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January 31, 2024

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Governing Board
Globe Unified School District

Mr. Jerry Jennex, Superintendent
Globe Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Globe Unified 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. The consulting firm Sjoberg Evashenk Consulting conducted this performance audit under contract with the Arizona Auditor General.

This school district performance audit assessed the districts' spending on noninstructional areas, including administration, student transportation, food service, and plant operations, and made recommendations to the District to maximize resources available for instruction or other District priorities. 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. I express my appreciation to Superintendent Jennex and District staff for their cooperation and assistance throughout the audit.

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

Arizona Auditor General

Performance Audit of Globe Unified School District

January 2024





January 23, 2024

Lindsey A. Perry, CPA, CFE
Arizona Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Perry:

We are pleased to submit our report in connection with our performance audit of Globe Unified School District (District) for fiscal year 2022. This audit was conducted pursuant to Arizona Revised Statutes §41-1279.03, which requires the Office of the Auditor General to conduct performance audits of school districts. We assessed 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. This report presents our findings, conclusions, and recommendations, and the response of the District.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "G. Skiles", is written over a light blue horizontal line.

George Skiles, Partner
Sjoberg Evashenk Consulting, Inc.

THE EQUATION FOR EXCELLENCE

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RESULTS

Sjoberg Evashenk Consulting, Inc. was engaged by the Arizona Auditor General to conduct a performance audit of Globe Unified School District (District) pursuant to Arizona Revised Statutes §41-1279.03(A)(9) and determine 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. We found that some of the District’s important internal controls were insufficient, and it did not comply with requirements in multiple areas, putting public monies, sensitive 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.

BACKGROUND

In fiscal year 2022, Globe Unified School District was classified as a rural school district located in Gila County responsible for the education of over 1,500 students. The District has 3 schools providing education services for students in kindergarten through 12th grade.

KEY FINDINGS

- District did not comply with bus driver random drug and alcohol testing and record retention requirements and inaccurately reported its bus mileage and ridership amounts for State funding purposes.
- District did not properly oversee its purchasing and accounts payable functions, resulting in expenditures exceeding authorized amounts, expenditures lacking documentation to support that they were for valid District purposes, and coding errors in the District’s accounting system.
- District did not properly monitor purchase card usage and had an excessive number of cards and users, increasing the risk for errors and fraud.
- District’s inadequate cash-handling internal controls and lack of separation of duties increased the risk potential for fraud, waste, or abuse to occur and go undetected.
- District allowed users too much accounting system access and did not timely disable network access, and access authentication and password controls were not sufficient, increasing its risk of errors, fraud, and data loss.

KEY RECOMMENDATIONS

The District should:

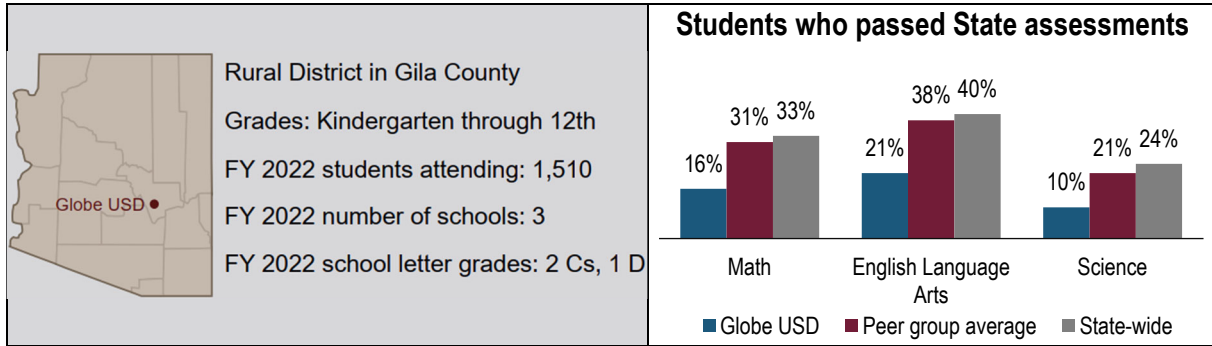
- Develop and implement procedures to ensure that it conducts random alcohol and controlled substance tests for the required number of school bus drivers and that it documents and maintains all testing results in accordance with Department of Public Safety’s *Minimum Standards for School Buses and School Bus Drivers* and State/federal requirements.
- Establish written policies and procedures that provide effective internal controls over credit cards, purchasing, accounts payable, cash-handling, and bank accounts to ensure compliance with the applicable State laws and *Uniform System of Financial Records for Arizona School Districts* requirements.
- Separate cash-handling duties from employees with recordkeeping responsibilities, such as for its food service program, and require a separate employee to prepare either deposits or reconciliations, but not both.
- Review and reduce the number of users with excessive access to its accounting system to only functions necessary to perform their job duties.

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District Overview

Globe Unified School District Performance Audit—Fiscal Year 2022 January 2024



FY 2022 total operational spending—\$15.8 million (\$10,431 per student)

Instructional—51.6% (\$5,381 per student)	Noninstructional—48.4% (\$5,050 per student)
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Operational overview—FY 2022	Measure	Globe USD	Peer average
<p>Administration—higher spending and lacking important controls</p> <p>The District spent more per student on administration than its peer districts averaged, primarily due to higher spending on salaries and benefits. The District lacked important controls over its credit cards, cash-handling, and purchasing procedures, increasing the risk of waste, errors, and fraud (See Findings 2 through 4, pages 5 through 16). In addition, the District allowed 2 employees to supervise close relatives, increasing the risk that personnel had not disclosed substantial interests that might influence or affect their official conduct (See Finding 5, pages 17 through 18). Finally, the District had several IT deficiencies that increased the risk of errors, fraud, unauthorized access to sensitive District information, and data loss (See Finding 6, pages 19 through 22).</p>	Spending per student	\$1,448	\$1,226

Operational overview—FY 2022	Measure	Globe USD	Peer average
<p>Plant operations—mixed spending, and no reported findings</p> <p>The District spent a similar amount per student and a slightly higher amount per square foot than its peer districts averaged. We did not report any findings in this area.</p>	Spending per square foot	\$6.90	\$6.51
	Spending per student	\$1,530	\$1,545
<p>Food service—lower per meal spending, and no reported findings</p> <p>The District spent 6 percent less per meal than its peer districts averaged. We did not report any findings in this area.</p>	Spending per meal	\$3.42	\$3.62
<p>Transportation—inaccurate reporting and student safety may be at risk</p> <p>The District did not accurately report miles driven and riders transported, which may have impacted funding received and hindered our ability to compare both measures to its peers. In addition, the District did not comply with school bus driver random drug and alcohol testing requirements, increasing risks to student safety (see Finding 1, pages 3 through 4).</p>	Spending per rider	\$2,660 ^A	\$2,048
	Spending per mile	NR ^B	\$4.38

Source: Arizona Auditor General *Arizona School District Spending Analysis—Fiscal Year 2022*

Note: ^A Calculated using auditor-validated riders transported.

^B NR means the data needed to calculate the performance measure was not reliable. See Finding 1 on pages 3 and 4 for more information on the District's transportation data reliability.

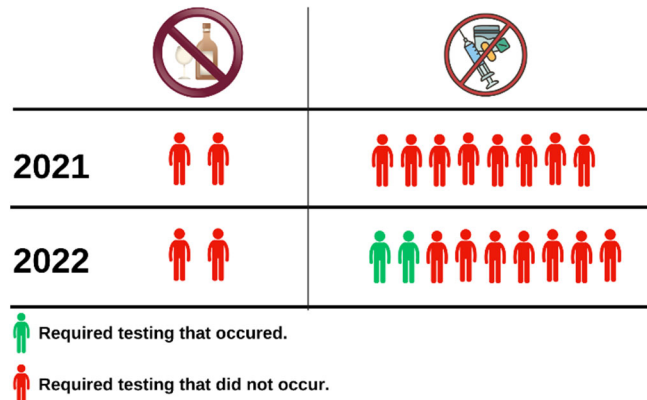
Findings and Recommendations

Finding 1. District did not comply with school bus driver random drug and alcohol testing requirements, putting student safety at risk, and District did not accurately report miles and riders for State funding purposes

District did not comply with random drug and alcohol testing requirements for its school bus drivers, putting student safety at risk and potentially 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). These standards require school districts to ensure that school bus drivers are properly certified and receive and pass random drug and alcohol tests. Minimum Standards further require districts to maintain documentation demonstrating that school bus drivers met all certification requirements. Contrary to these requirements, the District did not conduct any required random drug and alcohol tests of its school bus drivers in calendar year 2021. In calendar year 2022, the District again did not complete any random alcohol testing and completed only 2 of the 9 required random drug tests of its school bus drivers.¹ District officials indicated that although the District had an active contract with a vendor for random drug and alcohol testing, the former District employee responsible for overseeing and tracking random drug and alcohol testing was not responding to the vendor’s notifications for testing, and District officials were unaware that testing had not occurred. After we notified them of this issue, District officials indicated that they contacted the vendor to resolve the issue and would resume conducting random testing as required. By not complying with random drug and alcohol testing, the District increased safety risks to the students it transported and the public. Additionally, the District may have increased its liability in the event of an incident resulting in physical harm to students or others or property damage.

