

# Morristown Elementary School District

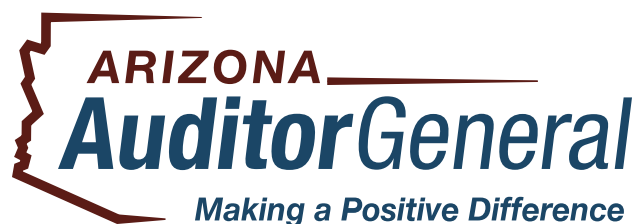
District used informal, deficient processes in some areas after it stopped outsourcing certain responsibilities and did not follow some important requirements and recommended practices, increasing risk to District assets, student safety, and sensitive computerized data

Performance Audit

December 2023  
Report 23-208

A Report to the Arizona Legislature

Lindsey A. Perry  
Auditor General





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

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December 28, 2023

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Governing Board  
Morristown Elementary School District

Dr. Jennifer Petty, Superintendent  
Morristown Elementary School District

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

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

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

Sincerely,

*Lindsey A. Perry*

Lindsey A. Perry, CPA, CFE  
Auditor General

## Morristown Elementary School District

District used informal, deficient processes in some areas after it stopped outsourcing certain responsibilities and did not follow some important requirements and recommended practices, increasing risk to District assets, student safety, and sensitive computerized data

### Audit purpose

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

### Key findings

- District stopped outsourcing various responsibilities in July 2023 and relied on informal payroll and cash-handling processes that did not appropriately separate duties, increasing risk to District assets.
- District lacked a documented process to ensure systematic preventative maintenance of its school buses, increasing risk to student safety.
- District did not comply with legal requirements in various areas, resulting in it spending unauthorized monies to operate a community preschool, paying unnecessary penalties and fees, and limiting transparency into District activities.
- District did not provide required information about its termination incentive program to the Arizona State Retirement System (ASRS), potentially creating unfunded liabilities for the District and improperly inflating employee retirement benefits.
- District transported a student using a vehicle that lacked required safety features and did not remedy a potentially structurally unsound building, increasing risks to student safety.
- 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.

### Key recommendations

The District should:

- Perform its payroll and cash-handling responsibilities in conformance with the USFR and its school bus preventative maintenance in conformance with DPS' Minimum Standards.
- Consult with legal counsel and the Arizona Attorney General's Office to ensure that any District actions taken contrary to open meeting laws are appropriately addressed to be made valid.
- Work with the ASRS to identify and resolve any unfunded liabilities created by its termination incentive program and identify and correct any excess contributions.
- Ensure it transports all students using vehicles that meet all applicable safety guidelines.
- Take action to remedy the potentially structurally unsound building on its campus.
- Develop and implement policies and procedures to assign and periodically review employee access; implement and enforce strong authentication controls; and update and annually test its IT contingency plan.



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

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Deficiency 4: District did not ensure all employees completed required annual security awareness training, increasing employees’ vulnerability to cyberattacks

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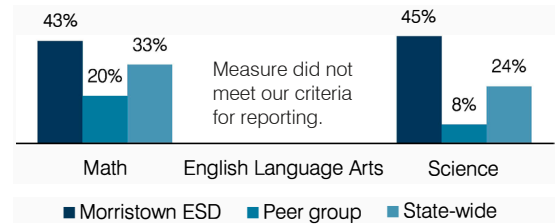
## Table

- 1 Criteria for selecting peer school districts for comparative purposes  
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Rural district in Maricopa County  
Grades: Pre-kindergarten through 8th  
FY 2022 students attending: 124  
FY 2022 number of schools: 1  
FY 2022 school letter grade: C

**Students who passed State assessments  
Fiscal year 2022**



**FY 2022 total operational spending—\$1.9 million (\$15,582 per student)**

**Instructional—54.7% (\$8,530 per student)**

**Noninstructional—45.3% (\$7,052 per student)**

**Operational overview—FY 2022**

**Measure**      **Morristown ESD**      **Peer average**

**Administration—lower spending but District did not comply with legal requirements in various areas and other improvements needed**

