

Hyder Elementary School District

District lacked internal controls and did not comply with requirements in multiple areas, putting public monies, sensitive computerized data, and student safety at risk

Performance Audit

January 2023
Report 23-201

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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January 10, 2023

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Governing Board
Hyder Elementary School District

Ms. Martha Yardley-Jones, Superintendent
Hyder Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Hyder 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

Hyder Elementary School District

District lacked internal controls and did not comply with requirements in multiple areas, putting public monies, sensitive computerized data, and student safety at risk

Audit purpose

To assess the District's efficiency and effectiveness in 4 operational areas—administration, plant operations and maintenance, food service, and transportation—and its compliance with certain State requirements.

Key findings

- District has not complied with important purchasing requirements, resulting in unauthorized purchases and waste; and put other public monies at an increased risk of fraud, waste, or abuse.
- District operated nonprofit 4-H club and bank account without legal authority to provide agricultural program for 20 years and commingled District and 4-H club monies in bank account.
- District did not comply with important payroll requirements, putting public monies at an increased risk of errors and inappropriate payments being made and was unable to support \$3,900 in employee payments.
- Almost all District school buses failed 2020 and 2021 inspections, and District did not comply with school bus driver annual and random drug testing requirements, risking student safety and increasing District's liability.
- District assigned employees too much access to its accounting system and lacked an Information Technology (IT) contingency plan, increasing risk of errors, fraud, and data loss.

Key recommendations

The District should:

- Establish written policies and procedures that provide effective internal controls over credit cards, expenditure processing, cash handling, and bank accounts and provide routine training to staff members.
- Discontinue operating the nonprofit club and related financial activities, ensure District public monies are deposited into authorized bank accounts, and analyze all club account expenditures to ensure all District public monies improperly spent on unauthorized activities and nonprofit purposes are reimbursed to the District.
- Develop and implement formal, written payroll policies and procedures in accordance with the *Uniform System of Financial Records for Arizona School Districts* (USFR) and train District staff responsible for handling payroll on the District's payroll policies and procedures.
- Train and require its school bus drivers to conduct pretrip operations checks daily to accurately assess school bus safety before transporting students and develop and implement procedures to ensure all school bus drivers receive and pass annual drug tests, randomly drug test drivers, and document and maintain all testing results in accordance with standards and requirements.
- Limit employees' accounting system access to only those functions needed to perform their job duties, and develop and implement an IT contingency plan that meets USFR requirements and credible industry standards and test it at least annually.



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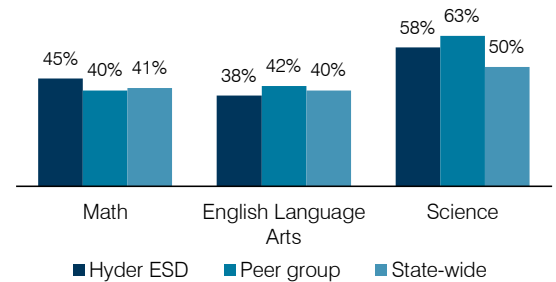
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Rural district in Yuma County
Grades: Kindergarten through 8th
Students attending: 106
Number of schools: 1
School letter grade¹: B

Students who passed State assessments¹



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, and Laws 2021, Ch. 19, did the same for fiscal year 2021. As a result, we reported assessment results and school letter grades from fiscal year 2019.

Total operational spending—\$2.1 million (\$19,417 per pupil)

Instructional—45.6% (\$8,859 per pupil)

Noninstructional—54.4% (\$10,558 per pupil)

| Operational overview | Measure | Hyder ESD | Peer average |
|--|--------------------------|-----------|--------------|
| <p>Administration—lower per pupil spending, but improvements needed</p> <p>The District spent less per pupil on administration than its peer districts, on average, primarily due to having lower purchased services and supplies costs. However, the District has not complied with important purchasing and payroll requirements, operated a nonprofit 4-H club and bank account to provide a program without legal authority while commingling District and club monies, allowed excessive access to its computerized, sensitive, personally identifiable information and had other IT deficiencies, and misclassified expenditures. The District's lack of compliance resulted in unauthorized purchases and waste and put other public monies and sensitive information at an increased risk of errors, fraud, unauthorized access, and data loss (see Findings 1 through 3 and 5, pages 3 through 13 and 18).</p> | Spending per pupil | \$3,533 | \$3,852 |
| <p>Plant operations—lower per square foot spending, but District likely lost out on facility rental revenue</p> <p>The District spent 9 percent less per square foot than its peer districts averaged, but the District could not demonstrate that it charged a reasonable fee to offset its costs for facility use as required and undercharged 2 employees for housing (see Finding 6, page 20).</p> | Spending per square foot | \$7.25 | \$7.94 |

| Operational overview | Measure | Hyder ESD | Peer average |
|--|--------------------|-----------------|--------------|
| <p>Food service—lower per meal spending, and no reported findings</p> <p>The District spent less per meal on food service than its peer districts, on average. We did not report any findings in this area.</p> | Spending per meal | \$4.16 | \$6.46 |
| <p>Transportation—lower per mile spending, but improvements needed</p> <p>The District spent less per mile on its transportation program than its peer districts averaged. However, almost all school buses failed 2020 and 2021 inspections, the District did not comply with school bus driver annual and random drug testing requirements, and the District was unable to support miles and riders claimed for State funding (see Finding 4, page 14).</p> | Spending per mile | \$1.70 | \$2.09 |
| | Spending per rider | NR ¹ | \$1,454 |

¹ NR means the data needed to calculate the performance measure was not retained or not reliable. See Finding 4 on page 14 for more information on the District's transportation data reliability and retention issues.



District has not complied with important purchasing requirements, resulting in unauthorized purchases and waste; put other public monies at an increased risk of fraud, waste, or abuse; and misreported spending

Deficiencies in internal controls have existed for many years

Since fiscal year 2018, Hyder ESD has not complied with the *Uniform System of Financial Records for Arizona School Districts* (USFR).^{1,2} Many of the District's business and IT deficiencies that we note in this report were also cited by the District's independent auditors not only in fiscal year 2020, but in previous years as well. For example, in fiscal years 2018 through 2020, Hyder ESD was cited for having weak internal controls over cash handling and for not accurately classifying all its expenditures in accordance with the USFR Chart of Accounts for school districts. In September 2021, the Arizona State Board of Education found the District was in noncompliance with the USFR and voted to direct the Superintendent of Public Instruction to withhold 3 percent of the District's State aid (equalization assistance) until our Office reports that the District is no longer in noncompliance with the USFR.

As part of our fiscal year 2020 review, we identified 5 primary deficiencies in the District's internal controls and noncompliance with the USFR that resulted in unauthorized purchases and waste; other public monies being put at an increased risk of fraud, waste, or abuse; and misreported spending. See the details below.

Deficiency 1: District's lack of internal controls resulted in \$6,344 of unauthorized card purchases and wasting \$1,187 on penalties and interest

The USFR requires districts to implement policies and procedures that provide effective internal controls over credit cards (cards), including implementing and monitoring adherence to those internal controls. However, our review of almost \$55,000 of fiscal year 2020 expenditures on District cards found the District did not follow its policies nor establish and maintain effective procedures to safeguard its cards, which resulted in unauthorized purchases and waste. Specifically:


- **District did not require training and card user agreements**—The USFR and District policy require that card users receive training and sign user agreements acknowledging receipt and understanding

¹ The Arizona Auditor General and the Arizona Department of Education developed the USFR pursuant to Arizona Revised Statutes (A.R.S.) §15-271. The USFR prescribes the minimum internal control policies and procedures to be used by Arizona school districts for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements.

² The Auditor General's Office reviews all school district audit reports and USFR Compliance Questionnaires submitted by independent audit firms to determine whether districts have established and maintained effective internal control policies and procedures that comply with the USFR at a satisfactory level. In accordance with A.R.S. §15-271, we notify districts that are in noncompliance with the USFR and give them 90 days to correct their deficiencies.

of the District’s policies and procedures for card use. However, we found the District did not require training and card user agreements because the business manager did not require adherence to those requirements.