District did not conduct the minimum number of required random drug and alcohol tests



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.² ADE provides guidelines districts should use when calculating the miles traveled and students transported, and

¹ 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. For calendar years 2021 and 2022, the FMCSA required that school districts randomly drug test 50 percent of their drivers and randomly alcohol test 10 percent of their drivers.

² Arizona Revised Statutes (A.R.S.) §15-922.

the reported numbers are then used to determine the transportation funding the districts receive from the State. However, the District did not report all eligible route miles traveled in fiscal year 2022 to ADE for State funding purposes. Specifically, to assess the accuracy of the actual route miles reported to ADE for fiscal year 2022, we reviewed underlying support for 4 of the District's 26 regular and special education routes and found that the District underreported its mileage by nearly 2,500 miles for these routes, or 15 percent of the total miles traveled for the 4 routes during the period reviewed.³ Additionally, several of the District's detailed daily records showing the riders transported did not support the amounts used to calculate the number of eligible riders transported the District reported to ADE for State funding purposes. Specifically, the District understated fiscal year 2022 total ridership by 75 riders. According to the District, it inaccurately reported its miles and ridership due to data entry errors and because District officials did not compare the calculations to underlying support before it submitted its miles and rider information to ADE. Because the District miscalculated the number of miles and riders it reported, the District may not have received all the transportation funding to which it was entitled.

Recommendations

The District should:

1. Immediately conduct all required random drug and alcohol tests for school bus drivers for the current year in accordance with the State's Minimum Standards.
2. Develop and implement procedures to ensure that it conducts random drug and alcohol tests for the required number of school bus drivers and that it documents and maintains all testing results in accordance with the State's Minimum Standards.
3. 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.
4. Recalculate and resubmit accurate fiscal year 2022 miles driven and riders transported to ADE to determine if any corrections are necessary to its transportation reporting.

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

³ Sample included reviewing underlying support for mileage reported for 4 of the District's 26 regular and special education routes for 3 of the 10 months reported.

Finding 2. District lacked important internal controls over purchasing, putting public monies at an increased risk of waste, fraud, and misuse

District lacked adequate internal controls over its purchasing and accounts payable processes, increasing the risk of waste, fraud, and misuse of public monies

The *Uniform System of Financial Records for Arizona School Districts* (USFR) requires districts to have effective controls for expenditures in place to ensure expenditures are for an allowable purpose, including maintaining supporting documentation to demonstrate expenditures are properly approved before purchase and received and reconciled before payment, and that responsibilities for processing expenditures are separated among employees.⁴ To meet these requirements, the District's Governing Board (Board) established policies related to purchasing, contracting, and payments, and the business office has developed informal procedures for approving purchase orders and paying vendors. However, District staff did not always follow Board policies and internal procedures, and the District's informal procedures did not fully comply with USFR requirements.

Although the District did not have formal procedures for its purchasing and accounts payable process, it had informal procedures for these functions. According to the District's informal procedures, employees were to make purchases only after receiving prior supervisory approval and authorization. If the need to increase the amount of a purchase order occurs, the District requires employees to submit a purchase order change form that must be approved by the business manager and an additional administrator. Additionally, Board-approved policies required employees to obtain evidence that the District had received its purchases and verified that billings were accurate before paying vendors. Our review of 10 of 830 judgmentally selected purchase orders and 40 of 6,100 judgmentally selected expenditures from the District's fiscal year 2022 accounting records identified numerous deficiencies and lack of compliance with USFR requirements and the District's informal procedures.⁵ Specifically:

- **District did not obtain prior approval for purchases and purchase order revisions**—Our review found that for 3 of the 40 expenditures we reviewed, the purchase was made before the approved purchase order was created in the District's accounting system. In 2 instances, the purchase requisition and purchase order were not generated and approved until approximately 3 weeks after the purchases were made when a new fiscal year had already begun. The District could not provide a sufficient explanation of why this occurred. However, our review found this occurred because the individual making the purchases did not follow the District's informal procedures and the District had not implemented processes to monitor employees to ensure compliance with purchasing procedures. Further, according to the District, when it becomes aware that it needs to increase an already approved purchase order, it requires a change form to be submitted that documents the business manager's and an additional administrator's approval for the increased purchase amount. However, our review identified 3 purchase orders that a District employee processed increases for, totaling \$56,096, without a change form documenting the

⁴ The Arizona Auditor General and the ADE developed the USFR pursuant to A.R.S. §15-271. The USFR and related guidance 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.

⁵ Thirteen of the 40 expenditures selected for review were related to the 10 purchase orders selected for review.

required approvals. According to the District, these change forms must be submitted and approved to increase purchase orders; however, this requirement was not followed for these 3 cases, and the employee's access in the accounting system allowed them to process the increases without the required approvals.

- **District did not retain adequate supporting documentation for amounts paid to vendors, including evidence demonstrating goods or services were received prior to payment and that payment amounts were accurate**—We reviewed 40 fiscal year 2022 expenditures and found that for 11 of the 40 expenditures, the District did not maintain adequate support necessary to reconcile the approved purchase order with the receipt of goods or services and the corresponding invoice or receipt prior to payment. Additionally, for 3 expenditures, the amount the District paid exceeded the approved purchase order amounts, without an approved revision to the purchase order. According to District officials, this happened for 2 of the 3 expenditures because taxes and shipping were not accounted for when the purchase orders were created. In the third instance, we found that the District did not always verify the vendor had charged the appropriate amounts for individual line items as authorized in the contract prior to payment. Specifically, in the instance identified during our review, the per unit price invoiced by the vendor and paid by the District for fuel was approximately \$0.76 more per gallon than listed on the vendor's pricing sheet in the contract, resulting in the District overpaying the vendor by \$1,254. According to the District, this error occurred because the employee responsible for reconciling invoices for payment did not always keep the approved contract prices on hand for comparison to actual invoiced amounts.

- **District did not ensure it maintained accurate records of vendors and expenditures in its accounting system, leading to overpayments**—For 9 of the 40 expenditures reviewed, transactions were incorrectly recorded in the District's accounting system. Specifically:
 - For 2 expenditures, the transaction amounts recorded in the accounting system were different than the amounts reflected in supporting documentation. Specifically, the accounting system reflected expenditure amounts of \$32.66 and \$50.08; however, the invoices reflected \$29.99 and \$49.97—neither of which tied to the line-item amounts listed in the purchase order nor any added tax and shipping additions. The District could not provide an explanation for why it recorded these amounts in its accounting system.

 - For 1 expenditure, the purchase order number listed on the payment voucher and in the accounting system was different than the purchase order number on the original purchase order included with the supporting documentation for the purchase. The District could not provide an explanation for why the purchase order number on the payment voucher and in its accounting system were incorrect.

 - For 5 expenditures, the District did not record the transactions in accordance with the USFR's Uniform Chart of Accounts. According to the District, the coding errors were not identified during its coding review process.

- For 1 expenditure, the District overpaid the transaction privilege tax, commonly referred to as sales tax, by \$109. When we notified the District of the apparent transaction privilege tax overpayment, District officials determined this was due to an incorrect accounting system setting. As of September 2023, the District had updated the vendor's information and indicated it was reviewing previous payments to this vendor and other vendors where transaction privilege tax would have been applied to determine whether additional overpayments had occurred. According to the District employee responsible for reconciling payments to this vendor, they did not realize the amounts were being automatically generated.

By failing to maintain accurate records of its financial activity and correct the errors we identified, the District reduces the transparency into its activities and may not accurately report its financial activity, as required by the USFR.

