

The June 2022 Bagdad Unified School District performance audit found that the District did not comply with State laws or USFR requirements, putting public monies and sensitive information at risk, and risked student safety by not complying with school bus driver random drug and alcohol testing requirements and not performing systematic school bus preventative maintenance. We made 15 recommendations to the District, and its status in implementing the recommendations is as follows:

### Status of 15 recommendations

Implemented	2
In process	8
Not yet applicable	2
<b>Not implemented</b>	<b>3</b>

We will conduct an 18-month followup with the District on the status of the recommendations that have not yet been implemented.

### Finding 1: Contrary to State law, District failed to accept \$3.6 million during meetings open to public and entered into improper service proposals that superintendent drafted despite apparent substantial interest conflict

1. The District should ensure it complies with State laws governing open meetings, conflicts of interest, and intergovernmental agreements (IGAs). Specifically:
  - a. If the Governing Board (Board) accepts a contribution, including those from the mining company and any other gifts and donations, it should ensure the superintendent acknowledges the contribution’s receipt, purpose, and value during meetings open to the public, regardless of a contributor’s request to maintain privacy.

**Implementation in process**—Since our audit, the District has accepted contributions from donors and acknowledged these contributions’ receipt and purpose in public meetings but did not acknowledge the value of these contributions during its public meetings until May 2023. Our review of Board meeting agendas and minutes from January to May 2023 found that the District listed contributions, including contributions from the mining company, as consent agenda items for its monthly Board meetings and that the Board voted in these meetings to approve the consent agendas and accept the listed contributions during each monthly meeting. However, the consent agendas for the meetings held from January through April 2023 did not include the value of the contributions to the District, and the value of these contributions was not disclosed during the public meetings where the contributions were accepted by the Board. The consent agenda for the Board’s May 2023 meeting included the receipt, purpose, and value of the contributions the District had received since the last Board meeting. We will assess the District’s efforts to implement this recommendation during our 18-month followup.

- b. District employees, including the superintendent, should ensure they follow the State conflict-of-interest law and District policy by following the practices they learned in the District-provided training (see recommendation 3), including describing their substantial interests on the District’s conflict-of-interest form

as required and refraining from participating in any decision, contract, sale, purchase, or service, such as drafting and revising a service proposal/agreement, for which they have a substantial interest.

**Not implemented**—Our review of fiscal year 2023 conflict-of-interest forms for the District’s 5 Board members, superintendent, and business manager found that the forms had been completed and described any disclosed substantial interests. However, despite our initial finding and recommendation, the superintendent continued to inappropriately participate in a matter related to a substantial interest he disclosed, contrary to State conflict-of-interest law.<sup>1</sup> Specifically, the District has an IGA to provide administrative services to a nearby school district. The District’s superintendent provides these services and receives additional compensation for doing so. Although the superintendent disclosed this IGA on his conflict-of-interest form, the superintendent continued to inappropriately participate on the District’s behalf by drafting an addendum to extend his services and this IGA through fiscal year 2023. The superintendent stated he was asked by the District’s legal counsel to do so, and he disclosed his participation with the IGA addendum at a July 2022 Board meeting. At the time of our review, the superintendent stated that the District retained new legal counsel that will draft any future IGA addendums and that he will refrain from drafting IGA addendums. Further, the superintendent stated he will remind the Board of his disclosed substantial interest and declare that he did not participate in drafting the IGA addendum when the Board meets to approve the IGA addendum for fiscal year 2024.

- c. District employees should ensure District legal agreements with other school districts are written as IGAs specifying duration, purpose, manner of financing and budgeting, the permissible method(s) to be employed in terminating the agreement, and any other necessary and proper matters; and are reviewed by District attorneys for determination of whether the IGAs are in proper form and within the powers and authority granted under the laws of this State.

**Implemented at 6 months**

- 2. The District should, in consultation with legal counsel, strengthen existing policies and develop and implement written policies and procedures governing open meetings, conflicts of interest, and IGAs in conformance with State law. These policies and procedures should specifically require the Governing Board to accept contributions in a meeting open to the public; disallow District employees from participating in matters for which they have a substantial interest, including drafting and revising service proposals/agreements; and require agreements to comply with IGA statutory requirements.