- **District did not separate responsibilities for using cards**—The USFR and District policy require clearly defined separation of responsibilities for issuing cards; requesting, authorizing, and executing purchases; and payment processing. However, we found the District did not clearly define separation of responsibilities and instead assigned an accounts payable (AP) specialist with no prior finance experience to solely manage its cards. This individual reported to us she was never trained to identify unauthorized purchases, felt overwhelmed in her responsibilities, and was not aware the District had policies for credit card use.
- **District did not restrict access to cards nor reconcile and review card purchases, resulting in \$6,344 of unauthorized card purchases**—The USFR and District policy require physical security of cards to be maintained at all times and receipts to be reconciled to card statements and reviewed at least monthly and, if possible, prior to payment of the monthly bill. However, we found the District did not restrict access to the safe, which held many District cards, and did not have established procedures to reconcile receipts to card statements at least monthly to ensure all purchases were for an authorized District purpose.


 District staff stored credit cards in a safe, but put the safe’s combination on a Post-it® note in an unsecured drawer accessible by multiple staff members.

Further, the District could not provide us itemized receipts or the District purpose for nearly \$12,000 of purchases, as shown in Table 1.³ Additionally, since at least December 2019, the District failed to perform monthly reconciliations of Home Depot and Sam’s Club card statements to receipts because a former District employee may have changed these cards’ email preferences in December 2019 to receive the electronic statements at the former employee’s District email address instead of at the business manager’s District email address. District staff was unaware of this change until we brought it to their attention.

Table 1
District could not provide itemized receipts or District purpose for \$11,819 of fiscal year 2020 purchases, including:

| | |
|----------|--|
| \$10,625 | On a Sam’s Club card. |
| \$394 | On a Home Depot card. |
| \$800 | On a bank card at Amazon.com, Walmart.com, and Sam’s Club. |

Source: Auditor General staff analysis of District-provided fiscal year 2020 credit card statements.

 A former District employee may have changed District credit cards’ email preferences so that they could receive credit card statements instead of the business manager.







³ We requested 1 itemized receipt for the \$394 purchase from Home Depot and found the purchase included 2 \$100 gift cards and tool sets, which the business manager reported to us he did not authorize.

These failures resulted in \$6,344 of unauthorized purchases on its cards such as groceries, alcohol, electronics, children’s toys, gift cards, and tools. The District later received credits for \$939 for these purchases, which resulted in the District potentially losing \$5,405 of public monies.

- **District wasted public monies on \$1,187 of penalties and interest**—The USFR and District policy require card balances to be paid in full each billing cycle and in a timely manner to avoid late fees and finance charges. However, we found the District wastefully spent \$1,187 on penalties and interest because it did not have a process to timely pay its card balances.

The District establishing written procedures requiring compliance with USFR requirements and District policy, establishing training and user agreements, separating responsibilities, restricting access to its cards, and paying its card balances in full each cycle would help the District ensure it safeguards its cards by not allowing unauthorized purchases and minimizing waste of public monies.

\$6,344 of unauthorized purchases included:

-  Groceries
-  Alcohol
-  Electronics
-  Children’s toys
-  Gift cards
-  Tools

Deficiency 2: District did not separate expenditure-processing responsibilities because it lacked internal controls

The USFR requires districts to separate expenditure-processing responsibilities among employees. If this is not possible due to the district’s limited staff size, adequate review procedures by district management should be in place. However, our review of \$66,420 of fiscal year 2020 expenditures paid through the District’s accounts payable process found the District did not establish policies and procedures to adequately separate responsibilities or provide adequate management review, increasing risk of fraud, waste, or abuse. Specifically, our review found the District assigned its AP specialist to oversee almost all aspects of the purchasing process. In fact, our review confirmed the AP specialist manually filled out paper purchase order forms based on verbal requests for goods and services from District staff members, signed the purchase order forms, and signed the business manager’s initials with his approval. She also had the ability to ask the County to add new vendors into the District’s financial system without secondary approval and picked up warrant payments from the County to send to vendors.

Although we did not identify any improper expenditures in the accounts payable sample we reviewed, the District establishing written policies and procedures requiring separation of responsibilities or, if not possible, adequate review procedures over its expenditure processing would help ensure it safeguards public monies from an increased risk of fraud, waste, or abuse and complies with USFR requirements.

Deficiency 3: District did not always deposit cash timely, restrict access to cash, nor accurately identify cash collected because it lacked internal controls

The USFR requires districts to establish and maintain effective policies and procedures to safeguard cash, prevent loss or misuse, provide prompt and intact depositing, and ensure accurate recording. However, our review of the District’s deposits totaling \$138,229 from November 2019 through January 2020 found the District failed to comply with the USFR, resulting in it not safeguarding cash.⁴ Specifically:

⁴ The term “cash” used throughout this report includes cash (coins and dollars), checks, and any other form of payment, such as money orders.

- **District did not always deposit cash timely**—The USFR requires districts to deposit cash at least weekly, or daily when significant. However, we found the District deposited \$120,012, or 87 percent of the monies we reviewed, contrary to USFR requirements. The District deposited \$10,812 between 8 and 35 days after receipting the monies. Further, the District deposited a significant check of \$110,000 for bus grant monies 6 days after receipted. The AP specialist told us the District is 1 hour away from the County Treasurer, which makes it hard to timely deposit monies.
- **District did not restrict access to cash**—The USFR requires districts to restrict access to cash to only those employees who require access. However, we found that, although the District locked cash in its safe, the safe’s combination was not restricted as described earlier on page 4, so access to the cash was not restricted.
- **District did not always accurately record cash receipts**—The USFR requires districts to prepare a receipt for each cash or check payment received and reconcile these cash receipts to cash deposits to ensure all cash received was deposited. However, we found the District did not deposit a \$100 cash donation it received and recorded as a cash receipt. District officials told us they did not believe this donation should have been recorded because District staff members used the cash to buy candy for students. However, the District should receipt, deposit, and record all cash and checks it receives to ensure all monies are accounted for. Additionally, the District improperly prepared a receipt for a \$750 check written out of its revolving bank account due to a misunderstanding but did not deposit the check. Further, although District staff prepared receipts for most cash they collected, the District did not have procedures in place to review and reconcile these receipts to actual cash collected and deposited and to recorded revenues to ensure that all cash collected was deposited and the related revenue was recorded in the accounting records. Because the District lacked written policies and procedures, the staff member responsible for cash collection was not aware a reconciliation was required.

The District formalizing a cash collections process with written policies and procedures requiring timely deposits, restricted access, and accurate recording of cash received would help it ensure it safeguards public monies and complies with USFR requirements.

Deficiency 4: District did not safeguard bank accounts because it lacked internal controls

The USFR’s cash requirements described earlier include specific requirements for controls over bank accounts. However, our review found the District did not comply with the USFR, resulting in it not safeguarding its bank accounts. Specifically:

- **District did not reconcile bank accounts to evidence of transactions**—The USFR requires districts to document bank account reconciliations monthly, comparing evidence of transactions, such as canceled checks, validated deposit slips, district records, and bank statements for each account. The USFR also requires examining canceled checks received from the bank for authorized signatures and irregular endorsements as part of the bank account reconciliation. However, our review found that 1 staff member had complete control over several bank accounts without oversight, and bank account reconciliations were not prepared until the District established a reconciliation process in fiscal year 2019. Further, until fiscal year 2021, the reconciliation process did not always ensure that there were detailed records supporting each disbursement.
- **District did not always follow its process for signing checks**—Consistent with the USFR, the District’s process required dual signatures on all checks and check request forms for some checks, but our review

One staff member had complete control over several bank accounts without oversight, there was no bank account reconciliation process until fiscal year 2019, and even that reconciliation process was not comprehensive.

requires examining canceled checks received from the bank for authorized signatures and irregular endorsements as part of the bank account reconciliation. However, our review found that 1 staff member had complete control over several bank accounts without oversight, and bank account reconciliations were not prepared until the District established a reconciliation process in fiscal year 2019. Further, until fiscal year 2021, the reconciliation process did not always ensure that there were detailed records supporting each disbursement.

found the District did not always follow this process because some checks were issued with only 1 signature. Additionally, this was not rectified through the established reconciliation process.

- **District did not restrict access to unused checks**—The USFR requires districts to physically safeguard unused checks and check stock by limiting access to authorized personnel who are not check signers. However, we found that, although the District locked unused checks in its safe, the safe’s combination was not restricted as described earlier on page 4, so access to the unused checks was not restricted.