District paid some travel reimbursements incorrectly and without documentation of approval

According to District policy, and in accordance with the USFR, District travel with a personal vehicle should be reimbursed at the applicable rate established in the Arizona Department of Administration (ADOA)'s *State of Arizona Accounting Manual* (SAAM), and travel claims must include the time and place travel begins and ends; include odometer readings or map mileage; and be approved by the employee and appropriate supervisor. Additionally, federal tax code regulates when mileage reimbursements may be considered taxable income. We reviewed a judgmental sample of 15 of 141 fiscal year 2022 travel expenditures and reimbursements and found that for the 2 reimbursements made to District employees, the District either paid the employee the wrong mileage reimbursement rate or was unable to demonstrate that mileage paid was authorized and complied with federal requirements. Specifically, in the first instance, the District reimbursed the employee at \$0.585 per mile rather than the \$0.445 per mile authorized by SAAM, resulting in an overpayment to the employee of \$55.44.⁶ The District could not provide an explanation as to why the employee's mileage reimbursement rate differed from the amount authorized by SAAM. In the second instance we identified, an employee was paid for travel mileage between District school sites. However, the District was unable to provide documentation demonstrating that the District had authorized the reimbursement for this travel. In addition, because the travel was within the employee's "tax home" as defined by federal tax code, the mileage reimbursed may be considered taxable income, and the District did not report the reimbursement on the employee's W-2 form.^{7,8} In fiscal year 2022, the District paid this employee \$106.58 for mileage reimbursements. According to the District, it has been its practice for several years to reimburse mileage for the District employee who travels between school sites to provide student support services, but the District was unable to provide documentation authorizing these reimbursements.

Recommendations

The District should:

⁶ State of Arizona Accounting Manual, Topic 50, Section 95, effective 10/1/2022.

⁷ U.S. Internal Revenue Service (IRS), Publication 463. (2022). Travel, Gift, and Car Expenses.

⁸ Per IRS guidance, a person's tax home is defined as "...your regular place of business or post of duty, regardless of where you maintain your family home. It includes the entire city or general area in which your business or work is located."

5. Develop and implement, written procedures that provide effective internal controls over purchasing and accounts payable processes to ensure compliance with the USFR and Board-approved policies, including processes to monitor and enforce staff compliance with the District's procedures.
6. Develop and require training for responsible employees about the District's purchasing and accounts payable processes and related USFR requirements.
7. Ensure purchases are supported by an approved, accurate purchase order prior to purchases being made and that any revisions to increase a purchase order follow the District's required approval process, including obtaining required approvals for increased purchase order amounts.
8. Retain adequate, accurate supporting documentation to demonstrate purchases were for an allowable District purpose and were paid after the goods or services were received, and that the amount paid did not exceed the approved purchase order amount.
9. Ensure it pays vendors accurately by developing and implementing a process for staff to verify contracted rates before processing payment for goods and services.
10. Ensure employees responsible for classifying expenditures review the USFR's 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.
11. Continue reviewing historical transaction privilege tax payments to identify other errors and take action to correct any over- or underpayments identified.
12. Develop and implement a process to verify accounts payable and transaction privilege tax payments to ensure amounts paid are accurate and supported.
13. Recoup the \$55.44 in mileage payments the District overpaid and review other mileage reimbursements paid since the beginning of fiscal year 2022 to ensure the District used the appropriate State of Arizona Accounting Manual mileage reimbursement, and recoup any additional overpayments identified.
14. Ensure it pays only authorized mileage reimbursements.
15. Consult with legal counsel to determine how to correctly account for mileage reimbursed for District employees' travel within District boundaries and formally document the Superintendent's approval.

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

Finding 3. District lacked important internal controls over credit cards, resulting in unsupported and unauthorized purchases and increasing the District's risk of errors, misuse, and fraud

District is required to implement internal controls over credit cards to reduce the risk of misuse and unauthorized transactions

The USFR requires districts to implement policies and procedures that provide effective internal controls over credit cards, including implementing and monitoring adherence to those internal controls, such as ensuring physical security of the cards by maintaining a complete list of card users to track possession of all cards.⁹ To meet this requirement, the District established Board-approved policies governing the use of credit cards. Specifically, District policy requires that all credit card users complete a credit card user agreement, obtain an approved purchase order prior to making a purchase, and promptly submit all receipts and other supporting documentation to the District's business office. In addition, District policy requires District staff responsible for monitoring the physical custody of credit cards to use logs to document each time a credit card is checked out and back in to ensure credit cards are accounted for at all times. Finally, the District credit card user agreement stipulates that users must return both the credit card and purchase receipt within 24 hours of the user's return to the District (i.e., after making a credit card purchase).

District did not monitor physical custody of cards or card usage, resulting in unsupported and unauthorized purchases

We reviewed the District's fiscal year 2022 credit card logs; statements for 19 of 49 District credit cards for the months of August 2021, November 2021, and May 2022; and a judgmental sample of 16 individual credit card transactions from these statements and found the District did not follow its policies and procedures, resulting in unsupported and unauthorized purchases.¹⁰ Specifically:

- **District failed to accurately track and document employee access to, and use of, credit cards**—As previously discussed, District policy requires credit card logs to track who uses District credit cards and for what purpose. However, our review of these logs for fiscal year 2022 found that the information tracked was inconsistent between logs and logs were not always complete. As a result, charges on the credit card statement could not always be easily reconciled back to an approved purchase requisition, purchase order, and receipt. Additionally, our review found that users did not always complete the check-out and check-in logs for credit cards as required to document who maintained custody of the card for an approved purchase.
- **District cards were not always returned to the District in a timely manner**—The District's credit card user agreement stipulates that users must return both the credit card and purchase receipt within 24 hours of the user's return to the District. However, our review of the District's fiscal

⁹ Credit cards include bank credit cards, store cards, and fuel cards.

¹⁰ We reviewed 20 credit card statements during our testing, with some statements covering multiple cards. For instance, the District's Bank of America credit card statement reported transactions for both of the District's Bank of America cards rather than reporting the activity on 2 separate statements.

year 2022 card logs for 12 of 21 District store cards found at least 45 instances in which District employees signed out store cards for more than 24 hours and, in some cases, did not return the card for over a month. According to District officials, this occurred because they do not always enforce District credit card policies. By not enforcing its policy to ensure that cards were timely returned, such as by taking action against users when they did not comply with the requirement to timely return the cards, the District increased the risk for fraudulent and/or inappropriate credit card purchases.

- **District did not ensure that purchases made were authorized and allowable**—As previously discussed, we judgmentally selected and reviewed 16 of 288 fiscal year 2022 credit card transactions. For 3 of the 16 transactions we reviewed, the District processed payment without supporting documentation necessary to verify the appropriateness of the purchases. Specifically:
 - For 1 transaction, the user provided a summary receipt for a meal purchase totaling \$279.31 but did not provide an itemized receipt, as required by District policy. As a result, District staff could not verify that the items purchased were allowable and ensure District monies were not used to purchase unallowable items, such as alcohol.
 - For 1 transaction in which the District purchased meals for its food service program workers for employee appreciation, in addition to purchasing meals, the user purchased 2 gift cards totaling \$40.00 that were not listed on the approved purchase order. According to the District, although these purchases were not authorized and the District discourages the purchase of gift cards, the gift cards were paid for with donated monies, and 2 District food service workers were unable to attend the event and therefore were provided the gift cards in lieu of meals.
 - For 1 transaction, based on the credit card statement, a purchase order was not approved and recorded in the District's accounting system until 6 days after the transaction occurred, indicating that the purchase was made without required approval. Additionally, the card used to make the purchase was not recorded as having been checked out by the user until that same day the purchase order was recorded in the accounting system, 6 days after the transaction occurred.

As previously discussed (see Finding 2, page 7), we judgmentally selected and reviewed 15 of 141 fiscal year 2022 travel-related expenditures and found that an employee used a District credit card to charge \$353.58 for a hotel stay related to a Board-authorized field trip to California but did not provide the hotel receipt, as required by District policy. District staff reported that the approved purchase order amount had to be increased to cover the cost of the hotel stay, and staff could not verify that the amount was appropriate prior to paying the credit card balance. District staff indicated they attempted to obtain the receipt multiple times but were unable to do so. At the time of our review, the employee who used the card for the hotel stay was no longer employed by the District.

