

Pine Strawberry Elementary School District

District employed more noninstructional staff than peer districts and did not ensure all cash was deposited, and a District Board member did not comply with conflict-of-interest law

Performance Audit

December 2021

Report 21-207

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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

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December 16, 2021

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Pine Strawberry Elementary School District

Ms. Kathlene Thomson, Superintendent
Pine Strawberry Elementary School District

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

As outlined in its response, the District agrees with all the findings and recommendations and plans to implement all the recommendations. My Office will follow up with the District in 6 months to assess its progress in implementing the recommendations.

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

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Pine Strawberry Elementary School District

District employed more noninstructional staff than peer districts and did not ensure all cash was deposited, and a District Board member did not comply with conflict-of-interest law

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 employed 4 more administrative, custodial/maintenance, and food service employees than peer districts at a cost of about \$258,100 in fiscal year 2020—monies that it could have spent on instruction or other District priorities. For example, the District could have increased its average teacher pay by \$14,342 per teacher if it had spent these monies on teacher salaries instead.
- District Governing Board member failed to fully disclose and improperly participated in over \$12,000 in payments to business for which he had substantial interest, and the District lacks written procedures for helping to ensure Board members comply with conflict-of-interest law.
- District did not ensure all cash collected was deposited and allowed users too much accounting system access, increasing its risk of errors and fraud.
- District misclassified nearly 12 percent of its operational expenditures, causing it to misreport its spending by operational category.

Key recommendations

The District should:

- Reduce its noninstructional spending by assessing staffing levels and reducing to levels similar to peer districts' averages.
- Help ensure its Board members follow State conflict-of-interest law by developing and implementing written procedures, including implementing a secondary review, to identify conflicts of interest and enhancing its Board member conflict-of-interest training.
- Follow the *Uniform System of Financial Records for Arizona School Districts* cash-handling requirements to ensure all cash collected is deposited.
- Review and limit accounting system users' access levels.
- Ensure staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and when there are changes and implement its guidance.



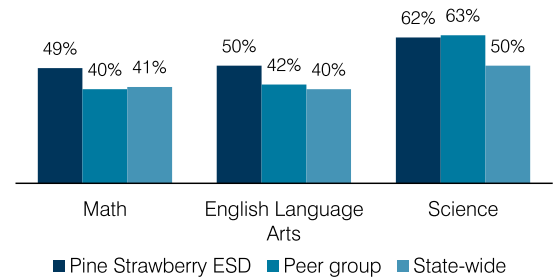
TABLE OF CONTENTS

District overview	1
Finding 1: District employed more noninstructional staff than peer districts at a cost of about \$258,100 in fiscal year 2020—monies that it could have spent on instruction or other District priorities	2
District employed more administrative, custodial/maintenance, and food service staff than peer districts	
District did not review and assess staffing levels to determine if staffing was appropriate	
Recommendations	
Finding 2: Board member failed to fully disclose and improperly participated in over \$12,000 in payments to business for which he had substantial interest	5
Contrary to statute, Board member approved District payments to business for which he had substantial interest, increasing risk of fraud, waste, or abuse	
District lacks written procedures for helping to ensure Board members comply with conflict-of-interest law	
Recommendations	
Finding 3: District did not ensure all cash collected was deposited, allowed users too much accounting system access, and misclassified expenditures	7
District did not ensure all cash collected was deposited and deposited timely, increasing its risk of errors and fraud	
District assigned some employees too much access to its accounting system, increasing its risk of errors and fraud	
District misclassified nearly 12 percent of its operational expenditures, causing it to misreport its spending by operational category	
Recommendations	
Summary of recommendations: Auditor General makes 9 recommendations to the District	10
Appendix: Objectives, scope, and methodology	a-1
District response	
Table	
1 Estimated spending above peer averages resulting from employing more noninstructional staff than peer districts Fiscal year 2020 (Unaudited)	2



Rural district in Gila County
Grades: Kindergarten through 8th
Students attending: 115
Number of schools: 1
School letter grade¹: A