**Not implemented**—The District has not updated its policies or developed procedures related to open meetings, conflicts of interest, and IGAs since our June 2022 audit. District officials stated they plan to address this recommendation by September 2023.

- 3. Develop and provide periodic training on conflict-of-interest requirements, process, and disclosure forms to its employees on how the State’s conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

**Implementation in process**—The District incorporated training on its conflict-of-interest policy into its annual District-wide training employees take at the beginning of each school year. The training includes information about conflict-of-interest requirements for employees, such as the need to complete a conflict-of-interest form to disclose substantial interests but does not include information about the District’s conflict-of-interest process, such as when and how conflict-of-interest disclosure forms should be submitted. The District most recently held this training in August 2022, and District officials reported that the training would be provided again to employees before the school year begins in August 2023. We will assess the District’s efforts to provide periodic and complete conflict-of-interest training to its employees at our 18-month followup.

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<sup>1</sup> As reported in our June 2022 Bagdad Unified School District report, the District’s superintendent improperly participated in drafting and revising service proposals with a nearby school district despite an apparent conflict of interest. Specifically, we found that the Superintendent drafted service proposals entitling himself to \$12,000 per year and revised a service proposal that may have entitled himself to \$30,000 of additional compensation while failing to make known his substantial interest on a disclosure form. See Arizona Auditor General report 22-203 *Bagdad Unified School District*.

4. Include in its employee training information regarding the importance of complying with State laws related to open meetings and IGAs.

**Not implemented**—District officials reported that the District did not include information regarding the importance of complying with open meeting and IGA laws in its employee training because the District does not have many employees whose job duties require knowledge of open meeting and IGA laws. District officials stated they plan to add this information to annual training for business office employees beginning in August 2023.

## **Finding 2: Despite USFR requirements, District did not safeguard donations, allowed users too much accounting system and network access, did not have an IT contingency plan, and misclassified expenditures**

5. The District should separate custodial and recordkeeping functions among employees for items donated to the District and ensure that no one employee can receive and record donated items without an independent review.

**Not yet applicable**—District officials stated that they stopped accepting items donated to the District for students as of April 2021. Further, the District's superintendent informed the Board and all District staff in March 2023 that the District would continue to not accept items donated to the District for students until the District reviews and modifies its policies and procedures related to these donations, including developing procedures to separate custodial and recordkeeping functions among employees. District officials stated that they plan to review and revise the District's donations policy by October 2023.

6. The District should ensure staff follow District procedures to collect signatures of students accepting donated items to provide evidence that donated items were used for their intended purpose.

**Not yet applicable**—Because the District stopped accepting items donated to the District for students as of April 2021 (see explanation for recommendation 5), it has not distributed any donated items to students since our June 2022 audit.

7. The District should review accounting system users' access levels and limit users' access in the accounting system to only those functions needed to perform their job duties and ensure that no one employee can initiate and complete a process without an independent review and approval.

**Implementation in process**—Our April 2023 review of all 8 users in the District's accounting system found that the District had reviewed all system users' access and had limited access for 1 of the 2 users identified during the audit as having more access than they needed. However, 1 user continued to have more access than needed and could initiate and complete payroll transactions without an independent review and approval. District officials stated they plan to reduce access for this 1 employee by the end of May 2023.

8. The District should remove all unnecessary user accounts in its network and implement a review process to ensure that terminated employees' access is immediately removed.

**Implementation in process**—The District added network access removal to its employee termination checklist at the start of fiscal year 2023. However, our February 2023 review of all active users in the District's network found 1 account associated with a terminated employee. District officials stated that this employee was not removed from the system because the employee resigned before their first day of employment with the District and therefore did not go through the District's normal termination process. District officials stated they will further modify their process for removing terminated employees' access for fiscal year 2024.

9. The District should develop and implement an IT contingency plan that meets USFR requirements and test the plan at least annually to identify and remedy any deficiencies and document the test results.

