent more per pupil than its peer districts averaged. The District produced more meals than it served and had higher labor hours than peer districts, costing it an estimated $31,500 annually in monies that could have been used for instruction (see Finding 3, page 8).	Spending per meal	$12.56	$11.74
	Spending per pupil	$2,071	$2,010
Transportation—higher spending and lack of timely bus preventative maintenance The District spent more than its peer districts averaged primarily because it leased and operated a bus that was larger than needed. Additionally, the District did not perform timely bus preventative maintenance (see Finding 4, page 10).	Spending per mile	$2.89	$2.15
	Spending per rider	$3,466	$1,440

Hackberry ESD spent twice as much on administration as peer districts and could redirect an estimated $104,600 annually to instruction or other District priorities by reducing administrative staffing and paying hourly employees only for hours worked

In fiscal year 2018, Hackberry ESD spent nearly twice as much on administration as the 7 peer districts that had the most similar number of students as itself. Specifically, the District spent $7,353 per student on administration, whereas the 7 peer districts averaged only $3,949 per student. The District's higher administrative spending was due to it having higher staffing levels than peer districts. Additionally, it improperly paid hourly employees for their daily lunch breaks. Table 1 summarizes these administrative inefficiencies and their associated estimated costs. The District resolving these inefficiencies could result in an estimated $104,600 in annual savings, or about $3,545 per student, that it could spend on instruction or other District priorities.

Table 1
Estimated cost of administrative inefficiencies
Fiscal year 2018

Inefficiency	Total	Per student
Higher staffing	$ 95,720	$3,245
Paying hourly staff lunch breaks	8,863	300
Total	**$104,583**	**$3,545**

Source: Auditor General staff analysis of fiscal year 2018 District-reported accounting data, staffing level surveys, and Arizona Department of Education student membership data.

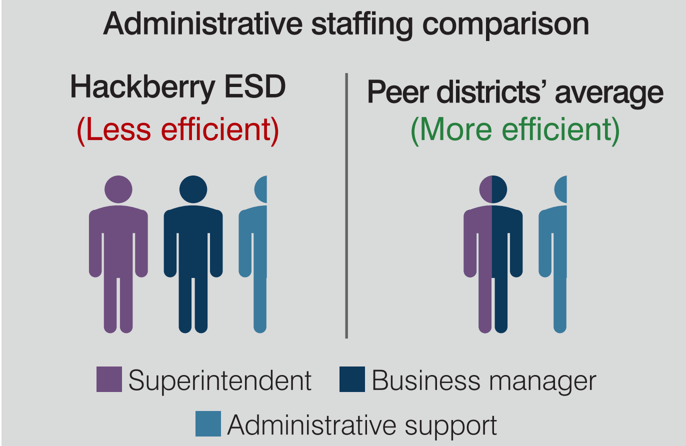
District spent about $95,700 more on administrative staffing than peer districts primarily because it employed 1 more full-time equivalent administrative employee

The District spent $95,700 more on administration than its 7 peer districts averaged primarily because it employed 1 more administrative full-time equivalent employee than the 7 peer districts averaged. Specifically, the District employed 2.5 full-time equivalent administrative employees, and the 7 peer districts employed an average of 1.5 full-time equivalent administrative employees as follows:

Higher superintendent staffing—Hackberry ESD employed a full-time superintendent, whereas all 7 of the most comparable peer districts employed either a part-time superintendent or a full-time employee to spend part of the day performing superintendent duties and the other part of the day performing classroom teacher or counselor duties, which are not administrative duties.

Higher business manager staffing—Hackberry ESD employed a full-time business manager, whereas only 2 of the 7 peer districts employed a full-time business manager. In contrast, 2 other peer districts employed a part-time business manager, 2 districts did not employ a business manager at all, and 1 peer district outsourced its business manager duties to a private company. The 2 districts that did not employ a business manager instead had their business services performed by their county school superintendent's office at no operational cost to their districts. Additionally, the peer district that outsourced its business duties to a private company did so at a cost of $29,050 in fiscal year 2018, which was much less than what Hackberry ESD spent to employ its business manager.

Regarding using the county school superintendent's office (County) to provide business services at potentially a lower cost, the District indicated that in fiscal year 2017, the County had provided temporary business services when the District was without a business manager and was in the process of searching for another. However, District officials reported that they did not explore whether it would be more cost effective to make the arrangement permanent and if the County would be interested in continuing to provide those services.



Hackberry ESD employed 2.5 full-time equivalent administrative employees, but the most comparable peer districts employed only 1.5 full-time equivalent employees, on average.

Despite employing 1 more administrative employee than the 7 peer districts, the District still did not comply with important requirements and standards that help protect its purchases, cash, and sensitive information in its IT systems (see Finding 5, page 13).

District overpaid its hourly employees an estimated $8,860 for time not worked and paid the former Superintendent over $3,300 in additional pay without evidence that it was approved by the Governing Board, putting the District at risk of violating the Arizona Constitution's gift clause

Paying employees for time not worked inappropriately increases operational costs and, if resolved, would result in more monies available to the District for instruction or other District priorities. In addition, paying employees for time not worked, without documentation that the employees performed their job duties, or without Governing Board approval for the additional pay, puts the District at risk of violating the Arizona Constitution's gift clause. Specifically, the Arizona Constitution, Art. IX, Sec. 7, bans gifts of public monies by public entities, including school districts, to individuals or organizations.

District overpaid its hourly employees an estimated $8,860 for time not worked because former Superintendent did not adequately review timecards—According to the former Superintendent, hourly employees are required to clock out for lunch and are not paid for this time. However, the District paid hourly employees during their lunch breaks for at least 30 minutes daily contrary to the requirement. Specifically, during the 3-month period we reviewed, all 7 hourly employees systematically failed to clock out during their lunch breaks, and the former Superintendent failed to recognize that they were not doing so when reviewing and approving their timecards. As a result, these 7 employees were overpaid by $2,130 during this 3-month period. Due to the pervasiveness of this issue during the time period we reviewed, we performed additional analysis and determined that the District overpaid these employees by an estimated $8,860 in fiscal year 2018.