Students who passed State assessments¹



Total operational spending—\$3.3 million (\$28,683 per pupil)

Instructional—54.4% (\$15,602 per pupil)

Noninstructional—45.6% (\$13,081 per pupil)

Operational overview	Measure	Pine Strawberry ESD	Peer average
<p>Administration—higher spending due to employing more staff</p> <p>The District spent 52 percent more per pupil on administration than its peer districts averaged, primarily because it employed more administrative staff than peer districts at a cost of over \$137,200 (see Finding 1, page 2). We also found that a District governing board member failed to fully disclose and improperly approved District payments to a business for which he had a substantial interest; and the District did not ensure all cash collected was deposited, allowed users too much accounting system access, and misclassified expenditures (see Finding 2, page 5, and Finding 3, page 7).</p>	Spending per pupil	\$4,279	\$2,817
<p>Plant operations—higher spending due to employing more staff</p> <p>The District spent 66 percent more per square foot and 63 percent more per pupil on plant operations than its peer districts averaged, primarily because it employed more custodial/maintenance staff than peer districts at a cost of almost \$93,700 (see Finding 1, page 2).</p>	Spending per square foot	\$9.35	\$5.63
	Spending per pupil	\$4,060	\$2,497
<p>Food service—higher spending due to employing more staff</p> <p>The District spent 80 percent more per meal and per pupil on food service than its peer districts averaged, primarily because it employed more food service staff than peer districts at a cost of over \$27,200 (see Finding 1, page 2).</p>	Spending per meal	\$6.61	\$3.68
	Spending per pupil	\$1,339	\$742
<p>Transportation—higher spending but reasonably efficient</p> <p>The District spent 79 percent more per mile and 123 percent more per rider on transportation than its peer districts averaged, primarily because it spent more on salaries and benefits. However, we did not find any opportunities for increased efficiencies and lower spending. We did not report any findings in this area.</p>	Spending per mile	\$3.42	\$1.91
	Spending per rider	\$2,289	\$1,027

¹ Laws 2020, Ch. 47, modified statutory requirements to cancel State-wide assessments and school letter grades in fiscal year 2020 because of school closures resulting from the COVID-19 pandemic. As a result, we reported the most recent assessment results and school letter grades from fiscal year 2019.

District employed more noninstructional staff than peer districts at a cost of about \$258,100 in fiscal year 2020—monies that it could have spent on instruction or other District priorities

District employed more administrative, custodial/maintenance, and food service staff than peer districts

In fiscal year 2020, the District spent more on administration, plant operations, and food service than peer districts' averages primarily because it employed more staff in these noninstructional areas.¹ The District employed 4 more full-time equivalent employees (FTEs) in total in administration, plant operations, and food service than peer districts. As shown in Table 1, if the District had staffed these areas similarly to peer districts, it could have reduced its noninstructional spending on salaries and benefits by about \$258,100, or about \$2,245 per student—monies that it could have spent on instruction or other District priorities. For example, if the District had spent these monies on teacher salaries instead, it could have increased its average teacher pay by an additional \$14,342 per teacher, from an average of \$59,733 to \$74,075.

District employed more administrative staff than peer districts at a cost of \$137,200—In fiscal year 2020, the District spent \$4,279 per pupil on administration, which was 52 percent more than its peer districts averaged. The District spent more on administration primarily because it employed more administrative staff than peer districts. Specifically, none of the peer districts employed an assistant business manager like the District did, and the District employed an additional part-time

Table 1
Estimated spending above peer averages resulting from employing more noninstructional staff than peer districts
Fiscal year 2020
(Unaudited)

Spending above peer averages	Total	Per student
Higher administrative staffing	\$ 137,200	\$ 1,193
Higher custodial/maintenance staffing	93,700	815
Higher food service worker staffing	27,200	237
Total	\$258,100	\$2,245

Source: Auditor General staff analysis of fiscal year 2020 District-reported accounting data, staffing level surveys, and Arizona Department of Education student membership data.