The District stopped outsourcing some District responsibilities in July 2023, and took some steps to prepare for performing these responsibilities. However, the District used informal, deficient processes for some responsibilities it had previously outsourced, increasing risk to District assets and student safety (see Finding 1, page 3). Additionally, the District did not comply with legal requirements in various areas, resulting in it spending unauthorized monies to operate a community preschool, paying unnecessary penalties and fees, and limiting transparency into District activities (see Finding 2, page 6). Further, the District did not follow statutes and regulations for its termination incentive program for retirees, potentially improperly inflating employee retirement benefits and potentially resulting in the District owing monies to the Arizona State Retirement System (see Finding 3, page 9). Finally, the 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 (see Finding 5, page 15).

Spending per student

\$2,440

\$3,934

**Plant operations—lower spending but District increased risk to student safety by not taking action to remedy a potentially unsafe building**

The District spent less on plant operations than its peer districts averaged per square foot and per student. However, the District did not take action to remedy a potentially structurally unsound building, increasing risk to student safety (see Finding 4, page 12).

Spending per square foot

\$6.66

\$8.82

Spending per student

\$1,804

\$2,866



Operational overview—FY 2022

	Measure	Morristown ESD	Peer average
<p><b>Food service—lower spending and no reported findings</b></p> <p>The District spent 47 percent less per meal and 10 percent less per student than its peer districts averaged, likely due to practices that helped it avoid waste, such as using student and historical data to plan the number of meals to prepare and preparing meals in batches so that it only prepared the number of meals needed. We did not report any findings in this area.</p>	Spending per meal	\$3.43	\$6.52
	Spending per student	\$936	\$1,042
<p><b>Transportation—spending measures mixed but improvements needed to help ensure student safety</b></p> <p>The District spent a similar amount per mile and 62 percent less per rider than its peer districts averaged, primarily due to transporting its riders fewer miles per rider than its peers. However, the District transported a student using a vehicle that lacked required safety features, increasing risk to student safety (see Finding 4, page 12).</p>	Spending per mile	\$2.65	\$2.61
	Spending per rider	\$770	\$2,020



## District used informal, deficient processes in some areas after it stopped outsourcing various District responsibilities, increasing risk to District assets and student safety

### District's Governing Board (Board) ended agreements for management and other services with a nearby school district

Since July 2020, the District had intergovernmental agreements (IGAs) with a nearby school district for that district to manage the District and provide some services. Under these IGAs, the District outsourced management of its transportation, information technology, and facilities maintenance services as well as outsourcing some District functions, such as its business office operations, payroll, and expenditure preparation and processing. During 2022, the Board discussed transitioning these responsibilities back to District staff over time. One current Board member reported that when the District began attempting to transition some responsibilities to District staff, there were delays resulting from the nearby school district not cooperating with the transition. The Board member also expressed that as time passed, the District started to have concerns that the nearby school district was not fulfilling all its responsibilities under the IGAs. In February 2023, the Board approved terminating all IGAs with the nearby school district when the existing IGAs expired and transitioning all responsibilities to District staff effective July 1, 2023.

### District's processes for some responsibilities it now performs did not meet USFR and other important requirements

Since the Board approved in February 2023 terminating the IGAs with the neighboring district when they expired, the District has taken some steps to prepare for developing processes to perform the District responsibilities it had previously outsourced. For example, the District promoted its school principal to become the District superintendent, created a business manager position, and hired an additional office staff member. Additionally, the District has worked with the Maricopa County School Superintendent's Office (MCSSO), whose staff provided training and guidance on business office operations and discussed mandatory requirements for school districts such as those prescribed by the *Uniform System of Financial Records for Arizona School Districts* (USFR).<sup>1</sup>

However, in July 2023 when the District began performing the responsibilities it previously outsourced, it had not developed and implemented formal processes in some areas and instead relied on informal procedures. We interviewed District staff in July and August 2023 to gain an understanding of the District's processes to determine if they met requirements set forth by the USFR and the Arizona Department of Public Safety's (DPS)

<sup>1</sup> The Arizona Auditor General and the Arizona Department of Education (ADE) developed the USFR pursuant to Arizona Revised Statutes (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.