District paid the former Superintendent over $3,300 above her contracted pay without evidence of Governing Board approval of additional pay—In fiscal year 2018, the District paid the Superintendent $3,336 above her contracted pay for attending Friday trainings during the school year and leading teacher professional development trainings on Fridays. The Superintendent stated that she satisfied the 190 days required by her contract by working Monday through Thursday each week. She worked that schedule to follow the weekly schedule of the District's 1 school. She stated that because she would satisfy her contracted 190 days by working 4 days per week during the fiscal year, she considered any trainings she attended or led on Fridays to be in excess of her contracted pay. However, the District did not have any documentation to support that the Governing Board approved her Friday trainings for additional pay. Additionally, the Superintendent's contract did not include a pay rate for work she performed beyond her contracted days. The *Uniform System of Financial Records for Arizona School Districts* (USFR) states that for contracted employees, either their original contract or a contract addendum should include agreements for any additional pay.

Recommendations

The District should:

1. Operate more efficiently in administration and redirect savings to instruction or other District priorities.
2. Review its administrative staffing levels and implement reductions.
3. Ensure that supervisors review all timecards, ensure that those timecards do not include employees' lunch breaks as paid time, and pay employees only for hours worked.
4. Ensure employment agreement terms are documented and include any additional employee pay above original contracted pay, either within the contract or in an addendum.

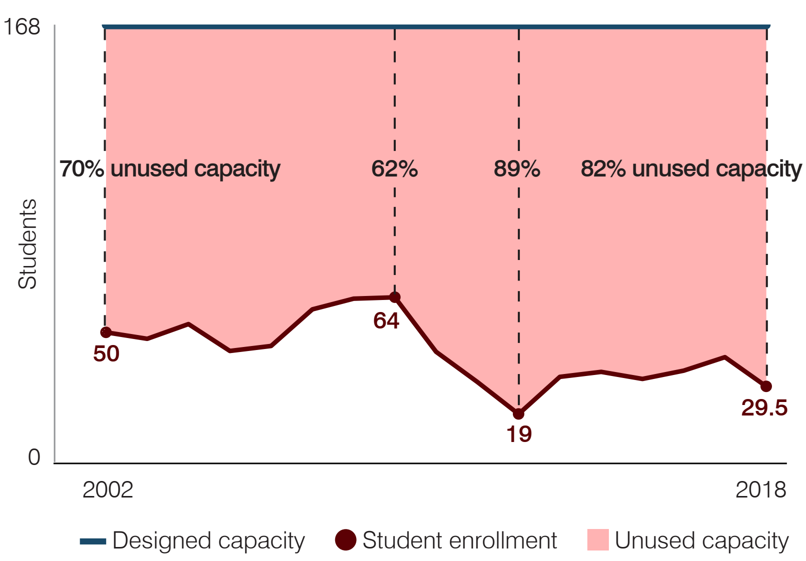
District response: As outlined in its **response**, the District agrees with the finding and recommendations and will implement or implement modifications to the recommendations.

Hackberry ESD has continually operated its 1 school substantially below its designed capacity, resulting in an estimated $1.3 million of inefficient spending

District built its 1 school and has continually operated it with substantial excess capacity, similar to other very small Arizona districts, resulting in an estimated $1.3 million of inefficient operational spending during the last 15 years—monies that could have been used for instruction or other District priorities

District has continually operated its school substantially below capacity, which has cost the District an estimated $1.3 million—In fiscal year 2002, the District opened the new school it built with new school facilities (NSF) fund monies from the Arizona School Facilities Board (SFB).[1] The District built the school for a capacity of 168 students, or more than 3 times the capacity of the 50 students enrolled when it opened. As shown in Figure 1, the District has not used more than 38 percent of the school's designed capacity every year since the school's opening. Specifically, the school has had between 19 and 64 students each year, using only 11 to 38 percent of its designed capacity annually. Although June 2020 guidance issued by the Arizona Department of Education (ADE) in response to the COVID-19 pandemic recommends that districts reopening their schools for in-person classes in the 2020-2021 school year space desks to allow for physical distancing, the District's average class size of fewer than 8 students should allow the District to follow this guidance without needing to use

Figure 1
School's designed capacity compared to student enrollment
Fiscal years 2002 through 2018
(Unaudited)



Source: Auditor General staff analysis of fiscal years 2002 through 2018 Arizona Department of Education student membership data and fiscal years 2002 through 2018 building capacity information from the SFB.

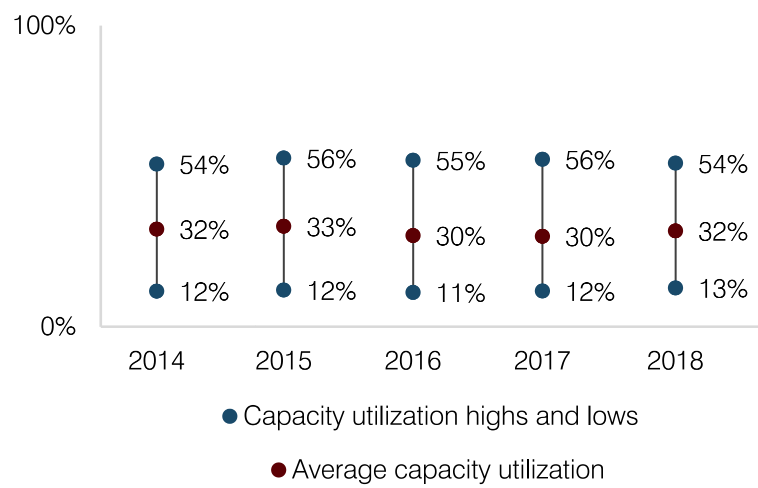
[1] Statute established the SFB in 1998 following an Arizona Supreme Court decision in a lawsuit that challenged Arizona's school construction funding system. Statute requires the SFB to administer 3 funds to address school districts' facility needs, including the new school facilities (NSF) fund to help school districts build new school facilities.

additional classrooms.[2] Therefore, even if Hackberry ESD adheres to this guidance, it would continue to operate a substantial amount of excess space.

Operating far below its designed capacity is expensive for the District because districts are primarily funded based on their number of students and do not receive any monies to maintain additional square footage. In fiscal year 2018, Hackberry ESD spent $95,300 operating its excess space. In the 15 years since the school opened through fiscal year 2018, Hackberry ESD spent an estimated $1.3 million to operate its excess space.