Administrative staffing comparison

Pine Strawberry ESD—Less efficient



Pine Strawberry ESD employed 5 administrative FTEs.

Peer districts' average—More efficient



Peer districts employed only 3.5 administrative FTEs, on average.



¹ We developed peer groups for each area to compare the District's spending and staffing levels to similar districts'. See Appendix A, page a-1, for more information on peer group selection methodology.

administrative support position. Had the District staffed its administration at the same level as the peer districts, it could have employed 1.5 fewer administrative FTEs and saved over \$137,200 in fiscal year 2020.

District employed more custodial/maintenance staff than peer districts at a cost of \$93,700—In fiscal year 2020, the District spent \$9.35 per square foot and \$4,060 per pupil on plant operations, which was 66 percent and 63 percent more than its peer districts averaged, respectively. The District spent more on plant operations because it employed more plant operations staff than its peer districts. Specifically, the District employed 4 custodial/maintenance FTEs, whereas its peer districts employed only 2.5 custodial/maintenance FTEs. As a result, the District’s staff each maintained about 13,400 square feet of building space, on average, while peer districts’ staff each maintained about 18,800 square feet, on average. Had the District staffed its custodial/maintenance program at the same level as the peer districts, it could have employed 1.5 fewer custodial/maintenance FTEs and saved almost \$93,700 in fiscal year 2020.

District employed more food service staff than peer districts at a cost of \$27,200—In fiscal year 2020, the District spent \$6.61 per meal and \$1,339 per pupil on its food service program, both of which were 80 percent more than its peer districts averaged. The District spent more on food service because it employed more food service staff than its peer districts. Specifically, the District employed about 1.5 food service worker FTEs, whereas its peers employed only a 0.5 food service worker FTE. As a result, the District’s staff each served 11,300 meals, on average, while peer districts’ staff each served 17,000 meals, on average. Had the District staffed its food service program at the same level as the peer districts, it could have employed 1.0 fewer food service worker FTE and saved over \$27,200 in fiscal year 2020.

District did not review and assess staffing levels to determine if staffing was appropriate

District officials stated that the District did not review staffing levels and did not establish any specific goals or metrics related to staffing levels. District officials stated they determined staffing levels by staffing similarly to how they have been staffed in the past. Further, District officials stated that the assistant business manager position was needed for proper segregation of duties among administrative staff. However, none of the peer districts had any findings related to segregation of duties in their most recent compliance questionnaires, so peer districts appear to be properly segregating duties despite employing fewer administrative staff.

Custodial/maintenance staffing comparison

Pine Strawberry ESD—Less efficient



Pine Strawberry ESD employed 4 custodial/maintenance FTEs.

Peer districts’ average—More efficient



Peer districts employed only 2.5 custodial/maintenance FTEs, on average.

Food service worker staffing comparison

Pine Strawberry ESD—Less efficient



Pine Strawberry ESD employed 1.5 food service worker FTEs.

Peer districts’ average—More efficient



Peer districts employed only 0.5 food service worker FTEs, on average.

Recommendations

The District should:

1. Reduce its administrative spending by assessing its administrative staffing levels and reducing to levels similar to its peer districts' averages.
2. Reduce its plant operations spending by assessing its plant operations staffing levels and reducing to levels similar to its peer districts' averages.
3. Reduce its food service spending by assessing its food service staffing levels and reducing to levels similar to its peer districts' averages.

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



Board member failed to fully disclose and improperly participated in over \$12,000 in payments to business for which he had substantial interest

Contrary to statute, Board member approved District payments to business for which he had substantial interest, increasing risk of fraud, waste, or abuse

In January 2020, a District governing board member disclosed a substantial interest on a District form by including the name of the business, but contrary to State law and District policy, he did not fully describe his substantial interest, failing to include details about his job title, role, responsibilities, or compensation. Additionally, during fiscal year 2020, the Board member improperly participated by signing 2 voucher forms and voting on consent agenda items in 5 public meetings to approve District payments totaling \$12,136 to the business for which he held the substantial interest.