*Minimum Standards for School Buses and School Bus Drivers (Minimum Standards).*<sup>2</sup> Based on information provided by District staff, we found that some of the District's processes did not meet USFR or Minimum Standards requirements. Specifically:

- **District's payroll process did not separate duties**—The USFR requires that duties be separated among employees such that no individual employee is responsible for preparing payroll, authorizing payroll, and distributing warrants. However, our interviews with District staff about the District's payroll process indicated that the District's payroll process may not have appropriately separated payroll responsibilities between employees. In December 2023, District officials reported that the District had worked with MCSSO during the audit to ensure adequate separation of duties in its payroll process consistent with USFR requirements.
- **District's cash-handling processes did not separate duties**—The USFR requires that duties be separated among employees such that no individual employee is responsible for cash-handling and recordkeeping functions. However, our interviews with District staff about their newly implemented cash-handling process indicated that the District's cash-handling process would not appropriately separate cash-handling responsibilities between employees. For example, contrary to USFR requirements, the same District employee responsible for making deposits is also responsible for performing reconciliations of cash collected to cash deposited. In December 2023, District officials reported that the District had updated its cash-handling process to assign responsibility for making deposits to another District employee not responsible for performing cash reconciliations.
- **District had not developed a process to ensure systematic preventative maintenance of its school buses**—Minimum Standards require that districts perform routine preventative maintenance on its school buses to ensure they are safe for transporting students. Although Minimum Standards do not prescribe specific procedures, school bus manufacturers' guidelines include schedules for preventative maintenance that outline specific maintenance work to be completed and maximum mileage and time frame intervals. However, our interviews with District staff to discuss the newly developed and implemented procedures indicated that the District's procedure for preventative maintenance would not ensure systematic preventative maintenance for its school buses was performed and tracked. For example, contrary to Minimum Standards requirements, the District did not have a documented preventative maintenance policy or a process to track services performed on its school buses. In December 2023, District officials reported the District completed preventative maintenance on its school buses in July 2023 and intended to complete school bus preventative maintenance 2 times per year going forward.

Due to the District having implemented these procedures in July 2023, we were unable to test the processes to determine whether District staff were following the processes they described, or whether the deficient processes had resulted in errors or other issues.

## District's deficient processes increase risk to District assets and student safety

District officials reported that lack of experience and knowledge of applicable requirements as well as small administrative staff size contributed to the deficiencies we identified. Additionally, District officials reported that developing its school bus preventative maintenance process has been a lower priority than developing its other processes, such as payroll and purchasing. However, requirements for school districts, such as those in the USFR and Minimum Standards, are designed to help school districts ensure student safety and protect District assets from theft, misuse, and damage. By not developing and implementing procedures in accordance with these requirements, the District increased risks to student safety and misuse, loss, and theft of District assets.

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<sup>2</sup> DPS adopted the Minimum Standards pursuant to A.R.S. §28-900. The Minimum Standards prescribe regulations to be used by Arizona school districts to improve the safety and welfare of student passengers.

## Recommendations

The District should:

1. Perform its payroll and cash-handling responsibilities in conformance with the USFR and its school bus preventative maintenance in conformance with DPS' Minimum Standards.
2. Utilize external guidance, such as from MCSSO staff or resources available on the Arizona Auditor General's website, to develop and implement written policies and procedures that require it to:
  - a. Separate responsibilities in its payroll process to ensure that no individual employee is responsible for preparing payroll, authorizing payroll, and distributing warrants in accordance with the USFR;
  - b. Separate responsibilities in its cash-handling processes to ensure that no individual employee is responsible for cash-handling and recordkeeping functions in accordance with the USFR;
  - c. Perform and track systematic preventative maintenance on its school buses that considers maximum mileage and time frame intervals and the maintenance work that should be completed in accordance with DPS' Minimum Standards.
3. Identify and provide training to staff responsible for payroll, cash-handling, and school bus preventative maintenance to ensure they follow the developed policies and procedures.
4. Ensure it continues to develop and implement processes, including creating written policies and procedures, for responsibilities other than payroll, cash-handling, and school bus preventative maintenance that it had previously outsourced in accordance with the USFR, DPS' Minimum Standards, and other applicable requirements and train applicable staff, accordingly.

