

The September 2019 Santa Cruz Elementary School District performance audit found that the District’s lack of oversight led to insufficient recordkeeping and increased risk of errors and fraud. We made 4 recommendations to the District, and its status in implementing the recommendations is as follows:

Status of 4 recommendations

Implemented in a different manner	1
Not implemented	3

We will conduct a 54-month followup with the District on the status of the recommendations that have not yet been implemented.

Finding 1: Lack of District oversight led to insufficient recordkeeping and increased risk of errors and fraud

1. The District should maintain a copy of its food service vendor contract and related addendums; thoroughly review its invoices to ensure that amounts are billed in accordance with the contract’s terms; and keep appropriate production and inventory records to ensure that food purchasing, meal planning, and staffing levels are appropriate.

Not implemented—In fiscal year 2021, the District changed from outsourcing its food service program to a vendor on a cost reimbursement basis—meaning it paid the vendor for all costs incurred—to outsourcing its program to another school district under a contract where Santa Cruz ESD pays a flat rate to the other district for meals and labor. This arrangement remains in place for fiscal year 2023 and provides more incentive to the other school district to operate an efficient food service program to stay within the agreed-upon flat rates. However, our review of the District’s fiscal year 2023 food service contracts and January and February 2023 invoices found that the District established 2 fiscal year 2023 food service contracts with the other school district that outline different terms and rates for daily labor costs and for meals delivered. According to District officials, the District established a food service contract with the other school district in July 2022 and then developed another contract to submit to the Arizona Department of Education (ADE) using ADE’s required formatting. However, neither district reviewed the 2 contracts to ensure they had the same terms and rates, and the District and other school district signed both contracts. As a result, for fiscal year 2023, it was unclear what terms and rates for daily labor costs and for meals delivered should be followed, and the District was unable to determine whether it was billed appropriately and in accordance with contract terms. We reported in our previous 36-month followup that the District began working to address the discrepancies between the 2 food service contracts. However, the District had not resolved these discrepancies at the time of our review. According to District officials, the District will develop consistent agreed-upon rates for the fiscal year 2024 contract.

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

Not implemented—As we reported in our previous 36-month followup, the District planned to present an updated school bus preventative maintenance policy at the Board’s November 2022 meeting. Although the District presented and the Board approved an updated school bus preventative maintenance policy at that meeting, the approved policy was not sufficient as it did not include what school bus preventative maintenance work will be

completed at what mileages and time frames. Additionally, the District uses a checklist to document preventative maintenance performed on its school buses.¹ However, without a policy specifying what maintenance work will be completed at specific mileages and time frames, the District cannot ensure that it performs and documents preventative maintenance and repairs in a systematic and timely manner in accordance with the State's Minimum Standards, which help school districts ensure school bus passengers' safety and welfare and extend the useful life of buses. District officials reported that they plan to update the District's school bus preventative maintenance policy by October 2023.

3. The District should limit users' access in the accounting system to only those functions needed to perform their job responsibilities.

Implemented in a different manner at 18 months—Instead of limiting the 2 business office employees' access in the accounting system, the District implemented a compensating control, which requires the Superintendent to review supporting documentation for all purchases and payroll prior to any payments being made.

4. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts to ensure it accurately reports its spending.

Not implemented—District officials reported that the District now works with external financial auditors and consultants to ensure expenditures are accurately classified. However, our review of the District's fiscal year 2023 year-to-date expenditures found that the District continued to incorrectly classify transactions similarly to the misclassifications we identified during the audit, which may result in the District misreporting its spending. According to District officials, the District will review classification errors and will ensure it accurately classifies its spending by November 2023.

¹ The District uses a vendor for all school bus preventative maintenance and repair work, and in July 2022, it began requiring vendors that provide preventative maintenance and repairs on District school buses to complete, sign, and return a detailed checklist to help the District ensure that preventative maintenance services are performed in accordance with the State's Minimum Standards. District officials reported that they are continuing to require the vendor to complete the checklists for the District's school bus preventative maintenance and that a District employee reviews the checklists before the District will process the vendor's invoices.