During our audit, we reviewed several unauthorized checks issued from the District’s bank accounts. As of this report’s release, we are conducting a financial investigation into these unauthorized checks issued from the District’s bank accounts to determine the amount of public monies misused, if any, and the extent to which those monies were misused.

Deficiency 5: District misclassified nearly 7 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 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

The District did not accurately classify its expenditures in the correct operational categories. As a result, its reported accounting data did not accurately present the District’s spending to the public and decision makers who may rely on that data to know how the District spent its public monies.

misclassified over \$138,000, or about 7 percent, of its nearly \$2.1 million in operational spending. Specifically, the District did not accurately classify its expenditures in the correct operational categories, such as instruction, administration, and plant operations. 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 operational spending decreased from 49.5 to 45.6 percent—a decrease of nearly 4 percentage points, with the largest amount shifting to administration. 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 business office employees were not fully aware of or trained on expenditure classification guidance included in the Uniform Chart of Accounts for school districts and therefore classified expenditures the same way they had in prior years without reviewing the coding for accuracy.

Recommendations

The District should:

1. Establish written policies and procedures that provide effective internal controls over credit cards, expenditure processing, cash handling, and bank accounts. Specifically, to comply with USFR requirements, these written policies and procedures should require the District to:
 - a. Train staff members and require card user agreements acknowledging receipt and understanding of the District’s policies and procedures for card use.
 - b. Review and reconcile all itemized receipts to card statements to ensure purchases are appropriately supported and for a District purpose, and if it identifies unauthorized purchases, it can take appropriate and timely action.

- c. After determining that the card purchases are accurate and appropriate, pay its card balances in full each cycle to avoid unnecessary penalties and fees.
 - d. Restrict access to cards, cash, and unused checks by changing the safe combination, restricting the combination to only those needing access, and logging all staff members accessing the safe.
 - e. Require secondary advanced approval before any purchase is made, including credit card purchases.
 - f. Require secondary approval for all vendor additions to the financial system.
 - g. Separate responsibilities for expenditure processing, including disallowing staff members to sign approval for other staff members.
 - h. Deposit all cash at least weekly, or daily when significant.
 - i. Reconcile issued cash receipts to cash deposits and recorded revenues to confirm all cash was deposited and to identify improperly recorded receipts.
 - j. Review and reconcile bank accounts, at least monthly, comparing bank statements, canceled checks, and validated deposit slips to district records, such as itemized receipts, invoices, and check requests, to resolve any discrepancies and identify unauthorized disbursements.
2. Provide routine training on USFR requirements and District policies and procedures to staff members responsible for credit cards, expenditure processing, cash handling, and overseeing District bank accounts.
 3. Ensure employees responsible for classifying expenditures review the Uniform Chart of Accounts for school districts for changes at least annually, and implement its guidance to accurately account for and report the District's spending throughout the year.

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



District operated nonprofit 4-H club and bank account without legal authority to provide agricultural program for 20 years and commingled District and 4-H club monies in bank account, exposing public monies to increased risk of fraud, waste, or abuse

District operated nonprofit 4-H club for 20 years to provide agricultural program to club members, including District and non-District students, without legal authority

The District's superintendent and business manager (collectively referred to as District officials) reported to us that for over the past 20 years, they operated the 4-H club (club), a legally separate nonprofit organization, to administer a 4-H agricultural program for local youth participants. They further reported that the business manager primarily administered the financial aspects of the club until fiscal year 2021 when the club largely became inactive because the 4-H program was no longer offered due to low enrollment.⁵

However, school districts have only those powers and duties granted to them by State law. Although State law authorizes school districts to administer student and auxiliary activities, such as student organizations and athletics, and to assess reasonable fees for optional extracurricular activities and programs, it does not grant school districts the authority to operate nonprofit organizations to provide those activities.^{6,7,8} District officials acknowledged running the club, including its financial activities, without legal authority to provide the program. After we brought our concerns to the business manager's attention, he told us he was looking for a replacement to take over the club duties.

During fiscal year 2020, the club included 36 children (club members) and parents from the local community who met either at the District building or in the nearby Town of Wellton. We found that club members consisted of 25 District students and 11 non-District students, many who were siblings of District students. The club members participated in the club by raising show pigs purchased from local farmers to show at the annual Yuma County Fair and auction to the public. Club revenues included payments for the show pigs, club member dues, and monies from fundraisers. Club expenses included program dues paid to the University of Arizona Yuma County 4-H cooperative extension, club member travel costs, and the costs for purchasing the show pigs for club members to raise.

⁵ The business manager has been a District employee for over 30 years, most recently serving as superintendent until fiscal year 2019 when he transitioned to his current position.

⁶ A.R.S. §§15-1121 and 15-1125 authorize governing boards to establish funds for student activities and auxiliary operations.

⁷ A.R.S. §15-342(24) authorizes governing boards discretionary powers to assess reasonable fees for extracurricular activities conducted when school is not in session.

⁸ A.R.S. §43-1089.01 defines allowable public school uses for the State's extracurricular tax credit, including extracurricular activities.

District officials commingled District monies with club monies and did not maintain documentation to support sources or uses of monies in club account, placing public monies at risk of misuse, fraud, waste, or abuse

Although District officials contended that the club was a nonprofit organization completely separate from the District, they solely controlled the club bank account, which had \$83,868 of deposits and \$89,812 of disbursements from fiscal years 2015 to 2020; the business manager authorized and signed the club checks; and club monies were safeguarded in the District safe. In addition, District officials did not provide us information showing whose tax identification number was used to open the club's bank account. Further, club members raised pigs on District land.

District officials commingled District public monies and club monies in club bank account—

District officials' control of the club bank account and cash placed the District's public monies at risk of being spent on non-District uses, fraud, waste, or abuse.⁹ In fact, our review of club account deposits found several instances where District officials commingled District public monies with club monies. Specifically, District officials:

- Deposited \$828 of District teacherage public monies into the club bank account in August and October of 2016. After we identified these improper deposits, the club reimbursed the monies to the District in November 2021. The business manager told us these monies were deposited into the club account in error.
- Moved \$7,240 of District public monies—extracurricular activities fees tax credits—from a District bank account into the club bank account from fiscal years 2016 to around 2019 for club activities. After the District ceased this practice around 2019, we found 2 more District extracurricular tax credit checks totaling \$800 deposited into the club bank account in January 2020. After we identified the missing tax credit monies, the business manager notified the Governing Board that the District mistakenly deposited the tax credit checks in January 2020 because they were stored with club monies in the District safe, and the club reimbursed the \$800 to the District in April 2021. Further, he explained that although District officials found a discrepancy in tax credit records while submitting annual reports to the State, they did not locate these checks in their established tax credit reconciliation process until we asked why tax credits were improperly deposited.
- Moved \$3,500 of District public monies—student activities receipts—from a District bank account into the club bank account in March 2015. Although the business manager told us District student groups interacted with the club, he could not provide evidence showing why these monies were moved nor how they were spent.

District officials did not have documentation to support the source of nearly \$84,000 of deposits into and the purpose of nearly \$90,000 of disbursements from the club bank account—

Further, during our audit, we attempted to evaluate all club account financial activity from fiscal years 2015 to 2020, including revenues and expenditures between the club account and District public monies, to evaluate if District officials improperly spent public monies. However, because the District did not have documentation to support sources and uses of the club account monies, we could not determine whether District officials properly or improperly spent public monies. Rather, questions remain regarding whether monies in the club bank account were club monies or District public monies. Specifically, District officials did not have documentation, such as

Questions remain regarding whether nearly \$84,000 in the club bank account was club monies or District public monies subject to the State's public monies law.

⁹ A.R.S. §35-302 defines the phrase "public money" as including bonds and evidence of indebtedness, and money belonging to, received by, or held by State, county, district, city, or town officers in their official capacity.

donation and fundraiser forms and itemized receipts and invoices, to support the source of \$83,868 of deposits into and purposes for \$89,812 of disbursements from the club bank account from fiscal years 2015 to 2020. Therefore, the District could not demonstrate whether these monies were club monies or District public monies subject to the State's public monies law.¹⁰

Although the business manager contended that he kept detailed records of the club's expenditures, he did not provide any records from fiscal years 2015 to 2020 and later told us these records were destroyed. However, because the District officials moved and used District public monies for club purposes as mentioned earlier, the District should have retained 4 years of accounts payable records and 7 years of banking records in accordance with the State's records retention requirements.¹¹

The business manager said club records were destroyed. However, because the club used District public monies, the District should have retained records in accordance with the State's records retention requirements.