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



# District did not comply with legal requirements in various areas, resulting in it spending monies for an unauthorized purpose, paying unnecessary penalties and fees, and limiting transparency into District activities

In fiscal years 2022 and 2023, the District did not comply with legal requirements for operating its community preschool program; timely remitting income tax withholding to the Internal Revenue Service (IRS); and accepting donations in public meetings. As a result, the District spent at least \$32,500 of public monies for an unauthorized purpose, spent more than \$10,000 of public monies on penalties and interest, and limited transparency into District activities. See the details below.

## Issue 1: District spent at least \$32,500 of unauthorized monies to operate its community preschool program in fiscal years 2022 and 2023 that it instead could have spent on other District priorities

In fiscal year 2022, the District began providing community preschool to preschool-age children living within the District's community. If a district chooses to operate a community preschool program that is open to all preschool-age students, the community preschool program is required to be funded by fees, tuition, grants, or donations, and ordinary school district monies may be used only for the employment of a qualified director.<sup>3,4</sup> The District charged a registration fee of up to \$50 per student and did not charge tuition for students to attend its community preschool program. The District also received \$4,125 in grant funding to pay for some preschool costs in fiscal year 2023. However, the District did not receive enough revenue between its registration fee and grant monies to fully cover the identifiable costs, such as staff salaries and benefits costs, of operating its community preschool program in fiscal years 2022 and 2023. As a result, and contrary to requirements, in fiscal years 2022 and 2023, the District used at least \$32,500 of District monies intended to be used for its required K-12 instructional program to pay for its community preschool program.<sup>5</sup> District officials reported that they opened their preschool program to all preschool-age children because they believed it was a best practice for preschool programs to include children both with and without disabilities. District officials further stated they

<sup>3</sup> 20 U.S.C. §1412(a)(1)(A) and A.R.S. §15-771 require school districts to make available an educational program for preschool children with disabilities. However, they do not require school districts to provide educational community preschool programs that are open to all preschool-age children.

<sup>4</sup> Op. Ariz. Att'y Gen. 182-136 (December 13, 1982). See also A.R.S. §15-1142, which allows a school district governing board to establish and operate an educational community school program and establish tuition and fee charges for community school programs. In fiscal years 2022 and 2023, the District did not employ a director to oversee its community preschool program.

<sup>5</sup> The District's spending of \$32,500 includes only those costs we could identify, including the salary and benefits costs of the community preschool program's staff and amounts spent on the community program's instructional materials, supplies, and equipment. It does not include costs for heating, cooling, and maintaining the classroom space. Those items were not separately identified in the District's accounting data to allow us to include them in this analysis.

believed the District spent the same amount to operate a preschool program open to all preschool-age children as it would have spent operating a preschool program open only to children with disabilities.

## **Issue 2: District paid more than \$10,000 in penalties and interest to the IRS that it instead could have spent on instruction or other District priorities**

The IRS requires employers to withhold employment taxes from employee pay and remit those taxes to the IRS.<sup>6</sup> However, from July through September 2019, the District did not timely remit \$32,196 of withheld employment taxes, resulting in \$8,510 in penalties. Additionally, the District did not pay all of these withheld taxes until March 2022, resulting in \$1,703 in accrued interest.<sup>7</sup> None of the District officials we spoke with were employed at the District at the time the District did not timely remit withheld employment taxes, and therefore they could not provide a reason that the District did not comply with IRS requirements. However, as a result of these late payments, the District spent more than \$10,000 of public monies on penalties and interest that it could have instead used for other District priorities, such as instruction and teacher salary increases.