- **District allowed employees to use credit cards without required training and signed user agreements**—The USFR and District policy require that card users receive training and sign user agreements acknowledging receipt and understanding of the District’s credit card policies and procedures. However, our review of 16 credit card purchases found 2 purchases where the District employee using the card did not have a completed credit card user agreement on file, and the District was unable to provide a completed credit card user agreement in response to our requests.
- **District has an excessive number of cards and does not limit the number of authorized purchasers**—The USFR advises that districts should limit the number of card users to the minimum necessary for effective purchasing to maintain adequate control of district resources, to minimize the oversight cost for card programs, and to reduce the risk of loss due to unapproved and fraudulent transactions.¹¹ However, we found that 38 of 212 District employees, or nearly 20 percent, were authorized to use District cards. Additionally, as shown in Table 1, page 12, the District had at least 49 physical credit cards, including 2 Bank of America credit cards, 21 store cards across 5 different vendors, and 26 fuel cards.¹² District policy requires that the superintendent determine what personnel should be issued cards; the employee issuing cards maintain a complete list of designated card users; and the physical security of cards is maintained at all times. However, the District had not established a formal list of designated card users, allowed anyone who completed a card user agreement to use District cards, and, as previously discussed, lacked an effective process to track the physical custody of cards and verify that only authorized employees who had completed a credit card user agreement were able to check out credit cards for use. Finally, while most of the cards were issued in the District’s name, the 2 Bank of America credit cards were issued to specific employees. Inconsistent with USFR guidance, individuals other than the 2 designated users routinely used these cards, which hindered the District’s ability to ensure only designated users were making purchases on those cards.

¹¹ USFR, VI-G-15.

¹² The District did not have a method of tracking or other documentation showing a complete inventory of its physical credit cards, and therefore, the District may have other cards that we did not identify during our review.

TABLE 1. SUMMARY OF CREDIT CARDS MAINTAINED ACROSS ALL DISTRICT SITES

Credit Cards	Business Office	District Office	Bookstore	Bus Barn	Total
Bank of America <i>Superintendent</i>	0	1	0	0	1
Bank of America <i>Business Manager</i>	1	0	0	0	1
Tractor Supply	1	0	0	0	1
Fry's Grocery	5	0	4	0	9
Home Depot	2	0	0	0	2
Walmart	7	0	2	0	9
Fuel	0	0	0	26	26
Totals	16	1	6	26	49

Source: Auditor summary of information gathered from the District's credit card tracking logs and on-site observations during the period of August 23, 2023, through August 24, 2023.

District did not follow its own policies designed to meet USFR requirements, increasing its risk of fraud and misuse of public monies

The USFR indicates that a school district's use of credit cards can create a greater risk of unapproved and fraudulent transactions, and as such, districts should implement controls necessary to effectively reduce that risk. According to a District employee responsible for reconciling and processing credit card payments, the inconsistency of documentation in credit card logs and lack of District staff's adherence to District policies made it challenging to reconcile and verify the accuracy and reasonableness of purchases on credit card statements, including ensuring transactions were associated with an approved purchase order and were supported by underlying documentation, such as receipts and invoices. District staff indicated that because of this, they could not always verify transactions prior to paying the statement and had difficulty ensuring the appropriateness of all transactions prior to payment. Additionally, the District employees responsible for the physical security of credit/store cards did not always verify that a card user agreement was on file prior to allowing the card to be checked out as required by District policy. District officials indicated that having multiple cards for stores made it easier to facilitate purchasing. However, without adequate controls to ensure District cards are used only by authorized employees for valid District purposes, the District increased the opportunity for misuse of cards. By not following its procedures designed to safeguard its credit cards, the District increases the risk of unauthorized purchases and fraud.

Recommendations

To enforce existing District policies and procedures and ensure it meets USFR requirements, the District should:

16. Require District employees responsible for maintaining physical security of credit cards to maintain complete and accurate credit card logs that include enough information to track who used which credit card at what time and for what authorized District purpose.
17. Implement protocols to monitor and enforce compliance with existing District credit card policies, including:
 - a. Ensuring credit cards and purchase receipts are returned within 24 hours of users returning to the District after making purchases, as required by District policy.
 - b. Verifying an approved purchase order has been obtained prior to making purchases.
 - c. Tracking and regularly reviewing the physical chain of custody for all credit cards to ensure users are complying with requirements for checking out and returning District cards.
 - d. Ensuring employees have completed the required credit card user agreement prior to granting access to District credit cards.
18. 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, take appropriate and timely action.
19. Provide regular training on USFR requirements and District policies and procedures to staff members responsible for credit cards, as well as authorized credit card users, and ensure that all card users have been trained and signed a user agreement prior to using District credit cards.
20. Develop and implement a process to maintain and regularly review an accurate list of the number of active cards and authorized users to determine whether cards can be eliminated and the number of authorized users reduced.

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

Finding 4. District lacked important internal controls over cash-handling, increasing its risk of loss or theft

District is required to implement internal controls to safeguard cash

The USFR requires school districts to establish and maintain effective policies and procedures to safeguard cash, prevent its loss or misuse, and provide prompt and intact depositing and ensure its accurate reporting. The USFR further requires districts to prepare evidence of receipt, such as by using sequential, prenumbered receipts, for each cash or check payment received and to separate duties between employees with cash-handling and recordkeeping responsibilities. To meet these requirements, the District established a Board-approved cash-handling policy, developed an employee handbook that includes the District's cash-handling process, and periodically provides District staff, such as teachers, coaches, club sponsors, and students, with cash-handling training.

District failed to maintain required internal controls over cash-handling, increasing the risk of loss or theft of public monies

Our review of the District's procedures, on-site observations, and supporting documentation for 3 cash receipt deposits totaling \$14,471.60 from August 2021, November 2021, and May 2022 found that District staff did not always follow the District's cash-handling procedures, and the District's procedures did not meet some USFR requirements. Specifically:

- **District did not prepare receipts or other supporting documentation for cash collected—** Although District policy required, and training to District employees described the importance of underlying documentation to support amounts of cash collected at school events and fundraisers, such as using prenumbered tickets and tracking items sold, District staff at some school sites indicated this did not always occur. Further, District staff involved in cash-handling indicated that sometimes deposits were submitted to the business office without comparing amounts collected to underlying support such as prenumbered receipts or tickets. Without such documentation, the District cannot reconcile cash collected to actual sales and cannot ensure that all cash collected was appropriately accounted for and deposited into District bank accounts. In August 2023, the District's independent financial auditors notified the District of 5 instances in fiscal year 2023 where cash the District collected for school events totaled between \$157 and \$926, but the District did not track sales for these events, and as a result, the cash receipts could not be reconciled to the number of items sold. The District reported that it has been working with school sites to ensure individuals responsible for collecting cash are knowledgeable of the District's cash-handling policies through informal meetings and formal training.
- **District did not restrict access to cash—** District policy requires all cash collected to be stored in safes if left overnight at school buildings. However, the District did not always follow this policy. For example, cash collected from the food service program and after-school events was not always stored in a safe when left overnight but instead was stored in a locked room or cabinet. According to District staff, there are instances where cash collected during an after-school event is stored in a locked room at the school site until someone with access to the safe can move the monies to the safe. However, multiple employees have access to the locked room where the cash is stored,

increasing the risk that cash stored in this room may go missing with no ability for the District to identify who accessed the room and when. Additionally, cash collected as part of the food service program is stored in locked cabinets in the cafeteria instead of the safes in the main office at 2 school sites. Further, the District did not know who had access to the safes at multiple sites because District officials could not recall the last time they updated combinations and did not retain records indicating who had access to the safes. While on site in August 2023, we also observed that some District staff were retaining the safe combinations in unsecured locations. According to District officials, safe combinations had not been changed because the safes are old, and staff did not know how to change the combinations. In addition, while on site in August 2023, we also observed that check stock for the food service bank account was stored in an unlocked drawer, increasing the risk that unapproved or fraudulent disbursements may occur.

- **District did not timely deposit cash**—The USFR requires districts to deposit cash at least weekly, or daily when amounts are significant. However, according to District staff responsible for cash-handling, cash was generally transported to the business office a couple times per week for deposit when staff were available, even if amounts were significant. For instance, a District school collected cash payments for preschool tuition totaling \$2,350 between April 19, 2022, and May 5, 2022, that it did not take to the business office until May 10, 2022, and then deposited with the bank on May 12, 2022, nearly a month after some of the cash was collected. Similarly, cash collected at 2 school sites for the food service program between May 2, 2022, and May 4, 2022, totaling \$1,052, was stored in locked cabinets overnight and not deposited until May 4, 2022. The same issue was also noted by the District’s independent financial auditors during its 2022 review of the District’s compliance with the USFR requirements. By storing cash in unsecured locations and not timely depositing cash, the District increased the risk of loss or theft of monies that are required to be deposited in District bank accounts.
- **District did not separate cash-handling duties for food service program**—The USFR requires that cash-handling duties be separated among employees so that the same employee is not responsible for cash-handling and recordkeeping. However, the District had not separated duties for food service program cash-handling and recordkeeping, contrary to USFR requirements. Our review found that 1 employee was responsible for preparing and depositing cash, in addition to reconciling the food service bank account each month. Further, this employee had access to functions in the District’s point-of-sale tracking system for food service sales that allowed them the ability to override and adjust transactions without review or approval by another employee to ensure the overrides and adjustment were valid and appropriate. Additionally, the employee was responsible for writing checks from the food service bank account. By failing to separate duties consistent with USFR requirements, we were unable to determine whether all cash collected was deposited in the food service bank account.