Other very small districts have also built and operated schools with excess capacity, and statute lacks protections to prevent this from occurring in the future—Like Hackberry ESD, 12 other very small districts (districts with fewer than 200 students) that also built schools around the same time with NSF fund monies received from the SFB similarly operated their schools with substantial excess capacity. Specifically, as shown in Figure 2, these 12 districts used 30 to 33 percent of their schools' designed capacities, on average, in fiscal years 2014 through 2018. As it was when Hackberry ESD and these 12 districts built their current schools, school districts today are statutorily eligible to receive NSF fund monies from the SFB to build new schools when they project their enrollment to grow in the next couple of years and the growth would put them beyond their current schools' capacities. Statute also required then, as it does now, that the SFB approve districts' enrollment projections. Despite SFB's approval process, Hackberry ESD and these 12 districts substantially overbuilt their schools compared to their actual enrollments. Because of the length of time that has passed since these new schools were approved and built, information is not available to determine whether approved growth projections were flawed or if districts built bigger schools than their projections supported because the NSF fund monies they received provided them with the funds to do so. Statute does not appear to have any provisions that reduce the risk that districts could still overbuild their schools today beyond their SFB-approved enrollment projections. Additionally, nothing in statute reduces the risk of districts' projections being substantially incorrect. In light of substantially overbuilt schools that are costly, the Legislature should consider options to reduce the risk of this occurring again in the future. For example, the Legislature could consider whether it is necessary to revise statute to require that any schools built with NSF fund monies be built only to SFB-approved projections. It should also consider adopting additional requirements that districts' enrollment projections demonstrate 2 or more years of accurately projected enrollment growth prior to awarding new school construction monies. If districts accurately projected their enrollment for at least 2 years, this would provide the SFB greater assurance that districts' enrollment growth projections justifying new school construction are reliable and that schools are built to an appropriate size.

Figure 2
Ranges and averages of 12 very small districts' schools' designed capacities used
Fiscal years 2014 through 2018
(Unaudited)



Source: Auditor General staff analysis of fiscal years 2014 through 2018 Arizona Department of Education student membership data and fiscal years 2014 through 2018 building capacity information from the SFB.

Excess capacity identified at districts of all sizes—Hackberry ESD and other very small districts are not the only districts with schools that have designed capacities far larger than their student enrollments. In addition to very small school districts (those that served fewer than 200 students), in fiscal year 2018, 90 other

[2] Arizona Department of Education, "*Roadmap for Reopening Schools, June 2020*."

school districts reported operating a total of 177 schools where students used 50 percent or less of the schools' designed capacities. These districts ranged in size from small (those that served between 200 and 599 students) to very large (those that served more than 20,000 students). Although the reasons for these districts' excess space and whether or how the districts may be responding to their unique situations likely varies, the issue of excess space is not uncommon in Arizona.

Hackberry ESD has not reduced its excess capacity or costs associated with it

Despite the District having excess capacity since its school opened in 2002, successive District governing boards and administrations have not reduced the school's excess capacity or the costs associated with it. However, in fiscal year 2020, the District's administration and governing board expanded the grades the District serves from K-6 to K-8. By adding 7th and 8th grades, District officials hoped to reduce the school's excess capacity. However, this action did not reduce excess capacity as the District's reported fiscal year 2020 enrollment was the same as its fiscal year 2018 enrollment.

There are more actions that the District may have been able to take to reduce its plant operations spending and redirect savings from that area to instruction or other District priorities. For example, the District has not taken any action to determine how many home-schooled students may be living in its boundaries or how many students living within its boundaries may be attending neighboring school districts and what it might do to attract these students back to its school. Additionally, during fiscal year 2019, the District had 4 classrooms that were not used as regular classrooms, with 3 of the classrooms used intermittently for once-weekly music and art classes and as the District's school spirit store for students. Rather than operate all those classrooms, District officials did not consolidate all those activities to a single room and close the other 3 classrooms from use. Doing so could have helped to minimize any custodial services in those rooms and would likely have allowed the District to keep those rooms at optimal energy-conserving temperatures.

Recommendations

The Legislature should:

1. Consider adopting statutory requirements that any schools built with NSF fund monies be built only to SFB-approved projections. It should also consider adopting additional requirements that districts' enrollment projections demonstrate 2 or more years of accurately projected enrollment growth prior to awarding new school construction monies.

The District should:

5. Determine and implement ways to reduce its excess capacity and/or the costs associated with it by doing such things as identifying opportunities and implementing plans to attract any home-schooled students living within its boundaries and to retain any students living within its boundaries who are choosing to attend other school districts. Additionally, the District should identify and close any unused or underutilized space.

District response: As outlined in its **response**, the District agrees with the finding and recommendation and will implement the recommendation.

District produced more meals than it served and had higher food service labor hours than similarly sized peer districts, costing it an estimated $31,500 annually in monies that could have been used for instruction or other District priorities

Table 2 summarizes Hackberry ESD's meal production and food service staffing inefficiencies and their associated estimated costs in fiscal year 2018. These inefficiencies cost the District over an estimated $31,500, or about $1,070 per student, which the District could have spent on instruction or other priorities.

Table 2
Estimated cost of food service inefficiencies
Fiscal year 2018

Inefficiency	Total	Per student
Meal overproduction	$ 15,650	$ 530
Higher labor hours	15,921	540
Total	**$31,571**	**$1,070**

Source: Auditor General staff analysis of fiscal year 2018 District-reported accounting data, meal production records, employment contracts, peer district staffing level survey results, and Arizona Department of Education student membership data.

Meal overproduction resulted in an estimated $15,650 of wasteful spending, or over $530 per student

In fiscal year 2018, the District produced more meals than it actually served through its food service program, resulting in wasteful spending. Meal production records for August, September, and December 2017 show that the District reported producing 456 more meals than it served, which is equivalent to it wasting 25 percent of the total meals it produced during that time period (see Figure 3). Based on the $9.34 the District spent in fiscal year 2018 to produce each meal in its cafeteria, the District wasted nearly $4,260 on meals that it did not serve and for which it did not receive any payments. According to District officials, although the food service director received a daily morning report indicating the number of students planning to eat lunch each day, he always produced more lunches than that. District officials stated he did that to ensure the District never ran short on food if lunch purchases were higher than expected.

Figure 3
Meals wasted over 3 months
Fiscal year 2018

Source: Auditor General staff analysis of District meal production records and records of meals served for August, September, and December 2017.

Based on the 3-month meal production sample we reviewed, the District may have overproduced an estimated 1,675 meals during the school year, or 57 meals per student. This equates to the District having spent at least an estimated $15,650 in fiscal year 2018 on meals that were never served.