Arizona Revised Statutes (A.R.S.) §38-503(A) and District policy require any District employee or Board member who has, or whose relative has, a substantial interest in any contract, sale, purchase, or service to the District to make known that interest in the official records of the District and to refrain from voting upon or otherwise participating in any manner in such contract, sale, or purchase. This Board member told us that as a branch manager for the business he received a salary and did not receive any additional compensation for sales to the District.

Key terms

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

Source: Auditor General staff review of A.R.S. §38-502 and the *Arizona Agency Handbook*. Arizona Office of the Attorney General. (2018). *Arizona Agency Handbook*. Phoenix, AZ. Retrieved 4/9/2019 from <https://www.azag.gov/outreach/publications/agency-handbook>.

District lacks written procedures for helping to ensure Board members comply with conflict-of-interest law

The District lacks several written procedures to help ensure that Board members comply with the State conflict-of-interest law. First, District staff reported they provide Board members a meeting packet, including payment support for various vendor payments, several days before Board meetings. This gives Board members time to review and approve vendor payments by signing a voucher form before voting to approve the payments during the public meeting’s consent agenda item. However, although District staff reported it was their practice to notify Board members of any payments within the meeting packet that posed a conflict of interest so Board members

could refrain from approving the voucher form and voting on consent agenda items related to their substantial interest, District staff did not do so for the 2 voucher forms and 5 public meetings discussed previously. The District should formalize this practice by establishing it in a written procedure and developing a secondary review procedure to help ensure that a Board member who has a substantial interest does not participate by approving the voucher forms or voting on the matter. Second, to help ensure Board member compliance with the conflict-of-interest statute, the District should include in its Board member conflict-of-interest training information the importance of Board members reviewing their meeting packets and consent agenda items to ensure they do not approve payments to a vendor for which they have a substantial interest. Finally, the District's Board member and staff conflict-of-interest forms require that the person reporting a substantial interest describe the substantial interest. However, the District did not ensure the Board member described the nature of his substantial interest on his form.

Recommendations

4. Board members should ensure they follow the State conflict-of-interest law by following the practices they learned in the District-provided training, including describing their substantial interests on the District's conflict-of-interest form as required and only approving vouchers for or voting on consent agenda items related to matters for which they do not have a substantial interest.
5. The District can help ensure that Board members do not approve payments for or vote on matters for which they have a substantial interest by:
 - a. Developing and implementing written procedures to help Board members identify meeting agenda items for which they have conflicts based on the substantial interests listed on their forms, such as requiring District staff to review Board member conflict-of-interest forms, identify substantial interest items in meeting agenda and packets, and notify the Board member accordingly. The District should develop and implement a secondary review procedure to ensure this happens.
 - b. Including in its Board member conflict-of-interest training information regarding the importance of Board members reviewing their Board meeting packets and consent agendas to ensure they do not approve payments to a vendor for which they have a substantial interest.
 - c. Developing and implementing a written procedure to require District staff to review conflict-of-interest forms to confirm that when a Board member (or District staff person) reports a substantial interest, they must also describe the substantial interest, such as their job title, role or responsibilities, and compensation.

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



District did not ensure all cash collected was deposited, allowed users too much accounting system access, and misclassified expenditures

District did not ensure all cash collected was deposited and deposited timely, increasing its risk of errors and fraud

The *Uniform System of Financial Records for Arizona School Districts* (USFR) requires districts to establish and maintain effective procedures to safeguard cash, prevent loss or misuse, provide prompt and intact depositing, and ensure accurate recording. However, our review of the District's cash collections totaling \$61,541 from October 2019 to January 2020 found that the District did not establish and maintain effective procedures to safeguard its cash, increasing its risk of errors and fraud.² Specifically:

- **District did not prepare receipts for certain types of cash collected**—The USFR requires districts to prepare a sequentially numbered receipt for each cash payment received. Despite this requirement, the District did not prepare receipts for the \$21,066 it received from donations, fundraisers, and building lease payments. Although the District had a process to prepare receipts for most cash it received, it did not have a process to prepare receipts for these types of cash payments.
- **District did not always deposit cash timely**—The USFR requires districts to deposit cash at least weekly, but our review found that the District deposited \$3,000 between 8 and 15 days after being collected. The longer a district holds on to its cash before depositing it, the greater its risk of theft, loss, or misuse.
- **District did not maintain evidence for all cash deposited**—The USFR requires districts to maintain evidence of cash deposits to help ensure that all cash collected was deposited. Despite this requirement, the District did not maintain deposit evidence for 28 cash receipts totaling \$559. As a result, the District was unable to show that these cash receipts were in fact deposited.
- **District did not reconcile cash receipts to deposits**—The USFR requires districts to prepare receipts for all cash received and reconcile these cash receipts to cash deposits to ensure all cash received was deposited. Although District staff prepared receipts for most cash they collected, the District did not have a procedure in place to review and reconcile these receipts to actual cash collected and deposited to ensure that all cash collected was deposited. District staff stated they were not aware that a reconciliation was required.

District officials stated they understood the importance of following USFR requirements for cash collections and agreed to implement procedures to reconcile cash receipts to deposits and to prepare receipts for all cash received, including donations, fundraisers, and building lease payments. Further, District officials stated they planned to implement additional review procedures to ensure all cash is deposited at least weekly and all deposit documentation is maintained.

² The term "cash" used throughout this report includes cash (coins and dollars), checks, and any other form of payment, such as money orders.

District assigned some employees too much access to its accounting system, increasing its risk of errors and fraud

The USFR requires that districts limit users' access to information and restrict the types of access to only what is necessary for them to carry out their assigned duties. However, our January 2021 review of accounting system access levels for the District's 4 employees with access to the accounting system found that all 4 employees had the ability to initiate and complete payroll and purchasing transactions without an independent review and approval, which is more access than they needed and also increased the District's risk of errors and fraud because a second employee would not need to be involved in the process. Further, according to credible industry standards, such as those developed by the National Institute of Standards and Technology (NIST), accounts should be limited to specific personnel or roles to prevent day-to-day users from accessing privileged functions and should be reviewed periodically for appropriate access. However, the District granted 1 business office employee administrator-level access to its accounting system, which gave them full control over accounting system settings, such as the ability to add new users and modify the level of access users have in the accounting system, including granting themselves full access to view and edit all data in the accounting system. According to District officials, they had not conducted any prior reviews of user access levels in the accounting system. Although we did not identify any improper transactions, users with broad or administrator-level access could process false invoices; change employee pay rates, including their own; or add and pay nonexistent vendors or employees without detection.

District misclassified nearly 12 percent of its operational expenditures, causing it to misreport its spending by operational category

The USFR requires school districts to follow the expenditure classification guidance included in the Uniform Chart of Accounts for school districts to ensure accurate financial reporting and comparability among Arizona school districts and nationally. In fiscal year 2020, the District misclassified over \$388,000, or nearly 12 percent, of its \$3.3 million in operational spending. Specifically, the District did not accurately classify its expenditures in the correct operational categories, such as instruction, plant operations, transportation, and student support services. 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 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 as a percentage of total spending fell from 58.7 to 54.4 percent—a decrease of 4.3 percentage points. The dollar amounts used for analysis and presented in this report reflect the necessary adjustments. When we brought the misclassifications to District officials' attention, they said they classified expenditures the same way they had in prior years and did not always review expenditure classification guidance included in the Uniform Chart of Accounts for school districts to ensure coding was accurate.

Recommendations

The District should:

6. Provide training on USFR cash-handling requirements to all employees involved in cash collection, deposit, and review.
7. Follow USFR cash-handling requirements to ensure all cash collected is deposited by:
 - a. Preparing sequentially numbered receipts for all cash received.
 - b. Depositing all cash at least weekly.
 - c. Maintaining evidence for all cash deposits.
 - d. Reconciling cash receipts to cash deposits.