Recommendations

The District should:

21. Develop and implement procedures to ensure compliance with USFR requirements and District policies related to cash-handling, and train and educate District employees and others with cash-handling responsibilities on these procedures.
22. Prepare and maintain evidence for all cash received, such as by issuing sequential, prenumbered receipts, and reconcile deposits to cash collection documentation to ensure all cash received was appropriately deposited.
23. Review current cash-handling practices and ensure cash is maintained in such a manner that it is physically secured in an appropriate location before being deposited and that the District maintains a documented chain of custody to reduce the risk that cash can be lost, misused, or stolen.
24. Restrict access to cash and check stock to only authorized employees, including restricting access to locations and safes where cash and check stock are stored.
25. Update all safe combinations and establish a written policy and schedule for updating safe combinations in the future, including when employees with safe combinations terminate from District employment.
26. Train District employees on the importance of maintaining safe combinations in secure locations, and monitor employees to ensure they do not store safe combinations in unsecure locations.
27. Deposit cash at least weekly, and daily when amounts are significant, consistent with USFR requirements.
28. Separate cash-handling duties from employees with recordkeeping responsibilities, such as for its food service program, and require a separate employee to prepare either deposits or reconciliations, but not both.

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

Finding 5. District allowed 2 employees to supervise close relatives and did not ensure employees properly completed conflict-of-interest disclosure forms, increasing the risk that District board members and employees had not disclosed substantial interests that might influence or affect their official conduct

Statute addresses conflicts of interest for school district employees and Board members

Both the USFR and Arizona statute establish conflict-of-interest requirements, including comprehensive disclosure of close relatives, business interests, and gift restrictions, and memorialization of records, with an emphasis on properly completed conflict-of-interest disclosure forms (forms) and forms with adequate description of disclosed interests.¹³ The District's Board adopted a conflict-of-interest policy that outlined 4 key areas where conflicts may exist and developed policies related to the employment of close relatives, business relations, vendor relations, and District purchases from employees. For instance, Board policy requires that "[n]o person employed by the District may be directly supervised by a close relative (father, mother, son, daughter, sister, brother, or spouse)." In addition, the Board policy also requires annual employee training to ensure District conflict-of-interest policies are communicated to employees and acknowledged as received and understood and requires that each employee complete and sign a District-approved conflict-of-interest form annually. The District's human resources department is responsible for ensuring District employees comply with the conflict-of-interest policy and for reviewing forms to determine whether the form was appropriately completed and whether any conflicts exist. If a conflict is identified, human resources is responsible for notifying the appropriate personnel with the District.

Contrary to its policy, District allowed 2 employees to supervise close relatives without notifying its Board, and its conflict-of-interest policy was not fully aligned with recommended practices

While our review found that all 20 District employees and Board members we reviewed had a conflict-of-interest form on file, and the District provided training to its employees in fiscal year 2022, we found that contrary to the Board's policy, for 8 of the forms we reviewed, the employee only partially completed the form and had not reported all required potential interests. According to the District, if human resources determines additional information is necessary to determine whether a disclosed interest represents a conflict of interest, staff will contact the employee to request the additional required information. However, for all the instances we identified in our review, the District could not provide support that staff had contacted these employees to follow up on the incomplete information.

In addition, our review identified 2 instances where District staff disclosed that they directly oversaw a close relative, contrary to District policy. In 1 instance, a principal reported that they directly oversaw their sibling who was a teacher at their school, and in the other instance, the food service manager reported that they directly oversaw their spouse who was a lead cafeteria cashier at 1 of the school sites. In each of these cases, an employee other than the relative was listed as the subordinate employee's supervisor in the District's accounting system. The District reported that leave requests, timecard approvals, disciplinary action, and performance evaluations for the subordinate employees were completed by a different employee rather than by their relative; however, the District was only able to provide limited support to substantiate this. While the District assigned a different supervisor in its accounting system, both

¹³ A.R.S. §§38-503, 38-509, and 15-323.

employees were still responsible for training, directing, and/or overseeing the daily responsibilities of their sibling or spouse. Based on the District's conflict-of-interest policy, District management should not have permitted either employment relationship or, if management believed an exception to the policy was prudent and in the District's best interest, management should have reported the relationships to the Board and sought explicit approval. In 2023, the food service manager's spouse changed positions within the District and was no longer directly supervised by their relative. However, at the time of our review, the principal's sibling still worked as a teacher at the same school under the supervision of the principal.

District failure to follow its policy and align its conflict-of-interest process with recommended practices limits public transparency and increases the risk that District Board members and employees had not disclosed substantial interests that might influence or affect their official conduct

While we did not identify any instances where potential conflicts of interests negatively impacted the District, given the internal controls weakness identified throughout this report, the District should ensure it follows established policies and State laws related to conflicts of interest and District employees fully complete conflict-of-interest forms. By not doing so, the District could not ensure its staff and Board complied with State conflict-of-interest laws, limited transparency into its operations, and increased its risk that District board members and employees had not disclosed substantial interests that might influence or affect their official conduct.

Recommendations

The District should:

29. Ensure employees fully complete all sections of the conflict-of-interest form.
30. Develop and implement a process to review conflict-of-interest forms to identify disclosed interests and take necessary action to remediate them.
31. Develop and implement a process to document any followup conducted and ensure appropriate personnel and the Board is notified when a conflict is identified.
32. Follow District policy by not allowing personnel to supervise close relatives.

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

Finding 6. District's excessive access to its sensitive computerized data and other IT deficiencies increased risk of unauthorized access to sensitive information, errors, fraud, and data loss

District has not complied with important IT security requirements and recommended practices

USFR and credible industry standards, such as those developed by the National Institute of Standards and Technology (NIST), set forth important IT security practices that help districts safeguard sensitive information and prevent errors, fraud, and data loss. However, our review of the District's IT security practices identified several deficiencies, including noncompliance with USFR requirements and practices inconsistent with credible industry standards, that increased its risk for unauthorized access to sensitive information, data loss, errors, and fraud. See the details below.

Deficiency 1: District did not implement password and user authentication requirements in accordance with credible industry standards, putting District operations at risk

The USFR requires that districts develop and implement data security policies related to passwords and user authentication that align with credible industry standards, such as those developed by NIST. Our August 2023 review of District password policies determined that although the District had password requirements that aligned with credible industry standards, the District was not enforcing them. For example, the District's policy requires account passwords to be updated every 90 days. However, we found that 86 percent of the District's 1,996 active network user accounts had not updated their account passwords in the past 90 days and had not changed their passwords in 860 days, on average, or more than 2 years between password resets. District officials reported that neither District staff nor the District's contracted IT vendor were capable of automatically enforcing this requirement within the system. However, if the District's network was not capable of enforcing this requirement, the District should have evaluated and implemented password policies that align with credible industry standards that its system was capable of enforcing or implement other management review procedures to ensure users were complying with the District's existing password policy. Further, we found that the District's IT Director was the only user with this access control implemented. Multifactor authentication is designed to prevent unauthorized access to critical information and systems, and credible industry standards recommend it be used for any applications where users can access sensitive or confidential data. By not enforcing its password requirements and implementing multifactor authentication consistent with credible industry standards, the District increased its risk of data breaches, data loss, and unauthorized access to sensitive information.

Deficiency 2: District assigned some users too much access to its accounting system, increasing its risk of errors and fraud

The USFR requires districts to limit users' access to information and restrict access to only what is necessary for users to carry out their assigned duties. However, our August 2023 review of accounting system access levels for 13 District employee and 8 vendor accounts and found that 12 District users had too much access, allowing them to initiate and complete purchasing and/or payroll transactions without any independent review. As a result, the District increased its risk for errors and fraud because these users could have completed payroll and purchasing transactions or other changes without a second employee to verify the transactions or changes were accurate and appropriate.