The District's food service program operated at a loss of over $44,600 in fiscal year 2018, including the District's meal overproduction loss of at least an estimated $15,650. The District was required to divert monies from other parts of its budget to cover the food service program loss. Had the District not overproduced meals it did not serve, it could have reduced the amount of money diverted to its food service program from other important priorities, including instruction.

District's higher food service labor hours compared to peer districts' cost it nearly $16,000, or approximately $540 per student

Hackberry ESD's food service director was contracted for 203 days during the school year compared to an average of 176 contracted days for food service directors at 5 peer districts that served the most similar number of total meals and meals per student in fiscal year 2018 as Hackberry ESD. Additionally, Hackberry ESD's food service director worked 3 more hours each day than the peer districts' food service directors averaged. Compared to these peer districts, Hackberry ESD's food service director worked 789 more hours in fiscal year 2018 than the average hours food service directors worked at the 5 peer districts. Additionally, Hackberry ESD's food service director had more part-time help than the peer districts' food service directors. Specifically, 3 of the 5 peer district food service directors had no part-time employees to assist them, while 2 of the 5 peer district food service directors each had a part-time employee who worked over 260 fewer hours annually, on average, than Hackberry ESD's part-time cafeteria employee. Therefore, it is unclear why Hackberry ESD's food service director needed to work 789 more hours in fiscal year 2018 than the peer districts' food service directors. When we asked the District's former superintendent about the basis for the food service director's number of contracted days, she indicated that the previous food service director had more part-time help than the current food service director, so the current director's number of contracted days is partially in response to having less help in the cafeteria than in previous years. Additionally, she stated that the food service director's contracted days reflected the District determination of a reasonable amount of time to allow him to complete end-of-the-year reporting requirements, conduct an inventory count during the summer, and begin preparing for the next school year's food service program.

For both the food service director and the part-time cafeteria employee, Hackberry ESD paid for 2,526 labor hours in fiscal year 2018, which was 88 percent more than the total labor hours peer districts paid to operate their food service programs, on average. Specifically, at the food service director's hourly rate, the District spent $10,645 more than if it would have staffed that position at the same level, on average, as the 5 peer districts in fiscal year 2018. Additionally, at the part-time employee's hourly rate, Hackberry ESD spent at least $5,275 more than it would have had it staffed its part-time cafeteria position like the 5 other peer districts, on average.

As previously mentioned, the District had to subsidize its food service program by over $44,600 with monies diverted from other priorities in fiscal year 2018. Had the District staffed the program at a level similar to the 5 peer districts, it could have reduced the amount diverted to its food service program from other important priorities, such as instruction, by almost $16,000.

Recommendations

The District should:

6. Ensure that the food service director stops overproducing meals that the District does not serve by basing meal production on the number of lunch orders that are reported each morning.

7. Reduce food service spending by reducing the number of labor hours it contracts to operate its food service program.

District response: As outlined in its **response**, the District agrees with the finding and recommendations and will implement modifications to the recommendations.

District operated its transportation program at a higher cost in fiscal year 2018 than peer districts and did not perform timely bus preventative maintenance

District operated its transportation program at higher operational cost than peer districts primarily because it leased a large bus

In fiscal year 2018, Hackberry ESD spent $2.89 per mile to operate its transportation program, which transported 9 students to and from school. That was 34 percent, or 73 cents, more per mile than the average for the 8 peer districts that drove the most similar number of miles as the District. The District spent more primarily because it implemented transportation practices that were operationally more expensive than those used by the 8 peer districts, as shown in Table 3. Specifically:

Table 3
Transportation practices that led to high operational spending
Fiscal year 2018

Practice	Total	Per student
Leasing bus	$7,200	$244
Higher fuel spending to operate larger bus than needed	1,404	48
Total	**$8,604**	**$292**

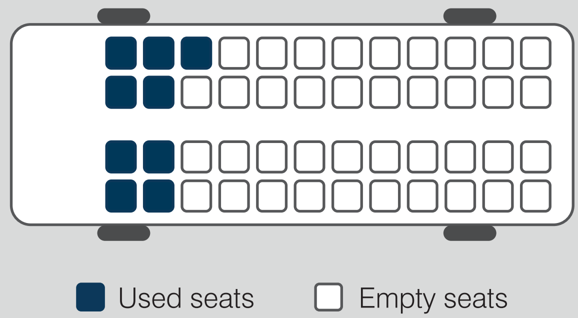
Source: Auditor General staff analysis of fiscal year 2018 District-reported accounting data, bus lease agreement, and Arizona Department of Education student membership data.

District leased its bus, which resulted in operational costs rather than capital costs if it had owned bus—In fiscal year 2018, Hackberry ESD spent $7,200, or 65 cents per mile, leasing its bus from a neighboring school district to transport 9 students to and from school. In contrast, none of the 8 peer districts leased a bus to transport students. Rather 7 of the districts operated buses they owned, and 1 did not operate any buses but instead paid parents to transport their children to and from school. The peer districts that owned their buses purchased them in prior years with capital budget monies. Therefore, they did not have the operational spending Hackberry ESD had to pay to lease a bus. Potential savings identified in this report could help the District purchase a bus if it chose to do so.

District operated a larger bus than needed for number of student riders, resulting in high fuel spending—The District leased a 48-passenger bus, which was substantially bigger than the size it needed for its 9 riders, who used less than 20 percent of the bus's capacity. Districts that operate efficiently typically use 75 percent of their bus capacities. Operating the large bus likely resulted in higher fuel spending than if the District had operated a smaller bus. In fact, Hackberry ESD spent 47 percent, or 13 cents, more per mile on fuel than the 7 peer districts that also operated buses, which is equivalent to a total of over $1,400 in additional fuel costs for the year. Of the 7 peer districts that operated buses, 3 of them operated smaller buses—1 operated an 11-passenger bus, 1 operated a 22-passenger bus, and 1 operated a 35-passenger bus—which may help explain why Hackberry ESD had higher fuel spending. The other 4 districts operated similarly sized or slightly larger buses than Hackberry ESD; however, those 4 districts transported between 19 and 33 riders, which was 10 to 24 more riders than Hackberry ESD. Therefore, these districts used more of their buses' available seats even though their bus capacity utilizations were still low, in that none of the 4 districts used more than 59 percent of their bus capacities.

In light of the COVID-19 pandemic, Hackberry ESD's excess bus capacity under normal operating circumstances may become a positive development. The Arizona Department of Education's (ADE) June 2020 guidance for school district operations during the pandemic suggests seating 1 student per row on buses and skipping rows when possible. Following this guidance, the District would eliminate its excess bus capacity but not the related operating costs.