8. Review accounting system users' access levels and limit users' access in the accounting system to only those functions needed to perform their job duties, including transferring administrator-level access to someone outside of the business office.
9. Ensure staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and any time it is revised or updated, and implement its guidance to accurately account for and report the District's spending.

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



SUMMARY OF RECOMMENDATIONS

Auditor General makes 9 recommendations to the District

1. The District should reduce its administrative spending by assessing its administrative staffing levels and reducing to levels similar to its peer districts' averages (see Finding 1, pages 2 through 4, for more information).
2. The District should reduce its plant operations spending by assessing its plant operations staffing levels and reducing to levels similar to its peer districts' averages (see Finding 1, pages 2 through 4, for more information).
3. The District should reduce its food service spending by assessing its food service staffing levels and reducing to levels similar to its peer districts' averages (see Finding 1, pages 2 through 4, for more information).
4. Board members should ensure they follow the State conflict-of-interest law by following the practices they learned in the District-provided training, including describing their substantial interests on the District's conflict-of-interest form as required and only approving vouchers for or voting on consent agenda items related to matters for which they do not have a substantial interest. (see Finding 2, pages 5 through 6, for more information).
5. The District can help ensure that Board members do not approve payments for or vote on matters for which they have a substantial interest by:
 - a. Developing and implementing written procedures to help Board members identify meeting agenda items for which they have conflicts based on the substantial interests listed on their forms, such as requiring District staff to review Board member conflict-of-interest forms, identify substantial interest items in meeting agenda and packets, and notify the Board member accordingly. The District should develop and implement a secondary review procedure to ensure this happens.
 - b. Including in its Board member conflict-of-interest training information regarding the importance of Board members reviewing their Board meeting packets and consent agendas to ensure they do not approve payments to a vendor for which they have a substantial interest.
 - c. Developing and implementing a written procedure to require District staff to review conflict-of-interest forms to confirm that when a Board member (or District staff person) reports a substantial interest, they must also describe the substantial interest, such as their job title, role or responsibilities, and compensation (see Finding 2, pages 5 through 6, for more information).
6. The District should provide training on USFR cash-handling requirements to all employees involved in cash collection, deposit, and review (see Finding 3, pages 7 through 9, for more information).
7. The District should follow USFR cash-handling requirements to ensure all cash collected is deposited by:
 - a. Preparing sequentially numbered receipts for all cash received.
 - b. Depositing all cash at least weekly.
 - c. Maintaining evidence for all cash deposits.
 - d. Reconciling cash receipts to cash deposits (see Finding 3, pages 7 through 9, for more information).

8. The District should review accounting system users' access levels and limit users' access in the accounting system to only those functions needed to perform their job duties, including transferring administrator-level access to someone outside of the business office (see Finding 3, pages 7 through 9, for more information).
9. The District should ensure staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and any time it is revised or updated, and implement its guidance to accurately account for and report the District's spending (see Finding 3, pages 7 through 9, for more information).



Objectives, scope, and methodology

We have conducted a performance audit of Pine Strawberry 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 2020 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 2020 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 3 of the 48 individuals who received payments in fiscal year 2020 through the District's payroll system and reviewed supporting documentation for 14 of the 2,069 fiscal year 2020 accounts payable transactions. After adjusting transactions for proper account classification, we reviewed fiscal year 2020 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, including controls over cash handling, credit card purchases, and any potential conflicts of interest. This work included reviewing the District's policies and procedures and, where applicable, testing compliance with these policies and procedures; reviewing controls over the District's relevant computer systems; and reviewing controls over reporting various information used for this audit. We reported our conclusions on applicable internal controls in Findings 2 and 3 (see pages 5 through 9).