**Implementation in process**—The District has developed and implemented an IT contingency plan that identifies all critical systems and procedures for restoring its critical systems. However, the plan does not identify the order in which systems should be restored, include contingencies for continued business operations, or outline who is responsible for which activities in the event of a disaster. Additionally, the District's contingency plan does not

indicate whether the plan had been reviewed and approved by an appropriate staff member or whether the plan is reviewed and updated annually. District officials stated they will update and finalize the plan by late May 2023 and test the plan by September 2023.

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

**Implemented at 6 months**—In August 2022, the District provided relevant employees with updated copies of the fiscal year 2023 Uniform Chart of Accounts, reviewed changes to the Uniform Chart of Accounts as a group, and added or deactivated codes as needed to accurately account for the District's spending. Our review of the District's fiscal year-to-date 2023 expenditures found that the District had substantially corrected the coding errors identified during the audit.

### **Finding 3: District did not comply with school bus driver random drug and alcohol testing and did not perform systematic bus maintenance, putting student safety at risk**

11. The District should develop and implement a random drug and alcohol testing policy in accordance with the State's Minimum Standards and conduct and document random drug and alcohol testing in accordance with its policy and the State's Minimum Standards.

**Implementation in process**—In January 2023, the District partnered with a nearby school district to pool its school bus drivers for random drug and alcohol testing services and had conducted 3 random drug tests as of March 2023. Additionally, in March 2023, the District developed a random drug and alcohol testing policy in accordance with the State's Minimum Standards that its Board approved in April 2023. We will review the District's efforts to implement this recommendation at the 18-month followup after the District has had sufficient time to randomly drug and alcohol test its school bus drivers to ensure the District is following its policy and the State's Minimum Standards.

12. The District should research school bus manufacturer preventative maintenance schedules and recommendations to develop and implement a documented school bus preventative maintenance policy that states what preventative maintenance will be completed at what mileage and time frame and ensure mechanics perform and document school bus preventative maintenance systematically and on schedule in accordance with the District's policy and the State's Minimum Standards.

**Implementation in process**—The District reviewed preventative maintenance schedules recommended by the engine manufacturer of the District's school buses and developed a preventative maintenance policy in November 2022 that requires preventative maintenance services to be performed every 10,000 miles or at least annually. The Board reviewed and approved the policy in April 2023. Additionally, the District implemented a tracking system to ensure that preventative maintenance services are performed according to its policy, but the tracking system was not complete or accurate. Specifically, the tracking system did not include all preventative maintenance services performed, some service dates were incorrect, and some services did not have the school bus mileage recorded, making it difficult to assess whether the service had been performed in accordance with the District's preventative maintenance policy. District officials could not provide documentation to support some recent services in response to our requests and acknowledged that they needed to improve their process of retaining documentation to help ensure that preventative maintenance services are performed on time.

13. The District should research white activity bus manufacturer preventative maintenance schedules and recommendations to develop and implement a documented white activity bus preventative maintenance policy that states what preventative maintenance will be completed at what mileage and time frame and ensure mechanics perform and document white activity bus preventative maintenance systematically and on schedule in accordance with the District's policy.

**Implementation in process**—The District reviewed preventative maintenance schedules recommended by the manufacturer of the District's white activity buses and developed a preventative maintenance policy in

November 2022 that requires preventative maintenance services to be performed every 7,500 miles or at least annually. The Board reviewed and approved the policy in April 2023. Further, the District implemented a tracking system to ensure that preventative maintenance services are performed according to its policy, but similar to its tracking system for school bus preventative maintenance, the tracking system was not complete or accurate, and the District could not provide documentation to support some recent preventative maintenance services (see explanation for recommendation 12). Additionally, our review of the District's documentation found that 1 of the District's 3 white activity buses had driven over 11,300 miles since it last received preventative maintenance services in February 2022, exceeding both the mileage and time interval for preventative maintenance services set forth in the District's preventative maintenance policy. District officials stated that they were unaware that the vehicle was past due until we brought it to their attention and acknowledged that they needed to improve their process of tracking when preventative maintenance services are due to ensure that preventative maintenance is performed according to its policy.