Deficiency 3: Terminated District employees and unnecessary vendor accounts had access to the District's network, increasing the District's risk of unauthorized access to sensitive information and data loss

The USFR requires that when user accounts are no longer needed, access to information systems should be immediately disabled. However, our August 2023 review of all 304 active employee and vendor network accounts found that 3 employee and 2 vendor network user accounts were active despite being associated with users who were no longer employed by or doing business for the District.¹⁴ These 5 accounts had remained active for between 1.3 and 2.4 years after the users associated with these accounts were no longer employed by or doing business for the District. After we notified the District of these 5 network accounts during the audit, the District disabled the accounts. Although our review found that all 5 users had not accessed the District's network in more than a year, allowing terminated employees and unnecessary third-party network accounts to remain active increased the District's risk of unauthorized access to its sensitive information and potential data loss. According to District officials, the District had procedures in place to notify its IT Director when employees and vendors left the District, but these procedures were not followed for these 5 users. Further, the District did not have a process in place to regularly review network users to ensure accounts are associated only with active District employees and vendors or disable accounts that have been inactive for a set period of time, which may have prevented the user accounts from remaining active for an extended period of time.

Deficiency 4: District did not monitor access and activity in its accounting system, increasing the risk of critical security events and fraud

The USFR requires that districts monitor and periodically audit system activity and users' adherence to security-related policies, procedures, and guidelines. However, our August 2023 review of the District's accounting system found that the District did not monitor user activity and users' adherence to security-related policies for all modules within its accounting system because based on our review, it was unaware of such functionality and, as a result, did not monitor system user adherence to security-related policies, procedures, and guidelines, as required. According to District officials, while the District had access to change logs for the payroll module, the District was unaware of system capabilities for other modules within its accounting system, such as the accounts payable and purchase order functions. While a similar audit log is not available for accounts payable, the system does have the capability to generate reports that would allow the District to periodically audit system activity and users' adherence to District policy. Credible industry standards indicate that by not performing proactive monitoring of system activities, unauthorized access to sensitive District information may occur without detection, potentially leading to critical security events. For example, we reviewed a sample of the District's fiscal year 2022 nonpayroll expenditures and found 1 instance where the purchase order number assigned in the accounting system did not match the purchase order number printed on the

Key term

Audit log—A chronological record of system activities, including records of system accesses and operations performed in a given period.

Source: National Institute of Standards and Technology Special Publication 800-53, Revision 5.

¹⁴ Vendor network accounts include accounts associated with nondistrict employees such as individuals serving as consultants as well as accounts associated with vendors but not tied to a specific person.

system-generated supporting documentation (see Finding 2, page 6). Neither District staff nor the vendor was able to determine how the error had occurred. The absence of a complete audit trail and the excessive system access granted to certain users discussed in Deficiency 2 increases the District's risk for waste, fraud, or misuse of public monies going undetected.

Deficiency 5: District did not conduct annual security awareness training for staff, increasing employees' vulnerability to cyberattacks

According to the USFR and credible industry standards, 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. As of August 2023, District officials reported that the District did not require employees to take annual security awareness training nor did it require employees to take this training upon hire because it did not have a policy mandating security awareness training. The District most recently provided cyber security training in fiscal year 2019, and the District reported that nearly 91 percent of its staff completed the training at that time. District officials stated that the remaining 9 percent of employees likely did not complete the training because they either left the District prior to completing the training or failed to complete the required training. Providing security awareness education and training, as well as ensuring employees complete it annually, would help the District 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.

Recommendations

To comply with USFR requirements and credible industry standards for IT security, the District should:

33. Evaluate its current password policies to ensure they align with credible industry standards and District system capabilities.
34. Enforce strong password and multifactor authentication requirements aligned with credible industry standards to decrease the risk of unauthorized persons gaining access to its network and disrupting operations.
35. Review and limit users' access to its accounting system to only the functions necessary to perform their job duties.
36. Develop and implement a process to regularly perform, at least annually, detailed reviews of users' accounts and assessing their access level and need for network and critical systems access to ensure that access level is appropriate, and access was promptly disabled when it was no longer needed, including for terminated employees and vendors.
37. Establish and implement procedures for collecting and monitoring logs of accounting system activities to be able to track events and to detect potentially malicious or fraudulent activity in a timely manner.

38. Establish and implement a District policy that requires all employees to complete security awareness training upon hire and at least annually, and implement a procedure to track and enforce compliance with the policy.

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

Summary of Recommendations

Sjoberg Evashenk Consulting makes 38 recommendations to the District

The District should:

1. Immediately conduct all required random drug and alcohol tests for school bus drivers for the current year in accordance with the State's Minimum Standards.
2. Develop and implement procedures to ensure that it conducts random drug and alcohol tests for the required number of school bus drivers and that it documents and maintains all testing results in accordance with the State's Minimum Standards.
3. 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.
4. Recalculate and resubmit accurate fiscal year 2022 miles driven and riders transported to ADE to determine if any corrections are necessary to its transportation reporting.
5. Develop and implement, written procedures that provide effective internal controls over purchasing and accounts payable processes to ensure compliance with the USFR and Board-approved policies, including processes to monitor and enforce staff compliance with the District's procedures.
6. Develop and require training for responsible employees about the District's purchasing and accounts payable processes and related USFR requirements.
7. Ensure purchases are supported by an approved, accurate purchase order prior to purchases being made and that any revisions to increase a purchase order follow the District's required approval process, including obtaining required approvals for increased purchase order amounts.
8. Retain adequate, accurate supporting documentation to demonstrate purchases were for an allowable District purpose and were paid after the goods or services were received, and that the amount paid did not exceed the approved purchase order amount.
9. Ensure it pays vendors accurately by developing and implementing a process for staff to verify contracted rates before processing payment for goods and services.
10. Ensure employees responsible for classifying expenditures review the USFR's 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.
11. Continue reviewing historical transaction privilege tax payments to identify other errors and take action to correct any over- or underpayments identified.
12. Develop and implement a process to verify accounts payable and transaction privilege tax payments to ensure amounts paid are accurate and supported.
13. Recoup the \$55.44 in mileage payments the District overpaid and review other mileage reimbursements paid since the beginning of fiscal year 2022 to ensure the District used the

appropriate State of Arizona Accounting Manual mileage reimbursement, and recoup any additional overpayments identified.

14. Ensure it pays only authorized mileage reimbursements.
15. Consult with legal counsel to determine how to correctly account for mileage reimbursed for District employees' travel within District boundaries and formally document the Superintendent's approval.
16. Require District employees responsible for maintaining physical security of credit cards to maintain complete and accurate credit card logs that include enough information to track who used which credit card at what time and for what authorized District purpose.
17. Implement protocols to monitor and enforce compliance with existing District credit card policies, including:
 - a. Ensuring credit cards and purchase receipts are returned within 24 hours of users returning to the District after making purchases, as required by District policy.
 - b. Verifying an approved purchase order has been obtained prior to making purchases.
 - c. Tracking and regularly reviewing the physical chain of custody for all credit cards to ensure users are complying with requirements for checking out and returning District cards.
 - d. Ensuring employees have completed the required credit card user agreement prior to granting access to District credit cards.
18. 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, take appropriate and timely action.
19. Provide regular training on USFR requirements and District policies and procedures to staff members responsible for credit cards, as well as authorized credit card users, and ensure that all card users have been trained and signed a user agreement prior to using District credit cards.
20. Develop and implement a process to maintain and regularly review an accurate list of the number of active cards and authorized users to determine whether cards can be eliminated and the number of authorized users reduced.
21. Develop and implement procedures to ensure compliance with USFR requirements and District policies related to cash-handling, and train and educate District employees and others with cash-handling responsibilities on these procedures.
22. Prepare and maintain evidence for all cash received, such as by issuing sequential, prenumbered receipts, and reconcile deposits to cash collection documentation to ensure all cash received was appropriately deposited.
23. Review current cash-handling practices and ensure cash is maintained in such a manner that it is physically secured in an appropriate location before being deposited and that the District maintains a documented chain of custody to reduce the risk that cash can be lost, misused, or stolen.
24. Restrict access to cash and check stock to only authorized employees, including restricting access to locations and safes where cash and check stock are stored.