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. We used this peer group to compare the District’s fiscal year 2019 student passage rates on State assessments as reported by the Arizona Department of Education (ADE). We also reported the District’s fiscal year 2019 ADE-assigned school letter grade. Fiscal year 2019 data was the most recent year of data available for this audit because Laws 2020, Ch. 47, modified statutory requirements to cancel State-wide assessments and school letter grades in fiscal year 2020 because of school closures resulting from the COVID-19 pandemic. For very small districts, such as Pine Strawberry ESD, year-to-year changes in student population can greatly impact year-to-year student test scores.

To compare the District’s operational efficiency in administration, plant operations and maintenance, food service, and transportation, we developed peer groups for each area. For administration, 5 peer districts were selected that served a similar number of students as the District in fiscal year 2020. For plant operations and maintenance, 5 peer districts were selected that served a similar number of students and maintained a similar amount of square footage as the District in fiscal year 2020. For food service, 5 peer districts were selected that served a similar number of students and meals as the District in fiscal year 2020. For transportation, 5 peer districts were selected that drove a similar number of miles and transported a similar number of riders as the District in fiscal years 2019 and 2020.

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, department supervisors, and other support staff who were involved in activities we considered significant to the audit objectives.
- **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, as well as compliance questionnaires from peer districts.
- **Analysis**—We reviewed and evaluated fiscal year 2020 spending and staffing for administration, plant operations and maintenance, food service, and transportation and compared them to peer districts’. We also compared the District’s square footage per student, building age, 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 and reviewed the District’s bus route and staffing efficiency.

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



PINE STRAWBERRY SCHOOL

P.O. Box 1150 • Pine, Az 85544

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December 10, 2021

Ms. Lindsey Perry
Office of the Auditor General
2910 N. 44th Street, Suite410
Phoenix, AZ 85018

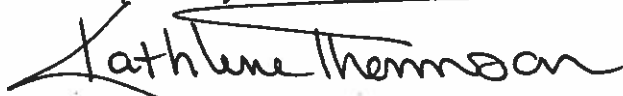
Dear Ms. Perry,

Pine Strawberry Elementary School District has received and reviewed the Performance Audit report conducted the 2020-2021 school year. The information and recommendations provided will assist the district in enhancing and improving our operational procedures. After extensive review and reflection the Pine Strawberry School District agrees with the findings and recommendations resulting from the audit.

Pine Strawberry Elementary School District would like to thank the audit team for their insight and professionalism during the audit process.

If you have any questions, please feel free to contact me or Mrs. Aimee Manjarres, Business Manager.

Respectfully Submitted,



Kathlene Thomson

Superintendent

Pine Strawberry Elementary School District #12

Finding 1: District employed more noninstructional staff than peer districts at a cost of about \$258,100 in fiscal year 2020—monies that it could have spent on instruction or other District priorities.

District Response: The District agrees with the finding.

Recommendation 1: The District should reduce its administrative spending by assessing its administrative staffing levels and reducing to levels similar to its peer districts' averages.

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

The Pine Strawberry School District agrees with the findings. These findings will be taken to the Governing Board's annual retreat and will be reviewed/discussed for future plans to decrease administrative cost. As staff vacate positions there will be a reassessment of each pay-scale and duties assigned to these positions.

Recommendation 2: The District should reduce its plant operations spending by assessing its plant operations staffing levels and reducing to levels similar to its peer districts' averages.

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

The Pine Strawberry School District agrees with the findings. These findings will be taken to the Governing Board's annual retreat and will be reviewed/discussed for future plans to decrease plant operations cost. As staff vacate positions there will be a reassessment of each pay-scale and duties assigned to these positions.

Recommendation 3: The District should reduce its food service spending by assessing its food service staffing levels and reducing to levels similar to its peer districts' averages.

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

The District agrees with the findings and will work to decrease cost associated with the cafeteria/food services. As discussed during the audit process, the Governing Board prefers to have the school district provide home-cooked meals which requires additional staff to prepare. This recommendation will be brought to a Governing Board during their annual governing board retreat to discuss opportunities to decrease cost.