## **Issue 3: Contrary to State law and District policy, District failed to accept at least \$15,000 of donations during public meetings, limiting public transparency into the District's activities**

### **Contrary to State law and District policy, the Board did not vote to accept or disclose important information about donations in public meetings**

According to State law, school district governing boards' business is required to be conducted at regular or special meetings, and specifically, the acceptance of a gift by a school board is school business, requiring compliance with open meeting laws.<sup>8</sup> We reviewed the District's fiscal year 2022 and 2023 accounting records and Board meeting minutes and associated documents and noted 10 donations of cash totaling \$15,306 across the 2 fiscal years as well as regular non-cash donations. However, in our review of fiscal year 2022 and 2023 Board meeting minutes, we found that when donations were discussed, the Board did not vote in public meetings to accept those donations. One current Board member we spoke with confirmed that the Board does not vote to accept donations on behalf of the District.

Additionally, according to State law, the public is permitted to attend and listen to the deliberations and proceedings at Board meetings.<sup>9</sup> Consistent with the State's open meeting laws, District policy requires staff to report all donations to its Board for their review and action, and to acknowledge the receipt and value of any accepted donation. However, our review of fiscal year 2022 and 2023 Board meeting minutes found no evidence that District staff discussed the receipt and value for 9 of 10 cash donations the District accepted totaling \$11,606. For example, the meeting minutes from the Board's November 2021 meeting indicate that a

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<sup>6</sup> Employment taxes include federal income taxes and social security and Medicare taxes withheld from employees' wages, and the employer share of social security and Medicare taxes. Federal unemployment taxes are also deposited and reported to the IRS as a part of employment taxes but are paid only by the employer.

<sup>7</sup> In August and September 2019, the District remitted a total of \$16,043 of the \$32,196 withheld income taxes late to the IRS. In March 2022, the District remitted the remaining \$16,154 plus \$10,213 in penalties and interest charges.

<sup>8</sup> In assessing whether the acceptance of a gift by a school board is school business, Op. Ariz. Att'y Gen. I80-156 (August 13, 1980) determined that a school district governing board can accept a gift only through action at an open meeting. A.R.S. §15-321(E) requires school district governing boards' business to be conducted at regular or special meetings, which superseded A.R.S. §15-432(D).

<sup>9</sup> A.R.S. §38-431.01(A).

specific donor made a cash donation to the District for its food service program, but the minutes do not include the value of the donation.

## District lacked written procedures for accepting donations

Although the District has a policy requiring staff to report all donations to the Board for their review and action and to acknowledge the receipt and value of donations, it lacked written procedures to help ensure that District staff and the Board comply with open meeting law requirements when accepting donations, including voting to accept donations in public meetings. Additionally, District officials reported that they were unaware of the requirement to accept donations in public meetings. The District strengthening its existing policy and establishing written procedures requiring that if the Board accepts a donation, it should ensure it acknowledges the donation's receipt and value during public meetings, and that the Board votes to accept the donation in a public meeting, would help ensure transparency of the District's activities and compliance with the State's open meeting laws.

After we brought this issue to the District's attention, the District added the acceptance of gifts and donations as a separate Board agenda item. We reviewed Board meeting minutes for the District's October 2023 Board meeting and found that the Board voted to accept donations during this meeting. However, although the minutes indicate the receipt of a cash donation, they do not specify the value of the donation, as required by the District's policy.