25. Update all safe combinations and establish a written policy and schedule for updating safe combinations in the future, including when employees with safe combinations terminate from District employment.
26. Train District employees on the importance of maintaining safe combinations in secure locations, and monitor employees to ensure they do not store safe combinations in unsecure locations.
27. Deposit cash at least weekly, and daily when amounts are significant, consistent with USFR requirements.
28. Separate cash-handling duties from employees with recordkeeping responsibilities, such as for its food service program, and require a separate employee to prepare either deposits or reconciliations, but not both.
29. Ensure employees fully complete all sections of the conflict-of-interest form.
30. Develop and implement a process to review conflict-of-interest forms to identify disclosed interests and take necessary action to remediate them.
31. Develop and implement a process to document any followup conducted and ensure appropriate personnel and the Board is notified when a conflict is identified.
32. Follow District policy by not allowing personnel to supervise close relatives.
33. Evaluate its current password policies to ensure they align with credible industry standards and District system capabilities.
34. Enforce strong password and multifactor authentication requirements aligned with credible industry standards to decrease the risk of unauthorized persons gaining access to its network and disrupting operations.
35. Review and limit users' access to its accounting system to only the functions necessary to perform their job duties.
36. Develop and implement a process to regularly perform, at least annually, detailed reviews of users' accounts and assessing their access level and need for network and critical systems access to ensure that access level is appropriate, and access was promptly disabled when it was no longer needed, including for terminated employees and vendors.
37. Establish and implement procedures for collecting and monitoring logs of accounting system activities to be able to track events and to detect potentially malicious or fraudulent activity in a timely manner.
38. Establish and implement a District policy that requires all employees to complete security awareness training upon hire and at least annually, and implement a procedure to track and enforce compliance with the policy.

Appendix A. Objectives, Scope, and Methodology

Sjoberg Evashenk Consulting conducted a performance audit of Globe Unified School District on behalf of the Arizona Auditor General pursuant to A.R.S. §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness primarily in fiscal year 2022, unless otherwise noted, in the 4 operational areas bulleted below because of their effect on instructional spending, as previously reported in the Auditor General's annual *Arizona School District Spending Analysis*. 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 2022 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 7 of 213 individuals who received payments through the District's payroll system in fiscal year 2022 and reviewed supporting documentation for 40 of 6,224 fiscal year 2022 accounts payable transactions. 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 2 through 4 (see pages 5 through 16).

Peer groups—We used the 3 peer groups developed by the Arizona Auditor General's *Arizona School District Spending Analysis—Fiscal year 2022* for comparative purposes. To compare the District's student achievement, the Arizona Auditor General developed a peer group using district type, location, and poverty rates because these factors are associated with student achievement. We used this peer group to compare the District's fiscal year 2022 student passage rates on State assessments as reported by the Arizona Department of Education (ADE). We also reported the District's fiscal year 2022 ADE-assigned school letter grade. To compare the District's operational efficiency in administration, plant operations and maintenance, and food service, the Arizona Auditor General developed a peer group using district size, type, and location. To compare the District's transportation efficiency, the Arizona Auditor General developed a peer group using a 5-year historical average of miles per rider and location. They used these factors because they are associated with districts' cost measures in these areas.

TABLE 2. CRITERIA FOR SELECTING PEER SCHOOL DISTRICTS FOR COMPARATIVE PURPOSES, FISCAL YEAR 2022

Comparison areas	Factors	Group characteristics	Number of districts in peer group
Student achievement (fiscal year 2022)	Poverty rate District type Location	Less than 19 percent Unified school districts Towns and rural areas	14
Administration, plant operations and maintenance, food service, and transportation (fiscal year 2022)	District size Location	Between 1,200 and 1,999 students Towns and rural areas	18
Transportation (fiscal year 2022)	Miles per rider Location	Between 361 and 510 miles per rider Towns and rural areas	16

Source: Staff review of the Arizona Auditor General's *Arizona School District Spending Analysis—Fiscal year 2022*.

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 operational areas we reviewed 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*, transportation safety reports provided by the Department of Public Safety, District's 100-day school bus ridership and mileage report submitted to ADE, and District-submitted compliance questionnaire results for fiscal year ended June 30, 2022, that its independent financial audit firm completed. We also reviewed District-provided accounting system and network user account reports.
- **Documentation reviews**—We reviewed various sets of District documentation including various credit card statements and documentation for fiscal year 2022, cash deposit documentation and bank statements for fiscal year 2022, Board meeting minutes, school bus driver files for 5 of 17 of the

District's drivers, and school bus maintenance and safety records for 8 of the District's 18 school buses in fiscal years 2021 and 2022. We also reviewed Department of Public Safety school bus inspection reports for school buses inspected in calendar years 2021 and 2022.

- **Observations**—To further evaluate District operations, we observed day-to-day activities in the operational areas we reviewed. This included facility tours, food service operations, and transportation services.
- **Analysis**—We reviewed the Arizona Auditor General's analysis of the District's fiscal year 2022 spending on administration, plant operations and maintenance, food service, and transportation and compared it to peer districts'. We also reviewed the District's square footage per student, use of building space, building age, and meals served per student to peer districts. We used the results of these comparisons to inform the topics of focus during our audit.
- 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 governing board members, superintendent, and staff for their cooperation and assistance throughout the audit.

District Response



Globe Unified School District No. 1
460 N. Willow St. Globe, AZ 85501

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To Whom It May Concern,

Globe Unified School District #1, located in Globe, Arizona has received and reviewed the FY '22 and FY '23 State of Arizona Auditor General's Office traditional public school Performance Audit as allowed in Arizona state statute. The district appreciates the effort and cooperation of the third-party contractor who performed the audit.

After reviewing and conducting internal discussions about the various findings included in this traditional public school Performance Audit, the district has addressed each finding and has presented procedural strategies to improve performance in each area mentioned. These proposed procedural strategies will help the district perform in a more efficient manner as we strive to live up to our district vision, "Capturing Hearts, Empowering Minds."

Please find attached the district's response to each finding.

Sincerely,

Jerry Jennex, Superintendent

Capturing Hearts, Empowering Minds

Globe Unified School District will use its resources to emphasize academic achievement, promote lifelong learning and encourage community and global service.

Finding 1: District did not comply with school bus driver random drug and alcohol testing requirements, putting student safety at risk, and District did not accurately report miles and riders for State funding purposes.

Recommendation 1: Immediately conduct all required random drug and alcohol tests for school bus drivers for the current year in accordance with the State's Minimum Standards.

District Response: The District agrees with the finding and the audit recommendation will be implemented. The District is currently compliant with number of required random drug and alcohol tests according to State's Minimum Standards. The District has made the necessary changes to become compliant.

Recommendation 2: Develop and implement procedures to ensure that it conducts random drug and alcohol tests for the required number of school bus drivers and that it documents and maintains all testing results in accordance with the State's Minimum Standards.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District has developed procedures and procedural safeguards to ensure testing and documentation thereof, for the required number of school bus drivers in accordance with the State's Minimum Standards.

Recommendation 3: 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 is agreed to and the audit recommendation will be implemented. The District has implemented procedures, including data-processing changes, and strengthened staff training, in an effort to accurately calculate and report route miles and ridership.

Recommendation 4: Recalculate and resubmit accurate fiscal year 2022 miles driven and riders transported to ADE to determine if any corrections are necessary to its transportation reporting.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will resubmit the necessary report(s) to ADE.

Finding 2. District lacked important internal controls over purchasing, putting public monies at an increased risk of waste, fraud, and misuse.

Recommendation 5: Develop and implement, written procedures that provide effective internal controls over purchasing and accounts payable processes to ensure compliance with the USFR and Board-approved policies, including processes to monitor and enforce staff compliance with the District's procedures.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will update and implement written procedures regarding

purchasing and accounts payable processes including processes to monitor and enforce staff compliance with the District's procedures.

Recommendation 6: Develop and require training for responsible employees about the District's purchasing and accounts payable processes and related USFR requirements.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will provide regular training for employees on the District's purchasing and accounts payable processes and related USFR requirements.

Recommendation 7: Ensure purchases are supported by an approved, accurate purchase order prior to purchases being made and that any revisions to increase a purchase order follow the District's required approval process, including obtaining required approvals for increased purchase order amounts.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will ensure purchases are supported by an approved, accurate purchase order prior to purchases being made and that any revisions to increase a purchase order follow the District's required approval process, including obtaining required approvals for increased purchase order amounts.

Recommendation 8: Retain adequate, accurate supporting documentation to demonstrate purchases were for an allowable District purpose and were paid after the goods or services were received, and that the amount paid did not exceed the approved purchase order amount.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will keep and maintain adequate, accurate supporting documentation to demonstrate purchases were for an allowable District purpose and were paid after the goods or services were received, and that the amount paid did not exceed the approved purchase order amount.

Recommendation 9: Ensure it pays vendors accurately by developing and implementing a process for staff to verify contracted rates before processing payment for goods and services.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will ensure it pays vendors accurately by developing and implementing a process for staff to verify contracted rates before processing payment for goods and services.