Recommendations

The District should:

4. Discontinue operating the nonprofit club and related financial activities.
5. Ensure District public monies are deposited into authorized bank accounts.
6. Analyze all club account expenditures to ensure all District public monies improperly spent on unauthorized activities and nonprofit purposes, not related to District programs, are reimbursed to the District.

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

¹⁰ We obtained bank statements, including deposit offsets and withdrawal images, from the District and bank, but the District could not provide detailed documentation showing how club account monies were spent.

¹¹ Arizona State Library, Archives and Public Records Retention Schedule requirements.



District did not comply with important payroll requirements, putting public monies at an increased risk of errors and inappropriate payments being made

District did not separate responsibilities over payroll process

The *Uniform System of Financial Records for Arizona School Districts* (USFR), which all school districts are required to follow, requires districts to maintain separation of responsibilities over payroll processing so that the same employee is not assigned the responsibilities for preparing payroll, authorizing payroll, and distributing payments to employees. However, in fiscal year 2020, the District's payroll clerk often filled out and approved employees' time sheets, processed payroll, and distributed payments without a detailed review and approval from the business manager or another member of the District's business office staff. Although the payroll clerk typically submitted a spreadsheet to the business manager for approval that included employees' payroll and overtime amounts for the pay period, the payroll clerk did not provide and therefore the business manager did not review any supporting documentation to ensure payments were accurate and appropriate. According to District officials, the business manager did not need to perform a detailed review of payroll support because the County reviewed payroll before printing payroll checks. However, when we spoke with the County clerk, we found that the County entered only overtime and leave hours into the accounting system for the District based on District records, but the County clerk was not in a position to know whether these payments were accurate and appropriate. This lack of separation of responsibilities increased the District's risk of errors or inappropriate payments being made.

District lacked appropriately approved time sheets and personnel action forms

The USFR also requires that all hourly pay is supported through attendance records, such as time sheets or timecards, and that all time sheets or timecards are approved by employees and their direct supervisor to help ensure hourly employees are paid accurate pay amounts and only for actual hours worked. The USFR also requires that all duties and related pay be documented in contracts or personnel action forms and approved by an authorized official. However, in fiscal year 2020, employee time sheets and personnel action forms were often reviewed and approved by the payroll clerk or an employee who was not a direct supervisor or did not have the authority to approve employee pay changes. Specifically, we reviewed fiscal year 2020 contracts and supporting documentation, such as time sheets and personnel action forms, for 4 employees and found the following:

- **Lack of direct supervisor approval on time sheets**—Out of 111 time sheets reviewed, 87 lacked a direct supervisor signature to document approval.
- **Lack of approval on personnel action forms**—Out of the 9 salaried employee personnel action forms reviewed, 7 lacked review and approval by an authorized official, which according to District policy included only the superintendent and business manager.

- **Missing time sheets and personnel action forms**—The District could not provide 2 time sheets and 1 personnel action form to support payments made to employees.

According to District officials, District staff were not trained on or familiar with the requirements and controls outlined in the USFR. Additionally, District officials were unaware of these documentation and approval issues.

District lacked a formal, documented vacation and sick leave-tracking process and was unable to support leave taken by employees in fiscal year 2020

The USFR requires districts to establish and maintain a system to account for the accrual and use of employees' leave. However, in fiscal year 2020, the District did not have a formal process for tracking the accrual and use of employees' vacation and sick leave. District officials and business office staff could not provide a consistent explanation for who was responsible for tracking employees' leave and could not provide support for the leave taken by District employees in fiscal year 2020. Additionally, the District could not provide the vacation leave balance for 1 of the business office staff reviewed, and this employee's sick leave balance, which the Yuma County School Superintendent's Office tracked and provided to us, was higher than the maximum amount allowed by the District's leave policy. We found that District administrative and business office staff were not aware of the District's leave policies, and as discussed previously, District officials did not know who was responsible for tracking employees' leave accrual and use and reconciling employees' leave balances. By not tracking employee leave balances and leave taken, the employees may have taken more paid leave than they accumulated.

District was unable to support \$3,900 in employee payments due to poor payroll practices

In fiscal year 2020, the District's lack of a separation of responsibilities, poor payroll processes, and inability to maintain documentation increased the District's risk of errors and fraud. As discussed in this finding, we reviewed payroll documentation for 4 district employees, including all payments made to the employees in fiscal year 2020; and all available employee contracts, personnel action forms, time sheets, and leave documentation for the employees from the fiscal year. Through our review, we found that the District could not support almost \$3,900 in payments made to 3 out of the 4 employees reviewed. These unsupported payments were caused both by missing payroll documentation and errors in calculating employees' pay. These unsupported payments demonstrate the importance of the USFR's requirements for establishing appropriate controls over the payroll process to reduce the risk of errors or inappropriate payments being made.

Recommendations

The District should:

7. Develop and implement formal, written payroll policies and procedures in accordance with the USFR; including proper separation of responsibilities throughout the payroll and leave-tracking processes; appropriate review, approval, and documentation of time sheets and personnel action forms; and appropriate tracking of employee leave accrual, usage, and balances.
8. Train District staff responsible for handling payroll on the District's payroll policies and procedures and monitor that they follow them to help ensure they are meeting USFR and District requirements.

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



Almost all school buses failed 2020 and 2021 inspections, and District did not comply with school bus driver annual and random drug testing requirements, risking student safety and increasing the District's liability, and District was unable to support miles and riders claimed for State funding

Almost all school buses failed 2020 and 2021 inspections, risking student safety and increasing the District's liability

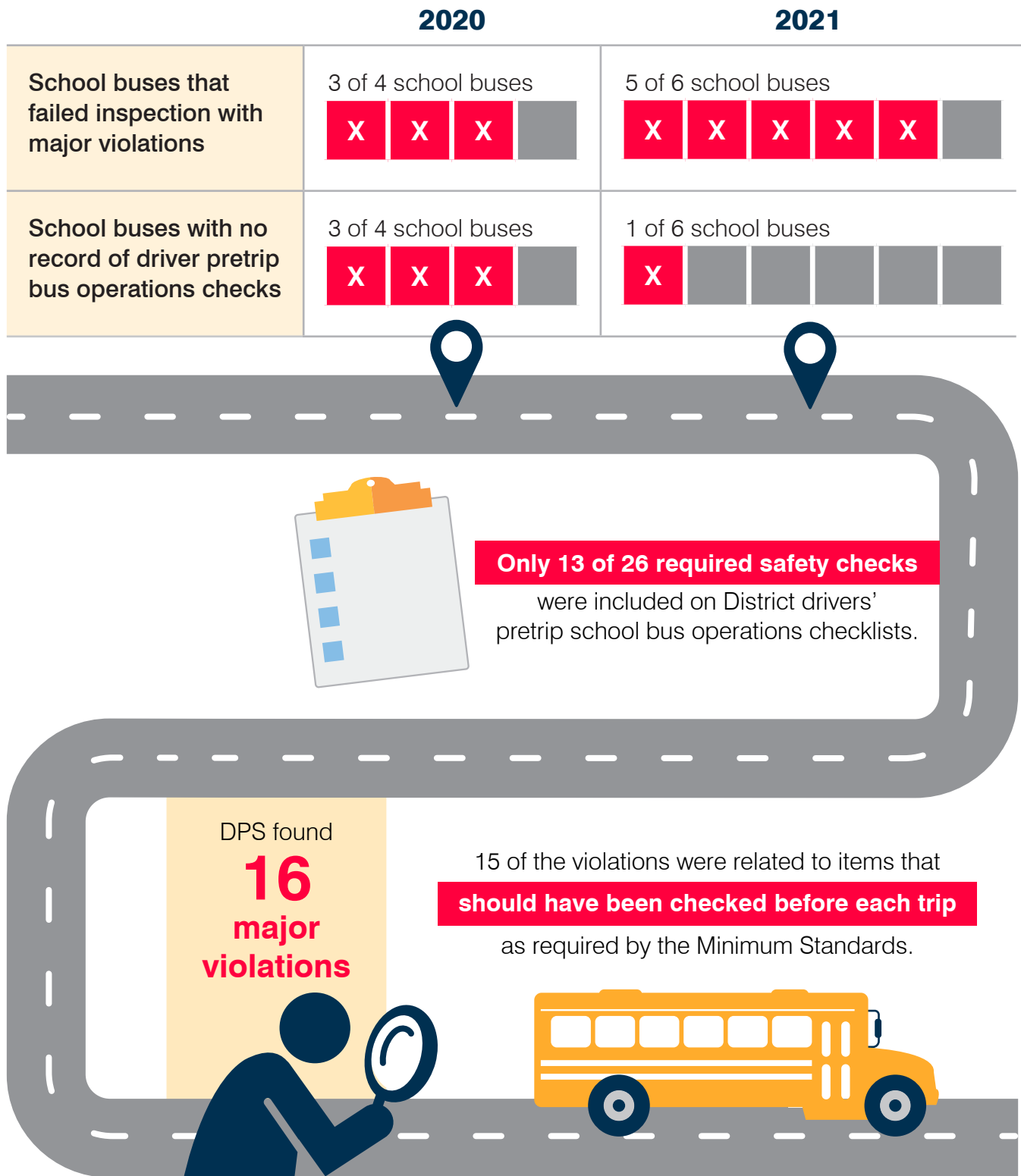
To help ensure student safety, the State's Department of Public Safety (DPS) has adopted *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards). DPS is required to inspect each school bus annually according to these standards. If DPS finds a major defect, the District is required to remove the school bus from service until the defect is repaired. Similarly, the Minimum Standards also require school bus drivers to perform pretrip operations checks of their school buses before transporting students each day. During these operations checks, school bus drivers are required to review various school bus components to ensure they are in good working order. For example, school bus drivers should ensure that tires are properly inflated, emergency exits and signals are working, and engine fluids are at appropriate levels. If school bus drivers identify inoperable or damaged items, the Minimum Standards require that they immediately complete and submit a written repair order. If the inoperable or damaged item is a major defect, which makes the school bus unsafe to operate as outlined in Minimum Standards, the District is required to remove the school bus from service until the defect is repaired.