Hackberry ESD's riders used only 9 seats on its bus



District may be able to save money by paying parents to transport students rather than operating a transportation program

As mentioned earlier, in fiscal year 2018, 1 of the 8 peer districts paid parents whose children lived 3 miles or more from school to transport their children to school and back home. This district, which is a neighboring district to Hackberry ESD, paid parents a total of $5,470 during the school year to transport 7 students, which was $26,282 less than what Hackberry ESD spent to transport its 9 riders. The peer district paid parents 44.5 cents per mile to transport their children to school and back home, which is the same amount the State of Arizona and Hackberry ESD reimburse their employees when they drive their personal vehicles for official business. The 44.5 cents per mile was 85 percent less than the $2.89 per mile Hackberry ESD spent to operate its transportation program. Hackberry ESD officials indicated that they did not explore paying parents to transport the 9 students instead of operating its own route in fiscal year 2018. In addition to potential cost savings, if District officials considered paying parents to transport their students during the 2020-2021 school year, the District would avoid any logistical accommodations that ADE recommends be made on school buses during the COVID-19 pandemic.

District did not perform timely preventative maintenance on its bus

The District's preventative maintenance records for fiscal years 2018 and 2019 for its 1 leased bus show that the bus did not receive preventative maintenance every 5,000 miles as required by the lease. The lack of preventative maintenance on the District's leased bus at 5,000 miles may also indicate that the bus did not receive systematic preventative maintenance as required by the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards). These Minimum Standards, administered by the Department of Public Safety, help ensure school bus passengers' safety and extend the useful life of buses. Specifically, during that time period, the bus received a total of 2 preventative maintenance services with the District, traveling 16,979 miles between the services, which was nearly 12,000 miles beyond the mileage at which it should have received preventative maintenance service, potentially increasing risk to passenger safety and bus life.

The District's transportation supervisor did not maintain bus service records and did not track the bus's mileage for the purpose of determining when preventative maintenance should occur. Instead, the District relied on the leasing district to contact Hackberry ESD's transportation supervisor to obtain the bus's odometer readings and determine when preventative maintenance service needed to be performed. As the District's preventative maintenance records show, this process was ineffective.

Recommendations

8. The District should evaluate whether it is more cost effective and feasible to purchase an appropriately sized bus of its own, lease a more appropriately sized bus, or pay parents to transport their children to and from school, and make changes accordingly, as pandemic conditions allow.

9. If the District continues using a bus to transport its students, it should track bus mileage and perform preventative maintenance according to its lease agreement or other policies the District may adopt if it purchases its own bus.

District response: As outlined in its **response**, the District agrees with the finding and recommendations and will implement modifications to the recommendations.

District put sensitive student information and public monies at risk because it did not comply with important requirements and standards to protect its monies and sensitive information

District employees made some purchases without required prior approval and paid for some purchases without required evidence of having received the purchases

The *Uniform System of Financial Records for Arizona School Districts* (USFR) and the District's purchasing policies require employees to make purchases only after receiving prior supervisory approval and authorization. Additionally, employees are required to obtain evidence that the District has received its purchases and verified that billings are accurate before paying vendors. However, our review of a sample of 30 fiscal year 2018 purchases found that District employees made:

- 29 purchases that lacked evidence of prior supervisory approval.
- Payments for 6 purchases without first obtaining evidence that the District had received the purchases and that billings were accurate.

These departures from purchasing requirements resulted from employees failing to follow proper procedures. Although we did not identify any purchases in our sample that would indicate fraud, waste, or abuse, the District's failure to consistently follow proper purchasing procedures put it at risk for making and paying for purchases that were not allowable, that it did not have money for, or that it had not received.

District did not separate cash-handling responsibilities to safeguard cash

In fiscal year 2018, the District collected cash from cafeteria meal sales, student club fundraisers, and private donations. Our review of all 36 cash deposits totaling almost $1,600 from a sample of 3 months during fiscal year 2018 found that the District did not comply with requirements that cash-handling responsibilities be separated to help ensure that all cash the District collected was properly deposited as the USFR requires. Although there were 3 District employees involved in handling cash from the various sources, they did not follow proper procedures to safeguard cash. Specifically, 1 District employee was solely responsible for preparing cash for deposit with the county treasurer's office, as well as reconciling the monthly treasurer statements to the cash receipts the District issued when it received cash. Because neither of the other 2 employees involved in the process verified that the total cash the District had initially collected had been deposited in full with the county treasurer's office, there is a risk that collected cash would not be deposited, which could go undetected.

District wrongly used debit cards rather than credit cards to make purchases, which reduced certain protections available to it if improper purchases were made using the debit cards

In fiscal year 2018, the District issued debit cards to 2 employees that they used to make almost $11,000 of purchases contrary to the USFR's prohibition on districts using debit cards as a payment method. Rather, districts should use credit cards or purchasing cards (p-cards). Using debit cards increases the risk that, if an individual improperly makes a purchase using the District's debit card without proper approval, the District may be unable to recover the monies used to pay for the improper purchase. In contrast, if an unauthorized or improper purchase were to be made with a credit card, the District would have recourse to contest the purchase and possibly avoid having to pay for the purchase. Additionally, by using debit cards, the District risked that the 2 employees could make improper cash withdrawals—a risk mitigated by using credit cards. Even though the District's financial auditors noted the District's inappropriate use of debit cards in their fiscal year 2017 audit, the District was still using them in fiscal year 2019 when we discussed the issue with District officials.

By misclassifying over 12 percent of its operational expenditures, the District misreported its spending by operational category

In fiscal year 2018, because District administrative staff did not adequately adhere to expenditure classification guidance included in the Uniform Chart of Accounts for school districts, the District misclassified over 12 percent, or $99,000, of its $811,000 in operational spending. Specifically, the District did not accurately classify all its expenditures in the correct operational categories, such as instruction, administration, plant operations, transportation, and food service. As a result, the District's *Annual Financial Report* and supporting accounting data did not accurately present the District's spending in these operational categories to members of the public and decision makers who may rely on the report and data to know how the District spent its public monies in these areas. When we corrected these classification errors, the District's instructional spending decreased by 1.3 percentage points to 41.2 percent of its total operational spending. The dollar amounts used for analysis and presented in this report reflect the necessary adjustments.