Recommendation 10: Ensure employees responsible for classifying expenditures review the USFR's 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 is agreed to and the audit recommendation will be implemented. The District will ensure employees responsible for classifying expenditures review the USFR's 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.

Recommendation 11: Continue reviewing historical transaction privilege tax payments to identify other errors and take action to correct any over- or underpayments identified.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will review historical transaction privilege tax payments to take any necessary action to correct any identified over or underpayments.

Recommendation 12: Develop and implement a process to verify accounts payable and transaction privilege tax payments to ensure amounts paid are accurate and supported.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will develop and implement a process to verify transaction privilege tax payments to be paid are accurate and supported.

Recommendation 13: Recoup the \$55.44 in mileage payments the District overpaid and review other mileage reimbursements paid since the beginning of fiscal year 2022 to ensure the District used the appropriate State of Arizona Accounting Manual mileage reimbursement, and recoup any additional overpayments identified.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District has recouped the identified overpayment for mileage payments and will review all other mileage reimbursements and recoup any additional overpayments identified.

Recommendation 14: Ensure it pays only authorized mileage reimbursements.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District has adjusted and updated its policy to ensure it pays only authorized mileage reimbursements

Recommendation 15: Consult with legal counsel to determine how to correctly account for mileage reimbursed for District employees' travel within District boundaries and formally document the Superintendent's approval

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will work with legal counsel to determine how to correctly account for mileage reimbursed for District employees' travel within District boundaries and will seek formal approval from the Superintendent for such reimbursements

Finding 3. District lacked important internal controls over credit cards, resulting in unsupported and unauthorized purchases and increasing the District's risk of errors, misuse, and fraud.

Recommendation 16: Require District employees responsible for maintaining physical security of credit cards to maintain complete and accurate credit card logs that include enough information to track who used which credit card at what time and for what authorized District purpose.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will develop and enforce procedures for those responsible for

maintaining physical security of credit cards to maintain complete and accurate credit card logs that include enough information to track who used which credit card at what time and for what authorized District purpose.

Recommendation 17: Implement protocols to monitor and enforce compliance with existing District credit card policies, including:

- a. Ensuring credit cards and purchase receipts are returned within 24 hours of users returning to the District after making purchases, as required by District policy;
- b. Verifying an approved purchase order has been obtained prior to making purchases;
- c. Tracking and regularly reviewing the physical chain of custody for all credit cards to ensure users are complying with requirements for checking out and returning District cards; and
- d. Ensuring employees have completed the required credit card user agreement prior to granting access to District credit cards.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will implement and enforce updated written protocols to monitor compliance with existing District credit card policies and practices as listed in the recommendation.

Recommendation 18: 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, take appropriate and timely action.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District has already initiated a procedure to review and reconcile all itemized receipts to card statements to ensure purchases are appropriately supported and for a District purpose and so that action can be taken if an unauthorized purchase is identified.

Recommendation 19: Provide regular training on USFR requirements and District policies and procedures to staff members responsible for credit cards, as well as authorized credit card users, and ensure that all card users have been trained and signed a user agreement prior to using District credit cards.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will continue to provide updated training on USFR requirements and District policies and procedures to staff members responsible for credit cards, as well as authorized credit card users, and ensure that all card users have been trained and signed a user agreement prior to using District credit cards.

Recommendation 20: Develop and implement a process to maintain and regularly review an accurate list of the number of active cards and authorized users to determine whether cards can be eliminated and the number of authorized users reduced.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District has started to develop and implement a process to maintain and regularly review an accurate list of the number of active cards and authorized users to determine whether cards can be eliminated and the number of authorized users reduced.

Finding 4. District lacked important internal controls over cash-handling, increasing its risk of loss or theft.

Recommendation 21: Develop and implement procedures to ensure compliance with USFR requirements and District policies related to cash-handling, and train and educate District employees and others with cash-handling responsibilities on these procedures.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will develop and implement written procedures to ensure compliance with USFR requirements and District policies related to cash-handling, and train and educate District employees and others with cash-handling responsibilities on these procedures.

Recommendation 22: Prepare and maintain evidence for all cash received, such as by issuing sequential, pre-numbered receipts, and reconcile deposits to cash collection documentation to ensure all cash received was appropriately deposited.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will gather and maintain evidence for all cash received and reconcile deposits to cash collection documentation to ensure all cash received was appropriately deposited.

Recommendation 23: Review current cash-handling practices and ensure cash is maintained in such a manner that it is physically secured in an appropriate location before being deposited and that the District maintains a documented chain of custody to reduce the risk that cash can be lost, misused, or stolen.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District has and will continue to review current cash-handling practices and ensure cash is maintained in such a manner that it is physically secured in an appropriate location before being deposited. The District will maintain a documented chain of custody to reduce the risk that cash can be lost, misused, or stolen.

Recommendation 24: Restrict access to cash and check stock to only authorized employees, including restricting access to locations and safes where cash and check stock are stored.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will restrict access to cash and check stock to only authorized employees, including restricting access to locations and safes where cash and check stock are stored.

Recommendation 25: Update all safe combinations and establish a written policy and schedule for updating safe combinations in the future, including when employees with safe combinations terminate from District employment.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District has started to contract with an outside vendor to update all safe combinations. Further, the District will establish a written policy and schedule for

updating safe combinations in the future, including when employees with safe combinations terminate from District employment.

Recommendation 26: Train District employees on the importance of maintaining safe combinations in secure locations, and monitor employees to ensure they do not store safe combinations in unsecure locations.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will train District employees on the importance of maintaining safe combinations in secure locations, and monitor employees to ensure they do not store safe combinations in unsecure locations.

Recommendation 27: Deposit cash at least weekly, and daily when amounts are significant, consistent with USFR requirements.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will deposit cash at least weekly, and daily when amounts are significant.

Recommendation 28: Separate cash-handling duties from employees with recordkeeping responsibilities, such as for its food service program, and require a separate employee to prepare either deposits or reconciliations, but not both.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will separate cash-handling duties from employees with recordkeeping responsibilities and require a separate employee to prepare deposits and/or reconciliations.

Finding 5: The District allowed 2 employees to supervise close relatives and did not ensure employees properly completed conflict-of-interest disclosure forms, increasing the risk that District board members and employees had not disclosed substantial interests that might influence or affect their official conduct.

Recommendation 29: Ensure employees fully complete all sections of the conflict-of-interest form.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District has created policy to ensure full completion of all sections of the conflict-of-interest form.

Recommendation 30: Develop and implement a process to review conflict-of-interest forms to identify disclosed interests and take necessary action to remediate them.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District has developed and implemented a process to review conflict-of-interest forms to identify disclosed interests and a process for taking necessary action to remediate them.

Recommendation 31: Develop and implement a process to document any followup conducted and ensure appropriate personnel and the Board is notified when a conflict is identified.

District Response: The finding is agreed to and the audit recommendation will be implemented. In addition, the District notified the Governing Board of a potential conflict-of-interest regarding the supervision of a defined relative with no substantial interest during the Governing Board meeting on January 17, 2024.

Recommendation 32: Follow District policy by not allowing personnel to supervise close relatives.

District Response: The finding is agreed to and the audit recommendation will be implemented. The District will not allow personnel to directly supervise close relatives when avoidable; if not avoidable due to limited staffing ability in a rural community, the Governing Board will be notified.

Finding 6. District's excessive access to its sensitive computerized data and other IT deficiencies increased risk of unauthorized access to sensitive information, errors, fraud, and data loss.

Recommendation 33: Evaluate its current password policies to ensure they align with credible industry standards and District system capabilities.

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

Recommendation 34: Enforce strong password and multifactor authentication requirements aligned with credible industry standards to decrease the risk of unauthorized persons gaining access to its network and disrupting operations.

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

Recommendation 35: Review and limit users' access to its accounting system to only the functions necessary to perform their job duties.

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

Recommendation 36: Develop and implement a process to regularly perform, at least annually, detailed reviews of users' accounts and assessing their access level and need for network and critical systems access to ensure that access level is appropriate, and access was promptly disabled when it was no longer needed, including for terminated employees and vendors.

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

Recommendation 37: Establish and implement procedures for collecting and monitoring logs of accounting system activities to be able to track events and to detect potentially malicious or fraudulent activity in a timely manner.

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

Recommendation 38: Establish and implement a District policy that requires all employees to complete security awareness training upon hire and at least annually, and implement a procedure to track and enforce compliance with the policy.

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