We reviewed fiscal years 2020 and 2021 DPS inspections of Hyder ESD school buses, and as shown in Figure 1 on page 15, in both years, DPS found major violations that required school buses be removed from service until the violations were repaired.¹² We requested the District's driver pretrip school bus operations checks for the 2 weeks leading up to DPS' annual inspections and found that for both fiscal years 2020 and 2021, the District could not provide pretrip school bus operations checks for all school buses, as shown in Figure 1 on page 15. Additionally, the checklist used by the drivers for their pretrip school bus operations checks included only 13 of the 26 items required by the Minimum Standards. Further, for the pretrip checks that were documented, District school bus drivers did not identify any of the major violations DPS found during their school bus inspections even though 15 of the 16 major violations identified by DPS were included as items required by the Minimum Standards to be inspected during pretrip checks.

¹² In fiscal year 2020, the District had 7 school buses, but 1 bus was nonoperational and 1 bus was purchased later in the year, so neither bus received an annual bus inspection from DPS. Further, the District was not able to provide annual DPS bus inspection documentation for another bus that was in operation throughout the fiscal year. As a result, for fiscal year 2020, our analysis focused on the District's 4 school buses, which were operational and for which the District was able to provide annual DPS bus inspection documentation. Similarly, in fiscal year 2021, the District had 7 school buses, but 1 bus was nonoperational and did not receive an annual bus inspection from DPS. As a result, for fiscal year 2021, our analysis focused on the District's 6 operational school buses.

Figure 1

Almost all school buses failed 2020 and 2021 inspections, and school bus driver pretrip school bus operations checks and checklists were missing and incomplete



Source: Auditor General staff analysis of DPS bus inspection reports for the 4 District school buses inspected in calendar year 2020 and 6 District school buses inspected in calendar year 2021 and District-provided school bus driver pretrip bus checklists for fiscal years 2020 and 2021.

District officials stated that pretrip school bus operations checks were often inconsistent due to drivers not performing them when they were running late and did not have time to do the inspections. By not performing pretrip operations checks required by the Minimum Standards, the District increased risk to student safety and potentially lessened the useful lives of its school buses.

District did not comply with annual and random drug testing requirements for its school bus drivers, risking student safety and increasing the District's liability

To help ensure student safety, the State's Minimum Standards require school districts to ensure that school bus drivers are properly certified and receive and pass annual drug tests and random drug and alcohol tests and require districts to maintain documentation demonstrating that school bus drivers met all certification requirements for 2 years from the date of certification. However, the District did not provide documentation to demonstrate that 2 of its 5 school bus drivers received annual drug tests in either of fiscal years 2020 or 2021 and did not provide documentation to demonstrate that 2 other school bus drivers received annual drug tests in fiscal year 2021. Additionally, while the District had the required number of school bus drivers randomly drug tested in calendar year 2020, the District did not have the required number of school bus drivers randomly drug tested in calendar year 2019.¹³ Specifically, the District was required to randomly drug test 25 percent of its school bus drivers in calendar year 2019. However, the District had documentation to demonstrate that only 1 of its 5 school bus drivers (20 percent) received a random drug test in the calendar year. The District had the correct number of school bus drivers randomly alcohol tested in both calendar years. District officials could not provide a reason for the missing drug tests because the employee responsible for tracking and documenting school bus driver certifications left the District's employment in September 2020. Also, District officials were not familiar with some of the Minimum Standards certification requirements. The District not complying with annual and random drug testing could increase the risk to student safety as well as increase the District's liability if an incident compromising student safety occurred.

District was unable to support miles and riders claimed for State funding

Statute requires school districts to report to the Arizona Department of Education (ADE) the miles they drive to transport students to and from school and the number of eligible students they transport. ADE provides guidelines districts are to use when calculating the miles traveled and students transported, and the reported numbers are then used to determine the transportation funding the district receives from the State. However, the District did not report all eligible route miles traveled in fiscal year 2020 to ADE for funding, which resulted in an understatement of over 32,900 miles, or 34 percent of its total miles traveled. Additionally, many of the District's detailed daily records showing the riders transported were incomplete. District officials could not provide a reason for the understated miles or the incomplete rider count records because the employee responsible for maintaining the documentation and calculating miles and eligible riders for transportation funding purposes left the District's employment and District officials did not review the calculations before they were submitted to ADE.

Because the District did not have complete and accurate documentation of the number of students it transported, it is not possible to calculate key efficiency measures to assess the District's transportation program, such as the District's transportation spending per rider, or miles per rider. Further, because the District miscalculated the number of miles reported and did not have support for the number of riders it reported, the District could not demonstrate that it received the accurate amount of transportation funding.

¹³ The Federal Motor Carrier Safety Administration (FMCSA) establishes the number of drivers school districts are required to randomly drug and alcohol test each calendar year. FMCSA will increase the number of drivers to be tested if the data they receive from the previous year shows national positivity rates equal to or greater than 1 percent. For calendar year 2019, the FMCSA required that school districts randomly drug test 25 percent of their drivers and randomly alcohol test 10 percent of their drivers. For calendar year 2020, the FMCSA increased the random drug test requirement to 50 percent due to the 2018 national positivity rate being equal to 1 percent. The random alcohol test requirement remained at 10 percent.

Recommendations

The District should:

9. Train and require its school bus drivers to conduct pretrip operations checks daily to accurately assess school bus safety before transporting students in accordance with DPS Minimum Standards.
10. Review its pretrip operations checklist and revise it as necessary to include all items required to be inspected per DPS Minimum Standards.
11. Develop and implement procedures to ensure that all school bus drivers receive and pass annual drug tests, that it randomly drug tests the required number of school bus drivers, and that it documents and maintains all testing results in accordance with DPS Minimum Standards and State/federal requirements.
12. Require any individuals involved in or responsible for tracking school bus driver certifications to annually review DPS Minimum Standards as well as State/federal requirements.
13. Annually review ADE's most recent transportation guidance, maintain all documentation related to miles driven and riders transported, and accurately calculate and report to ADE the number of route miles traveled and riders transported for State funding purposes.