Finding 2: Board member failed to fully disclose and improperly participated in over \$12,000 in payments to business for which he had substantial interest

District Response: The District agrees with the finding.

The Pine Strawberry School District has started the conversation with the Governing Board to implement appropriate changes.

Recommendation 4: Board members should ensure they follow the State conflict-of-interest law by following the practices they learned in the District-provided training, including describing their substantial interests on the District's conflict-of-interest form as required and

only approving vouchers for or voting on consent agenda items related to matters for which they do not have a substantial interest.

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

The District will be holding annual Conflict of Interest Trainings during the Governing Board's annual work study session.

Recommendation 5: The District can help ensure that Board members do not approve payments for or vote on matters for which they have a substantial interest by:

- a. Developing and implementing written procedures to help Board members identify meeting agenda items for which they have conflicts based on the substantial interests listed on their forms, such as requiring District staff to review Board member conflict-of-interest forms, identify substantial interest items in meeting agenda and packets, and notify the Board member accordingly. The District should develop and implement a secondary review procedure to ensure this happens.

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

The Pine Strawberry School District has developed and implemented set procedures in response to the findings. Staff will be reviewing these procedures on an annual basis with the Governing Board during the work study session. One of the procedures that was established was moving the voucher approval process to the action items on the board agendas.

- b. Including in its Board member conflict-of-interest training information regarding the importance of Board members reviewing their Board meeting packets and consent agendas to ensure they do not approve payments to a vendor for which they have a substantial interest.

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

The School District has implemented a review process (Staff and Board President) prior to each board meeting to identify items with conflict of interest.

- c. Developing and implementing a written procedure to require District staff to review conflict-of-interest forms to confirm that when a Board member (or District staff person) reports a substantial interest, they must also describe the substantial interest, such as their job title, role or responsibilities, and compensation.

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

The District has also identified a staff member to take the lead on manage all potential conflicts of interest. This staff will provide the annual conflict of interest training and will work with each board member on identifying any/all conflicts.

Finding 3: District did not ensure all cash collected was deposited, allowed users too much accounting system access, and misclassified expenditures

District Response: The District agrees with the finding. The District has implemented procedures and has reviewed practices to be sure all internal controls are in place.

Recommendation 6: The District should provide training on USFR cash-handling requirements to all employees involved in cash collection, deposit, and review.

District Response: The District agrees with the recommendation and will implement the recommendation. All Pine Strawberry School finance staff have received requested training as recommended.

Recommendation 7: The District should follow USFR cash-handling requirements to ensure all cash collected is deposited by:

Recommendation 7a: Preparing sequentially numbered receipts for all cash received.

District Response: The District agrees with the recommendation and will implement the recommendation. The District has established procedures to manage all cash-handling activities to meet USFR guidelines.

Recommendation 7b: Depositing all cash at least weekly.

District Response: The District agrees with the recommendation and will implement the recommendation. The District has established procedures to manage all cash-handling activities to meet USFR guidelines.

Recommendation 7c: Maintaining evidence for all cash deposits.

District Response: The District agrees with the recommendation and will implement the recommendation. The District has established procedures to manage all cash-handling activities to meet USFR guidelines.

Recommendation 7d: Reconciling cash receipts to cash deposits.

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

The District has established procedures to manage all cash-handling activities to meet USFR guidelines.

Recommendation 8: The District should review accounting system users' access levels and limit users' access in the accounting system to only those functions needed to perform their job duties, including transferring administrator-level access to someone outside of the business office.

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

The Pine Strawberry School District has resolved this issue based on the information provided during the preliminary audit finding's discussion

Recommendation 9: The District should ensure staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and any time it is revised or updated, and implement its guidance to accurately account for and report the District's spending.

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

In response to recommendation number 9 the School District has provided professional development on the Uniform Chart of Accounts, as well as, best practices when managing district expenditures. This professional development took place during the audit process and will be revisited annually.