District's student information system passwords did not meet credible industry standards, putting sensitive information at risk

The District's student information system's password requirements as of June 2019 did not meet credible industry standards, such as those developed by the National Institute of Standards and Technology (NIST). As a result, the District increased its risk that unauthorized individuals could access its sensitive student information, including student grades, health records, and addresses. District officials indicated that they were unaware of industry standards related to password requirements.

Terminated employees had access to District's student information system

Our May 2019 review of all District student information system (SIS) user accounts found that 4 SIS user accounts were linked to terminated employees. The District allowing terminated employees access to its SIS increased the risk of unauthorized individuals accessing sensitive student information. Although the District had a procedure whereby an administrator was supposed to call the vendor that managed the District's SIS to have terminated employees' access removed from the system, this procedure was evidently not followed in these 4 instances.

District allowed too many people access to and control over its sensitive student information

Our May 2019 review of District SIS user accounts found that 12 SIS user accounts had administrator-level access. Users with administrator-level access have full control over all system settings and can add new users, as well as modify existing users' access levels. Users with administrator-level access can also grant themselves full access to view and edit all system information, which increases a district's risk for errors and fraud. Eleven of the 12 users with administrator-level rights were third-party employees of the vendor that hosted the District's SIS and provided it with SIS services. Based on our judgment and experience, having 12 administrator users for a district's SIS is a high number and does not reflect the principle of least privilege, which is that users should have the least amount of access in a system necessary to complete their job responsibilities. District officials had not reviewed the access levels the vendor had granted its employees in the District's SIS. By allowing too many users to have administrator-level access, the District increased its risk for errors, such as inaccurate data being entered or data being deleted, as well as its risk that a user could inappropriately access or use students' sensitive school, health, home, or other data. Additionally, the District increased its risk of security breaches because hackers typically target administrator accounts for their greater access privileges. A compromised administrator account could result in unauthorized access to and loss of sensitive data or disruption of some District operations.

District allowed users too much access to its accounting system

District users had too much access—Our March 2019 review of access levels for the District's 2 accounting system users determined that both users had more access to the accounting system than they needed to perform their job duties. Both users were able to initiate and complete payroll and purchasing transactions without any other employee reviewing and approving the transactions. Although we did not identify any improper transactions, the District increased its risk that these users could commit errors or fraud without being detected. For example, these users could process false invoices, change employee pay rates, including their own, or add and pay nonexistent vendors or employees, all without detection. According to District officials, their county school superintendent's office (the County) assigned the access as Hackberry ESD's accounting system host. The 2 Hackberry ESD users stated that they were unaware of the risk their access levels created because neither they nor anyone else at the District had reviewed the appropriateness of the access levels assigned to them.

County users had too much access—The County established 4 accounting system user accounts that allow County employees to initiate and complete District payroll and purchasing transactions without an independent review; however, it is unclear why all 4 County employees need that level of access. Additionally, the County granted administrator-level access to 3 of those 4 County employees. As discussed in the previous section about SIS access, users with administrator-level access have full control over all system settings and can grant themselves full access to view and edit all system information, which increases risk for errors and fraud. The District has not discussed with the County whether these 4 accounts require those levels of access.

Vendor user accounts had too much access—Additionally, 7 accounting system user accounts allowed vendor employees full access to initiate and complete District payroll and purchasing transactions without an independent review. Further, these accounts were not assigned to specific users, limiting the District's and possibly the vendor's ability to tell who performed actions in the system. The District has not discussed with the County or the vendor whether any of these 7 accounts are unnecessary and could be eliminated or could be disabled when not in use, which would help protect the District's sensitive accounting data.

Further, these same 7 vendor user accounts also had administrator-level access. As previously discussed, users with administrator-level access have full control over all system settings and can grant themselves full access to view and edit all system information, which increases risk for errors and fraud. District officials indicated that they had not reviewed the administrator accounts for the accounting system to ensure that they were appropriate.

Recommendations

The District should:

10. Follow required purchasing procedures by ensuring that employees make purchases only after obtaining proper approval and pay vendors only after verifying that all purchases have been received and billings are accurate.

11. Ensure that all monies collected are deposited by requiring that the same individual responsible for preparing

cash deposits is not also responsible for reconciling cash deposited to cash collected.

12. Discontinue the use of debit cards as a payment method.
13. Review the Uniform Chart of Accounts for school districts and implement its guidance to accurately classify all expenditures when reporting its spending.
14. Review credible industry standards, including those from the National Institute of Standards and Technology (NIST), at least annually, and ensure student information system password requirements meet the standards.
15. Work with its vendor to immediately remove all terminated user accounts currently in its SIS and implement additional procedures, such as termination checklists that include attestation that terminated employees' SIS access has been removed, to ensure that it reduces the future risk of unauthorized access to sensitive student information.
16. Work with its vendor to substantially reduce the number of users with administrator-level access in its SIS.
17. Limit accounting system users' access to only those functions needed to perform their job duties and work with the County to determine which vendor accounts, as well as any County accounts, are necessary. Further, the District should remove any unnecessary accounts, disable any necessary accounts when not in use, and substantially reduce the number of users with administrator-level access in its accounting system.

District response: As outlined in its **response**, the District agrees with the finding and recommendations and will implement the recommendations.

Auditor General makes 17 recommendations to the District and 1 recommendation to the Legislature

The District should:

1. Operate more efficiently in administration and redirect savings to instruction or other District priorities (see Finding 1, pages 2 through 4, for more information).

2. Review its administrative staffing levels and implement reductions (see Finding 1, pages 2 through 4, for more information).

3. Ensure that supervisors review all timecards, ensure that those timecards do not include employees' lunch breaks as paid time, and pay employees only for hours worked (see Finding 1, pages 2 through 4, for more information).

4. Ensure employment agreement terms are documented and include any additional employee pay above original contracted pay, either within the contract or in an addendum (see Finding 1, pages 2 through 4, for more information).

5. Determine and implement ways to reduce its excess capacity and/or the costs associated with it by doing such things as identifying opportunities and implementing plans to attract any home-schooled students living within its boundaries and to retain any students living within its boundaries who are choosing to attend other school districts. Additionally, the District should identify and close any unused or underutilized space (see Finding 2, pages 5 through 7, for more information).

6. Ensure that the food service director stops overproducing meals that the District does not serve by basing meal production on the number of lunch orders that are reported each morning (see Finding 3, pages 8 through 9, for more information).

7. Reduce food service spending by reducing the number of labor hours it contracts to operate its food service program (see Finding 3, pages 8 through 9, for more information).