### Recommendations

The District should:

5. Determine whether it should continue offering its community preschool program and, if it does, charge fees or student tuition rates and/or obtain grants or donations that cover the costs of operating the program consistent with statutory requirements and Arizona Attorney General Opinion No. I82-136.
6. Review and update its policies and procedures to ensure that employee tax withholdings are remitted in accordance with IRS requirements to avoid penalties and interest charges.
7. Review and update its policies and procedures to ensure that if employee tax withholdings are remitted late, the late payments are resolved in a timely manner.
8. Ensure it acknowledges the receipt and value of donations and that the Governing Board accepts all donations during meetings open to the public.
9. In consultation with legal counsel, strengthen existing policies and develop and implement written policies and procedures governing open meetings. These policies and procedures should specifically require the Governing Board to accept donations in public meetings.
10. Consult with legal counsel and the Arizona Attorney General's Office to ensure that any District actions taken contrary to open meeting laws are appropriately addressed to be made valid.
11. Include in its employee training information regarding the importance of complying with State laws related to open meetings.

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



## District did not provide required information about its retirement incentive program to ASRS, potentially resulting in unfunded liabilities and improper increases to future retirement benefits for some District employees

The Arizona State Retirement System (ASRS) provides retirement and other benefits to employees of participating school districts and other State and local governmental entities. The ASRS is funded equally by employer and employee contributions, which are calculated as a percentage of each employee's compensation.

## District did not provide ASRS required information about its termination incentive program and program participants, and may owe monies to ASRS for unfunded liabilities resulting from incentive program payments

Termination incentive programs allow employers to offer benefits such as increases in pay to eligible employees conditioned on their termination. State law and administrative rules require employers that plan to implement termination incentive programs to notify the ASRS and provide certain information about the program prior to implementing it (see textbox). Until October 2023, the District offered a termination incentive program (program) for District employees intending to retire, with incentive payments based on each participant's start date and tenure with the District.<sup>10</sup> The program provided participants a salary increase during their final year of District employment and a payout of their accumulated sick leave upon retirement. The District reported that this program was intended to help ensure the District could plan for teacher retirements because program participants were required to notify the District of their retirement at least 1 year in advance.<sup>11</sup> However, contrary to statutory and administrative rule requirements, prior to implementing its program the District did not provide the ASRS with required information necessary for the

### Prior to implementing a termination incentive program, employers are required to provide the ASRS:

- A complete description of the program terms and conditions, including the program contract, understanding, or agreement.
- Information about each employee who may be eligible to participate in the program, including the employees' full names, dates of birth, and current compensation.

Source: Auditor General staff review of Arizona Administrative Code (AAC) R2-8-124.

<sup>10</sup> The District could not provide documentation to show when it implemented its program or how many employees had participated in the program since its inception.

<sup>11</sup> The District began phasing out this program on July 1, 2021, prior to the District's Board voting to end it in October 2023. During this time, only employees who were employed with the District prior to July 1, 2021, were eligible to participate.



ASRS to estimate the unfunded liability amount that may result from the District's program implementation (see textbox, page 9, for the information required to be provided to the ASRS). District officials reported that the District's program predated current District administration and therefore they were unaware of why previous District administration did not provide required information to the ASRS prior to implementing the program.

Administrative rule also requires the District to provide the ASRS with certain information about each employee who participates in the program within 30 days after the employee's termination, including the employee's name, date of birth, compensation at termination, termination date, and any additional pay the employee received or was entitled to receive as a result of participating in the program.<sup>12</sup> The ASRS uses this information to calculate the actual unfunded liability amount resulting from the employee's participation in the program. The District did not provide this required information to the ASRS for 2 District employees who participated in the program in fiscal year 2022. District officials reported that they were not aware of the requirement to provide this information to the ASRS.

By not providing the ASRS with the required program and participant information, the District may have incurred unfunded liabilities to the ASRS resulting from payments to program participants, thereby reducing the monies the ASRS has available to pay retiree benefits. Specifically, administrative rule states that the ASRS shall use information provided by employers to determine the actual unfunded liability amount resulting from the employer's termination incentive program.<sup>13</sup> If the ASRS determines that the District's retirement program resulted in unfunded liabilities for the District, the District will be required to pay all monies due to the ASRS, potentially resulting in the District redirecting monies that could be spent on other District priorities, such as instruction.<sup>14</sup> However, because the District did not provide required information to the ASRS, the ASRS could not determine if the District's program resulted in any unfunded liabilities for the District, and the District did not pay monies to the ASRS it otherwise may have been required to pay related to its employees' participation in its program, reducing the monies the ASRS has available to pay retiree benefits. In August 2023 and in response to our inquiries, ASRS officials reported that they planned to contact the District to discuss the District's program and determine if it resulted in any unfunded liabilities for the District.