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



District's excessive access to its sensitive computerized data and other IT deficiencies increased risk of errors, fraud, and data loss

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

The *Uniform System of Financial Records for Arizona School Districts* (USFR) requires that districts limit users' access to information and restrict the types of access to only what is necessary for users to carry out their assigned duties. However, our May 2021 review of accounting system access levels for the 2 accounts belonging to District employees (the superintendent and business manager) found that both employees' access allowed them to be able to initiate and complete payroll and purchasing transactions without another employee reviewing and approving the transactions, even though neither employee input information into the accounting system and their job responsibilities did not require them to have this level of access to the system. Employees with this broad access could process false invoices; change employee pay rates, including their own; or add and pay nonexistent vendors or employees without detection. Although we did not identify any improper transactions due to this deficiency within the accounting system, the District did not have a process to ensure initially assigned employee access was appropriate and employees' access was changed if their assigned duties changed, resulting in the broad access and increasing the District's risk of errors and fraud.

District's network passwords did not meet credible industry standards, putting District operations at risk

The USFR also requires that districts implement strong passwords that align with credible industry standards. However, the District's network password requirements as of June 2021 were not aligned with 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 network and disrupt operations. District officials indicated that they were unaware of industry standards related to password requirements.

District did not conduct annual security awareness training for staff, increasing employees' vulnerability to cyberattacks

According to the USFR, basic security awareness training that addresses prevention and detection of technology-related threats should be provided to system users at least annually. This is important because cyberattacks commonly use social engineering techniques to trick employees into giving up sensitive information or downloading dangerous software onto workstations. However, the District did not require security awareness training for any of its employees prior to us bringing this requirement to the District's attention, after which the District provided the training in August 2021. Even then, the District did not ensure all employees attended the training and, as a result, 5 of 27 District employees did not attend. The District providing security awareness education and training would help to ensure that its employees are aware of the need to protect District systems and the risks associated with information security, the importance of complying with District policies, and their individual information security responsibilities.

District lacked an IT contingency plan, increasing its risk of interrupted operations and data loss

In fiscal year 2021, the District did not have a written, up-to-date IT contingency plan. To help ensure continued operations and data recovery in the event of a system outage, the USFR requires and credible industry standards, such as those developed by NIST, recommend that districts develop and implement an IT contingency plan. The plan should identify all critical systems, including the order in which they should be restored or criticality of the systems; clearly outline who is responsible for which activities during a system outage or attack; contain contingencies for continued business operations during a system outage; and contain detailed procedures for restoring critical systems and equipment. In addition to developing and implementing a comprehensive contingency plan, the District should test the plan at least annually to help ensure it is effective, which should include ensuring all parties understand their roles and responsibilities, identifying internal and external vulnerabilities, taking action to update equipment or remedy any issues identified, testing its ability to restore electronic data files for critical systems from backups, and documenting the results of the tests. District officials indicated that they were unaware of industry standards related to IT contingency plans initially but were in the process of developing an IT contingency plan during the audit. Not having a comprehensive contingency plan exposes the District to an increased risk of being unable to continue operations and restore the District's systems in the event of a system outage.

Recommendations

The District should:

14. Limit employees' access in the accounting system to only those accounting system functions needed to perform their job duties.
15. Develop and implement a process to assign new employees appropriate access in the accounting system, a process to change employees' access if their assigned duties change, and a process to periodically review employees' accounting system access to help ensure employees have only the access necessary to accomplish their job duties.
16. Review industry password standards at least annually and implement and enforce strong network password requirements, such as length, characteristics, and prohibitions against reuse, to decrease the risk of unauthorized persons gaining access to its network and disrupting operations.
17. Require all employees to participate in a security awareness training if they have not done so in the past year.
18. Establish and implement a District policy to conduct security awareness training at least annually, and require that employees attend.
19. Develop and implement an IT contingency plan that meets USFR requirements and credible industry standards and test the plan at least annually to identify and remedy any deficiencies and document the test results.

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



District could not demonstrate that it charged a reasonable fee to offset its costs for facility use and undercharged 2 employees for housing, likely resulting in lost revenue

Despite having a facility rental fee schedule, District could not demonstrate that it charged a reasonable fee as required

Arizona Revised Statutes (A.R.S.) require districts to charge a reasonable use fee when renting their facilities to recuperate costs they incur from the use of their facilities and require school district governing boards to annually approve a facility use fee schedule.¹⁴ In fiscal year 2020, the District rented its facilities for local community/individual usage, and although the District had a facility use fee schedule in place for fiscal year 2020, the District could not demonstrate that it charged a reasonable fee when allowing community groups/individuals to use its facilities. Additionally, the District did not provide evidence showing the fee schedule was approved by the District's Governing Board.

Specifically, the District could not provide facility use agreements or documentation of rental payments it received for any events that occurred in fiscal year 2020. For the 1 confirmed fiscal year 2020 event we reviewed, the District was unable to provide documentation showing that the renter paid all applicable facility use fees. The renter should have paid \$453 for usage of the District's facility, but the documentation the District provided shows the renter paid only \$203. The District employee responsible for tracking community usage of District facilities was not aware that a facility use fee schedule existed, nor were they aware of the State requirement to charge a reasonable fee for the use of school property. According to District officials, due to the small size of the surrounding community, the District serves as a center for many community activities and has provided low-cost usage of its facilities to local community members for over 40 years. Because the District could not support that it was charging a reasonable use fee, it likely lost out on revenue due to it and may have subsidized the community's/individuals' use of its facilities with monies it could have used for instruction such as to increase teacher salaries or purchase instruction materials.

District did not fully charge some staff for District housing

In fiscal year 2020, the District maintained 7 rental units that it leased to District employees for housing. As discussed earlier, per State statute, districts are required to charge a reasonable use fee when leasing school property.¹⁵ The rental units were provided to some District employees at a Governing Board-approved rate as an employment benefit to attract them to the District. However, based on our review of the District's fiscal year 2020 Governing Board-approved lease rates and lease revenue documentation, the District did not charge 2 employees for District housing for the first 2 pay periods of fiscal year 2020. When we asked District officials

¹⁴ A.R.S. §15-1105 defines a reasonable use fee as "an amount that is at least equal to the school district's cost for utilities, services, supplies or personnel that the school provides to the lessee pursuant to the terms of the lease." It also requires governing boards to annually approve fee schedules for the lease of school property.

¹⁵ A.R.S. §15-1105.

why the District did not charge the 2 employees the Governing Board-approved lease rate for the first 2 pay periods, District officials stated that this was a mistake and that both employees should have been charged for the 2 pay periods. The District's lack of oversight resulted in \$670 in lost revenue that could have been used to offset the costs associated with maintaining the rental units.

Recommendations

The District should:

20. Develop a Governing Board-approved use fee schedule that charges a reasonable fee in accordance with State statute.
21. Implement procedures to review that the approved use fee is charged when applicable and employees are charged according to Governing Board-approved housing rental rates.
22. Train District employees on State requirements and District policies and procedures for facility rentals.
23. Recoup the \$670 in housing rental payments due to it and review fiscal years 2021 and 2022 housing rental payments to ensure it accurately billed employees and rectify any errors.

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 23 recommendations to the District

The District should:

1. Establish written policies and procedures that provide effective internal controls over credit cards, expenditure processing, cash handling, and bank accounts. Specifically, to comply with USFR requirements, these written policies and procedures should require the District to:
 - a. Train staff members and require card user agreements acknowledging receipt and understanding of the District's policies and procedures for card use (see Finding 1, pages 3 through 8, for more information).
 - b. Review and reconcile all itemized receipts to card statements to ensure purchases are appropriately supported and for a District purpose, and if it identifies unauthorized purchases, it can take appropriate and timely action (see Finding 1, pages 3 through 8, for more information).
 - c. After determining that the card purchases are accurate and appropriate, pay its card balances in full each cycle to avoid unnecessary penalties and fees (see Finding 1, pages 3 through 8, for more information).
 - d. Restrict access to cards, cash, and unused checks by changing the safe combination, restricting the combination to only those needing access, and logging all staff members accessing the safe (see Finding 1, pages 3 through 8, for more information).
 - e. Require secondary advanced approval before any purchase is made, including credit card purchases (see Finding 1, pages 3 through 8, for more information).
 - f. Require secondary approval for all vendor additions to the financial system (see Finding 1, pages 3 through 8, for more information).
 - g. Separate responsibilities for expenditure processing, including disallowing staff members to sign approval for other staff members (see Finding 1, pages 3 through 8, for more information).
 - h. Deposit all cash at least weekly, or daily when significant (see Finding 1, pages 3 through 8, for more information).
 - i. Reconcile issued cash receipts to cash deposits and recorded revenues to confirm all cash was deposited and to identify improperly recorded receipts (see Finding 1, pages 3 through 8, for more information).
 - j. Review and reconcile bank accounts, at least monthly, comparing bank statements, canceled checks, and validated deposit slips to district records, such as itemized receipts, invoices, and check requests, to resolve any discrepancies and identify unauthorized disbursements (see Finding 1, pages 3 through 8, for more information).
2. Provide routine training on USFR requirements and District policies and procedures to staff members responsible for credit cards, expenditure processing, cash handling, and overseeing District bank accounts (see Finding 1, pages 3 through 8, for more information).