8. The District should evaluate whether it is more cost effective and feasible to purchase an appropriately sized bus of its own, lease a more appropriately sized bus, or pay parents to transport their children to and from school, and make changes accordingly, as pandemic conditions allow (see Finding 4, pages 10 through 12, for more information).

9. If the District continues using a bus to transport its students, it should track bus mileage and perform preventative maintenance according to its lease agreement or other policies the District may adopt if it purchases its own bus (see Finding 4, pages 10 through 12, for more information).

10. Follow required purchasing procedures by ensuring that employees make purchases only after obtaining proper approval and pay vendors only after verifying that all purchases have been received and billings are accurate (see Finding 5, pages 13 through 16, for more information).

11. Ensure that all monies collected are deposited by requiring that the same individual responsible for preparing cash deposits is not also responsible for reconciling cash deposited to cash collected (see Finding 5, pages 13 through 16, for more information).

12. Discontinue the use of debit cards as a payment method (see Finding 5, pages 13 through 16, for more information).

13. Review the Uniform Chart of Accounts for school districts and implement its guidance to accurately classify all expenditures when reporting its spending (see Finding 5, pages 13 through 16, for more information).

14. Review credible industry standards, including those from the National Institute of Standards and Technology (NIST), at least annually, and ensure student information system password requirements meet the standards (see Finding 5, pages 13 through 16, for more information).

15. Work with its vendor to immediately remove all terminated user accounts currently in its SIS and implement additional procedures, such as termination checklists that include attestation that terminated employees' SIS access has been removed, to ensure that it reduces the future risk of unauthorized access to sensitive student information (see Finding 5, pages 13 through 16, for more information).

16. Work with its vendor to substantially reduce the number of users with administrator-level access in its SIS (see Finding 5, pages 13 through 16, for more information).

17. Limit accounting system users' access to only those functions needed to perform their job duties and work with the County to determine which vendor accounts, as well as any County accounts, are necessary. Further, the District should remove any unnecessary accounts, disable any necessary accounts when not in use, and substantially reduce the number of users with administrator-level access in its accounting system (see Finding 5, pages 13 through 16, for more information).

The Legislature should:

1. Consider adopting statutory requirements that any schools built with NSF fund monies be built only to SFB-approved projections. It should also consider adopting additional requirements that districts' enrollment projections demonstrate 2 or more years of accurately projected enrollment growth prior to awarding new school construction monies (see Finding 2, pages 5 through 7, for more information).

Objectives, scope, and methodology

We have conducted a performance audit of Hackberry 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:

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 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 all 19 individuals who received payments in fiscal year 2018 through the District's payroll system and reviewed supporting documentation for 30 of the 767 fiscal year 2018 accounts payable transactions. We did not identify any improper 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 report findings.

Peer groups—We developed 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. Hackberry ESD's peer group included Hackberry and 9 other elementary school districts located in towns and rural areas and with poverty rates between 23 and 29 percent. 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). However, for very small districts such as Hackberry ESD, year-to-year changes in student populations can greatly impact year-to-year student test scores. We also reported the District's fiscal year 2018 ADE-assigned school letter grade. To compare the District's operational efficiency in administration, plant operations and maintenance, food service, and transportation we developed peer groups consisting of districts that shared the most similar characteristics as Hackberry ESD, such as student enrollment, meals served, and student transportation miles driven.

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 administrators and 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.

- **Analysis—**We reviewed and evaluated fiscal year 2018 spending on administration, plant operations and maintenance, food service, and transportation and compared it to the districts in its peer group that shared the most similar characteristics as the District, such as student enrollment, meals served, and student transportation miles driven. We also reviewed and compared the District's administrative and food service staffing to its peers', as well as compared the designed capacity of the District's 1 school to its enrollment to determine how efficiently the District used its space. Additionally, we reviewed various documents demonstrating the District's level of internal control over payroll, purchasing, cash handling, debit cards, bus driver certification, and bus preventative maintenance. Further, we also reviewed the District's food service revenues compared to 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

Hackberry Elementary School District #3

Cedar Hills School
9501 Nellie Drive
Kingman, AZ 86401-8917
Phone: (928)-692-0013
Fax: (928)-692-1075

Mr. John Ward
Office of the Auditor General 2910 N. 44th Street, Suite 410 Phoenix, AZ 85018

Dear Mr. Ward,

Hackberry Elementary School District #3 has received and reviewed the Performance Audit report conducted for Fiscal Year 2018. The report provided welcome recommendations to enhance and improve district procedures.

The information shared has provided Hackberry Elementary #3 an opportunity to make improvements toward efficiency, accountability, and fiscal responsibility. The District will comply with all recommendations wherever feasible within the limitation of resources, as noted in the District's response.

The District will maintain a tight focus on aligning and maximizing District resources in pursuit of our mission. We look forward to continuing to improve our stewardship of the public's resources for the good of our community and students.

Hackberry Elementary School District #3 would like to thank your audit team for the insight, professionalism, and courtesy throughout the audit process, along with the opportunity to engage in meaningful collaboration.

Please do not hesitate to contact us with any questions or comments regarding our response.

Respectfully Submitted,

Rob Varner
Acting Superintendent
Hackberry Elementary School DistricT #3

Finding 1: Hackberry ESD spent twice as much on administration as peer districts and could redirect an estimated $104,600 annually to instruction or other District priorities by reducing administrative staffing and paying hourly employees only for hours worked

District Response: The District agrees with the finding.
See below

Recommendation 1: The District should operate more efficiently in administration and redirect savings to instruction or other District priorities.

District Response: The District agrees with the recommendation and will implement a modification to the recommendation.
Recommendation 1

Even though the District concurs with this analysis, The AG may not be aware of the growth in the Hackberry area. Our ADM has gone from 29 students in FY 20 to 53 in SY 21 and there are several housing developments that are going from the planning stage to the building stage. It seems we are adding to our numbers weekly. It is in the best interest of the District at this time to keep a business manager separate from the Superintendent/Principal position, but will continue to evaluate as district grows.

Recommendation 2: The District should review its administrative staffing levels and implement reductions.

District Response: The District agrees with the recommendation and will implement a modification to the recommendation.
Recommendation 2

Even though the District concurs with this analysis, The AG may not be aware of the growth in the Hackberry area. Our ADM has gone from 29 students in FY 20 to 53 in SY 21 and there are several housing developments that are going from the planning stage to the building stage. It seems we are adding to our numbers weekly. It is in the best interest of the District at this time to keep a business manager separate from the Superintendent/Principal position

Recommendation 3: The District should ensure that supervisors review all timecards, ensure that those timecards do not include employees' lunch breaks as paid time, and pay employees only for hours worked.