3. Ensure employees responsible for classifying expenditures review the Uniform Chart of Accounts for school districts for changes at least annually, and implement its guidance to accurately account for and report the District's spending throughout the year (see Finding 1, pages 3 through 8, for more information).
4. Discontinue operating the nonprofit club and related financial activities (see Finding 2, pages 9 through 11, for more information).
5. Ensure District public monies are deposited into authorized bank accounts (see Finding 2, pages 9 through 11, for more information).
6. Analyze all club account expenditures to ensure all District public monies improperly spent on unauthorized activities and nonprofit purposes, not related to District programs, are reimbursed to the District (see Finding 2, pages 9 through 11, for more information).
7. Develop and implement formal, written payroll policies and procedures in accordance with the USFR; including proper separation of responsibilities throughout the payroll and leave-tracking processes; appropriate review, approval, and documentation of time sheets and personnel action forms; and appropriate tracking of employee leave accrual, usage, and balances (see Finding 3, pages 12 through 13, for more information).
8. Train District staff responsible for handling payroll on the District's payroll policies and procedures and monitor that they follow them to help ensure they are meeting USFR and District requirements (see Finding 3, pages 12 through 13, for more information).
9. Train and require its school bus drivers to conduct pretrip operations checks daily to accurately assess school bus safety before transporting students in accordance with DPS Minimum Standards (see Finding 4, pages 14 through 17, for more information).
10. Review its pretrip operations checklist and revise it as necessary to include all items required to be inspected per DPS Minimum Standards (see Finding 4, pages 14 through 17, for more information).
11. Develop and implement procedures to ensure that all school bus drivers receive and pass annual drug tests, that it randomly drug tests the required number of school bus drivers, and that it documents and maintains all testing results in accordance with DPS Minimum Standards and State/federal requirements (see Finding 4, pages 14 through 17, for more information).
12. Require any individuals involved in or responsible for tracking school bus driver certifications to annually review DPS Minimum Standards as well as State/federal requirements (see Finding 4, pages 14 through 17, for more information).
13. Annually review ADE's most recent transportation guidance, maintain all documentation related to miles driven and riders transported, and accurately calculate and report to ADE the number of route miles traveled and riders transported for State funding purposes (see Finding 4, pages 14 through 17, for more information).
14. Limit employees' access in the accounting system to only those accounting system functions needed to perform their job duties (see Finding 5, pages 18 through 19, for more information).
15. Develop and implement a process to assign new employees appropriate access in the accounting system, a process to change employees' access if their assigned duties change, and a process to periodically review employees' accounting system access to help ensure employees have only the access necessary to accomplish their job duties (see Finding 5, pages 18 through 19, for more information).
16. Review industry password standards at least annually and implement and enforce strong network password requirements, such as length, characteristics, and prohibitions against reuse, to decrease the risk of unauthorized persons gaining access to its network and disrupting operations (see Finding 5, pages 18 through 19, for more information).

17. Require all employees to participate in a security awareness training if they have not done so in the past year (see Finding 5, pages 18 through 19, for more information).
18. Establish and implement a District policy to conduct security awareness training at least annually, and require that employees attend (see Finding 5, pages 18 through 19, for more information).
19. Develop and implement an IT contingency plan that meets USFR requirements and credible industry standards and test the plan at least annually to identify and remedy any deficiencies and document the test results (see Finding 5, pages 18 through 19, for more information).
20. Develop a Governing Board-approved use fee schedule that charges a reasonable fee in accordance with State statute (see Finding 6, pages 20 through 21, for more information).
21. Implement procedures to review that the approved use fee is charged when applicable and employees are charged according to Governing Board-approved housing rental rates (see Finding 6, pages 20 through 21, for more information).
22. Train District employees on State requirements and District policies and procedures for facility rentals (see Finding 6, pages 20 through 21, for more information).
23. Recoup the \$670 in housing rental payments due to it and review fiscal years 2021 and 2022 housing rental payments to ensure it accurately billed employees and rectify any errors (see Finding 6, pages 20 through 21, for more information).



Objectives, scope, and methodology

We have conducted a performance audit of Hyder Elementary School District pursuant to A.R.S. §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 categories:

Operational spending

Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with acquiring capital assets (such as purchasing or leasing land, buildings, and equipment), interest, and programs such as adult education and community service that are outside the scope of preschool through grade 12 education.

- **Administration**—Salaries and benefits for superintendents, principals, business managers, and clerical and other staff who perform accounting, payroll, purchasing, warehousing, printing, human resource activities, and administrative technology services; and other spending related to these services and the governing board.
- **Plant operations and maintenance**—Salaries, benefits, and other spending related to equipment repair, building maintenance, custodial services, groundskeeping, and security; and spending for heating, cooling, lighting, and property insurance.
- **Food service**—Salaries, benefits, food supplies, and other spending related to preparing, transporting, and serving meals and snacks.
- **Transportation**—Salaries, benefits, and other spending related to maintaining school buses and transporting students to and from school and school activities.

Financial accounting data and internal controls—We evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 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 4 of the 37 individuals who received payments in fiscal year 2020 through the District's payroll system and reviewed supporting documentation for 31 of the 1,014 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. 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 1 through 6 (see pages 3 through 21).

Peer groups—We developed 2 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 Hyder 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 a peer group using district size and location. We used these factors because they are associated with districts’ cost measures in these areas. For very small districts, such as Hyder ESD, increasing or decreasing student enrollment by just 5 or 10 students or employing even 1 additional part-time position can dramatically impact the district’s costs per pupil in any given year. As a result, and as noted in the fiscal year 2020 *Arizona School District Spending* report, very small districts’ spending patterns are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of the District’s operations, less weight was given to various cost measures, and more weight was given to our reviews and analysis of the District.

Table 2
Criteria for selecting peer school districts for comparative purposes
Fiscal year 2020

| Comparison areas | Factors | Group characteristics | Number of districts in peer group |
|--|---|---|-----------------------------------|
| Student achievement | Poverty rate District type Location | Between 15 and 22 percent Elementary school districts Towns and rural areas | 17 |
| Administration, plant operations and maintenance, food service, and transportation | District size Location | Fewer than 200 students Towns and rural areas | 56 |

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

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 Oversight Board, transportation route reports provided by ADE, transportation safety reports provided by the Department of Public Safety, and reports required for the federal school lunch program. Additionally, we reviewed food-service-monitoring reports from ADE and District-submitted compliance questionnaire results that its contracted external audit firm completed. We also reviewed District-provided accounting system and network user account reports and the fiscal year 2022 IT security awareness training roster.

- **Documentation reviews**—We reviewed various sets of District documentation including various credit card statements and documentation for fiscal year 2020, cash deposit documentation and bank statements from November 2019 to January 2020, bank statements from the Dateland 4-H Club bank account from fiscal year 2015 to fiscal year 2020, Governing Board minutes, facility use fee schedules, teacherage agreements, payroll records, school bus driver files for all 5 of the District’s drivers, and school bus maintenance and safety records for 4 of the District’s 7 school buses in fiscal year 2020 and 6 of the District’s 7 school buses in fiscal year 2021. We also reviewed Department of Public Safety school bus inspection reports for the 4 school buses inspected in calendar year 2020 and 6 school buses inspected in calendar year 2021.
- **Analysis**—We reviewed and evaluated fiscal year 2020 spending on administration, plant operations and maintenance, food service, and transportation and compared it to peer districts’. We also compared the District’s square footage per student, use of building space, 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.