District Response: The District agrees with the recommendation and will implement the recommendation.
Recommendation 3

The District agrees with this and have taken steps to reconcile this by a two-step process. The business manager will review all timecards and the administrator will check the timecards prior to approving the hours.

Recommendation 4: The District should ensure employee agreement terms are documented and include any additional employee pay above original contracted pay, either within the contract or in an addendum.

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

Recommendation 4

The District agrees with this recommendation and have reviewed all contracts with legal counsel. Any additional pay above the contracted agreement must go before the Governing Board and be Board approved.

Finding 2: Hackberry ESD has continually operated its 1 school substantially below its designed capacity, resulting in an estimated $1.3 million of inefficient spending

District Response: The District agrees with the finding.

See below

Recommendation 5: The District should determine and implement ways to reduce its excess capacity and/or the costs associated with it by doing such things as identifying opportunities and implementing plans to attract any home-schooled students living within its boundaries and to retain any students living within its boundaries who are choosing to attend other school districts. Additionally, the District should identify and close any unused or underutilized space.

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

Recommendation 5

The District has already seen significant growth this year as stated in Recommendation 1 and anticipates that the addition of students will continue. As we are not as yet to capacity on our building, the District believes it will be to capacity within a few years

Finding 3: District produced more meals than it served and had higher food service labor hours than similarly sized peer districts, costing it an estimated $31,500 annually in monies that could have been used for instruction or other District priorities

District Response:
The District Agrees with the finding.

See Below

Recommendation 6: The District should ensure that the food service director stops overproducing meals that the District does not serve by basing meal production on the number of lunch orders that are reported each morning.

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

Recommendation 6

With a change of food service director to one with school district experience, we have already seen our reimbursements increase just in the first quarter. The tracking mechanism is based on best practices by USDA and the ADE. There is very little waste from our food service program this year and we are anticipating many times the reimbursements as previous years. Our production of food has been spot-on this year so far.

Recommendation 7: The District should reduce food service spending by reducing the number of labor hours it contracts to operate its food service program.

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

Recommendation 7

We have only one salary employee working in the kitchen. Since this employee comes to us as a former Food Manager for another school district, his salary is higher than previously. However, he understands the reimbursable process and what is required to keep food costs down. I anticipate either a positive account or close to cost neutral.

Finding 4: District operated its transportation program at a higher cost in fiscal year 2018 than peer districts and did not perform timely bus preventative maintenance

District Response:
The District agrees with the finding.
See below

Recommendation 8: The District should evaluate whether it is more cost effective and feasible to purchase an appropriately sized bus of its own, lease a more appropriately sized bus, or pay parents to transport their children to and from school, and make changes accordingly, as pandemic conditions allow.

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

Recommendation 8

The District is in agreement with the AG and we are doing a feasibility study on transportation right now. With CoVid 19, we appreciate the larger size bus so we can spread the children out. We are also reviewing our lease agreement with Kingman Unified and working with Mohave Consortium for the best direction of a new lease or purchase of a bus.

Recommendation 9: If the District continues using a bus to transport its students, it should track bus mileage and perform preventative maintenance according to its lease agreement or other policies the District may adopt if it purchases its own bus.

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

Recommendation 9

The District is in agreement with the AG. We are in agreement with the AG. As the District leasing the bus from Kingman Unified, we are doing our own accounting on mileage and making better efforts to make sure maintenance is carried forward

Finding 5: District put sensitive student information and public monies at risk because it did not comply with important requirements and standards to protect its monies and sensitive information

District Response:
The District agrees with the finding.
See below

Recommendation 10: The District should follow required purchasing procedures by ensuring that employees make purchases only after obtaining proper approval and pay vendors only after verifying that all purchases have been received and billings are accurate.

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

Recommendation 10

The District agrees with the AG on this recommendation and have put into place a process for working wih vendors and a procedure for purchase orders and purchase requests from the staff. We've aslo presented to staff "after the fact" policy that will keep practices from occurring.

Recommendation 11: The District should ensure that all monies collected are deposited by requiring that the same individual responsible for preparing cash deposits is not also responsible for reconciling cash deposited to cash collected.

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

Recommendation 11

The District agrees with the AG and has already reconciled this concern by using a two-step process. Others will deposit monies and the business manager will do all reconciliations to be signed off by the administrator.

Recommendation 12: The District should discontinue the use of debit cards as a payment method.

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

Recommendation 12

The District has already cancelled the debit card and has received credit cards. No debit cards will be used in any future business of the District.

Recommendation 13: The District should review the Uniform Chart of Accounts for school districts and implement its guidance to accurately classify all expenditures when reporting its spending.

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

Recommendation 13

This has already been inplementated and the use of USFR chart has been received and will be followed. The business manager will be receiving ongoing training from ASBO and its partners in the future to mitigate this issue.

Recommendation 14: The District should review credible industry standards, including those from the National Institute of Standards and Technology (NIST), at least annually, and ensure student information system password requirements meet the standards.

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

Recommedation 14

This issue has been mitigated by District's partnership with NAU ETC who oversees the District technology and systems. All passwords now meet this expectation.

Recommendation 15: The District should work with its vendor to immediately remove all terminated user accounts currently in its SIS and implement additional procedures, such as termination checklists that include attestation that terminated employees' SIS access have been removed, to ensure that it reduces the future risk of unauthorized access to sensitive student information.

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

Recommendation 15

The District has removed all former employees from its SIS system and only currect employees are able to use the system. Other access by outside entities also have been purged from the system.

Recommendation 16: The District should work with its vendor to substantially reduce the number of users with administrator-level access in its SIS.

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

Recommendation 16

Again, the District has taken all the necessary steps to reconcile this issue.

Recommendation 17: The District should limit accounting system users' access to only those functions needed to perform their job duties and work with the County to determine which vendor accounts, as well as any County accounts, are necessary. Further, the District should remove any unnecessary accounts, disable any necessary accounts when not in use, and substantially reduce the number of users with administrator-level access in its accounting system.

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

Recommendation 17

The District concurs with the AG and has taken the necessary steps to eliminate unnecessary users to the current accounting system.

ARIZONA
Auditor General
Making a Positive Difference