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

DATELAND

ELEMENTARY

HYDER SCHOOL DISTRICT #16
1300 S. AVE 64E
P.O. BOX 3001, DATELAND, ARIZONA 85333
(928) 454-2242 • FAX: (928) 454-2217

MARTHA YARDLEY-JONES, SUPERINTENDENT
JOHN P. KOURY, BUSINESS SERVICES

November 9, 2022

Lindsey A. Perry
Arizona Auditor General
2910 N. 44th St, Ste. 410
Phoenix, AZ. 85018

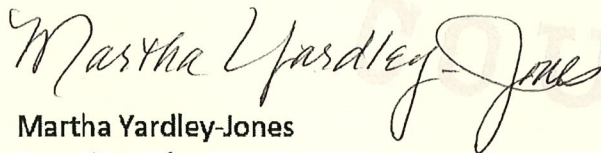
Dear Lindsey:

Please accept our district response to the performance audit that you have recently completed. I would like to thank you for your assistance in providing direction for our district. Your staff was very cordial and has provided us with valuable information. Due to COVID issues this audit was prolonged, but it did give us time to implement changes and work with your staff on improvements.

Our district is extremely isolated with no community services, facilities, or programs. The school is the center of the community which makes it difficult to provide separation from school and community activities. We are grateful for your suggestions and are working to provide required procedural changes to insure full compliance while serving our community.

We look forward to working with your staff in the future and thank you for your assistance.

Sincerely,



Martha Yardley-Jones
Superintendent

"Excellence Is Not a Goal It's a Standard"

Finding 1: District has not complied with important purchasing requirements, resulting in unauthorized purchases and waste; put other public monies at an increased risk of fraud, waste, or abuse; and misreported spending

Recommendation 1: The District should establish written policies and procedures that provide effective internal controls over credit cards, expenditure processing, cash handling, and bank accounts. Specifically, to comply with USFR requirements, these written policies and procedures should require the District to:

Recommendation 1a: Train staff members and require card user agreements acknowledging receipt and understanding of the District's policies and procedures for card use.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented.

Recommendation 1b: Review and reconcile all itemized receipts to card statements to ensure purchases are appropriately supported and for a District purpose, and if it identifies unauthorized purchases, it can take appropriate and timely action.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented

Recommendation 1c: After determining that the card purchases are accurate and appropriate, pay its card balances in full each cycle to avoid unnecessary penalties and fees.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented. Turn around time for these payments make payments difficult.

Recommendation 1d: Restrict access to cards, cash, and unused checks by changing the safe combination, restricting the combination to only those needing access, and logging all staff members accessing the safe.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program implemented

Recommendation 1e: Require secondary advanced approval before any purchase is made, including credit card purchases.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented.

Recommendation 1f: Require secondary approval for all vendor additions to the financial system.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented.

Recommendation 1g: Separate responsibilities for expenditure processing, including disallowing staff members to sign approval for other staff members.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented.

Recommendation 1h: Deposit all cash at least weekly, or daily when significant.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented. Distance to banks causes problems.

Recommendation 1i: Reconcile issued cash receipts to cash deposits and recorded revenues to confirm all cash was deposited and to identify improperly recorded receipts.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented.

Recommendation 1j: Review and reconcile bank accounts, at least monthly, comparing bank statements, canceled checks, and validated deposit slips to district records, such as itemized receipts, invoices, and check requests, to resolve any discrepancies and identify unauthorized disbursements.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented.

Recommendation 2: The District should provide routine training on USFR requirements and District policies and procedures to staff members responsible for credit cards, expenditure processing, cash handling, and overseeing District bank accounts.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented. Outside consultant has been hired for additional review.

Recommendation 3: The District should ensure employees responsible for classifying expenditures review the Uniform Chart of Accounts for school districts for changes at least annually, and implement its guidance to accurately account for and report the District's spending throughout the year.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented. Outside consultant has been hired for additional review.

Finding 2: District operated nonprofit 4-H club and bank account without legal authority to provide agricultural program for 20 years and commingled District and 4-H club monies in bank account, exposing public monies to increased risk of fraud, waste, or abuse

Recommendation 4: The District should discontinue operating the nonprofit club and related financial activities.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Recommendation 5: The District should ensure District public monies are deposited into authorized bank accounts.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Recommendation 6: The District should analyze all club account expenditures to ensure all District public monies improperly spent on unauthorized activities and nonprofit purposes, not related to District programs, are reimbursed to the District.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Finding 3: District did not comply with important payroll requirements, putting public monies at an increased risk of errors and inappropriate payments being made

Recommendation 7: The District should develop and implement formal, written payroll policies and procedures in accordance with the USFR; including proper separation of responsibilities throughout the payroll and leave-tracking processes; appropriate review, approval, and documentation of time sheets and personnel action forms; and appropriate tracking of employee leave accrual, usage, and balances.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented. Leave tracking is coordinated with Yuma County Office.

Recommendation 8: The District should train District staff responsible for handling payroll on the District's payroll policies and procedures and monitor that they follow them to help ensure they are meeting USFR and District requirements.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented. Outside consultant has been hired for additional review.

Finding 4: Almost all school buses failed 2020 and 2021 inspections, and District did not comply with school bus driver annual and random drug testing requirements, risking student safety and increasing the District's liability; and District was unable to support miles and riders claimed for State funding

Recommendation 9: The District should train and require its school bus drivers to conduct pretrip operations checks daily to accurately assess school bus safety before transporting students in accordance with DPS Minimum Standards.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Documentation has been improved....A box of support documents could not be found for audit.

Recommendation 10: The District should review its pretrip operations checklist and revise it as necessary to include all items required to be inspected per DPS Minimum Standards.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented.

Recommendation 11: The District should develop and implement procedures to ensure that all school bus drivers receive and pass annual drug tests, that it randomly drug tests the required number of school bus drivers, and that it documents and maintains all testing results in accordance with DPS Minimum Standards and State/federal requirements.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented. Testing documentation is now kept in a secure location.

Recommendation 12: The District should require any individuals involved in or responsible for tracking school bus driver certifications to annually review DPS Minimum Standards as well as State/federal requirements.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented. Documentation is now kept in a secure location.

Recommendation 13: The District should annually review ADE's most recent transportation guidance, maintain all documentation related to miles driven and riders transported, and accurately calculate and report to ADE the number of route miles traveled and riders transported for State funding purposes.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Program has been implemented. Documentation is now kept in a secure location.

Finding 5: District's excessive access to its sensitive computerized data and other IT deficiencies increased risk of errors, fraud, and data loss

Recommendation 14: The District should limit employees' access in the accounting system to only those accounting system functions needed to perform their job duties.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: All sensitive data kept off site at ETC Consortium. No school employee has ever input data into accounting system. All input is done at Yuma County Office. District employees now have read only access.

Recommendation 15: The District should develop and implement a process to assign new employees appropriate access in the accounting system, a process to change employees' access if their assigned duties change, and a process to periodically review employees' accounting system access to help ensure employees have only the access necessary to accomplish their job duties.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Recommendation 16: The District should review industry password standards at least annually and implement and enforce strong network password requirements, such as length, characteristics, and prohibitions against reuse, to decrease the risk of unauthorized persons gaining access to its network and disrupting operations.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Recommendation 17: The District should require all employees to participate in a security awareness training if they have not done so in the past year.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Trainings currently done annually. Trainings began in August, 2021.

Recommendation 18: The District should establish and implement a District policy to conduct security awareness training at least annually, and require that employees attend.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Trainings currently done annually. Trainings began in August, 2021.

Recommendation 19: The District should develop and implement an IT contingency plan that meets USFR requirements and credible industry standards and test the plan at least annually to identify and remedy any deficiencies and document the test results.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Finding 6: District could not demonstrate that it charged a reasonable fee to offset its costs for facility use and undercharged 2 employees for housing, likely resulting in lost revenue

Recommendation 20: The District should develop a Governing Board-approved use fee schedule that charges a reasonable fee in accordance with State statute.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Recommendation 21: The District should implement procedures to review that the approved use fee is charged when applicable and employees are charged according to Governing Board-approved housing rental rates.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Recommendation 22: The District should train District employees on State requirements and District policies and procedures for facility rentals.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Recommendation 23: The District should recoup the \$670 in housing rental payments due to it and review fiscal years 2021 and 2022 housing rental payments to ensure it accurately billed employees and rectify any errors.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Mistake has been corrected. Arrangements have been made for the district employees to reimburse the district.