## District withheld and paid almost \$7,000 more to ASRS than required, potentially improperly inflating some employees' future retirement benefits

As noted above, the ASRS is funded equally by employer and employee contributions, which are calculated as a percentage of each employee's compensation. However, according to statute, certain payments made to employees should not be included as compensation for this calculation, such as payments made upon termination of employment.<sup>15</sup> Employers are responsible for withholding employee contributions from employee payroll and sending all employee and employer contributions to the ASRS. In fiscal year 2022, when the District calculated ASRS contributions for the 2 employees who participated in its program, it improperly included the participants' salary increases resulting from participating in the program and accumulated sick leave payouts as compensation, both of which should have been excluded, as required by statute.<sup>16</sup> As a result, the District withheld nearly \$3,500 more in total from these 2 employees' pay than it should have and paid almost \$7,000 more to the ASRS than



The District's improper ASRS contributions may result in estimated permanent increases of 8.2 and 7.6 percent to 2 employees' monthly retirement benefits, respectively.

<sup>12</sup> AAC R2-8-124(E).

<sup>13</sup> AAC R2-8-124(F).

<sup>14</sup> AAC R2-8-124(I).

<sup>15</sup> A.R.S. §38-711(7)(a).

<sup>16</sup> A.R.S. §38-711(7)(a)(i).

required, which included employee and District ASRS contributions. Because ASRS contributions are used to calculate individual employees' monthly retirement benefits, the additional ASRS contributions may have resulted in estimated permanent increases of 8.2 and 7.6 percent to these employees' monthly retirement benefits, respectively. Due to the District's lack of documentation or information about when its program began or how many employees had participated in its program, we were unable to assess whether the District made similar errors for other program participants. According to District officials, the District does not have procedures outlining what payments to employees should be included as compensation when calculating ASRS contributions and the District was unaware that these payments should have been excluded.

## Recommendations

The District should:

12. Work with the ASRS to:

- a. Determine if its termination incentive program created any unfunded liabilities and, if so, resolve them.
- b. Identify and correct any excess contributions that should not have been included as compensation for the calculation of ASRS benefits.

13. Develop and implement written policies and procedures specifying the types of payments to employees that should be included as compensation for the calculation of ASRS benefits that comply with State laws and regulations.

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



# District increased risks to student safety by transporting a student in a vehicle that did not have important safety features and failing to ensure a school building was structurally sound

The District did not follow important requirements and recommended practices to help ensure student safety in 2 areas. Specifically, (1) contrary to DPS guidance, the District transported a student in a 15-passenger van that lacked important safety features, and (2) the District did not meet the State's minimum adequacy guidelines for school buildings because it failed to take action to remedy a potentially structurally unsound building on its campus. See the details below.

## Issue 1: District transported a student in a van that lacked important safety features

To help ensure student safety, State law requires school districts to comply with safety rules adopted by DPS when using motor vehicles designed to carry at least 11 and up to 15 passengers to transport students to or from home or school on a regularly scheduled basis.<sup>17</sup> In September 2022, DPS issued a substantive policy statement that included safety guidelines for 11- to 15-passenger vehicles used for student transportation, effective October 1, 2022.<sup>18,19</sup>

Since May 2023, the District has transported a student approximately 70 miles each school day to and from home and school in a 15-passenger van. We spoke with a DPS official in October 2023 who indicated that 15-passenger vans, such as the District's van, do not meet safety requirements in DPS' substantive policy statement designed to protect passenger safety in the event of a crash. For example, the van seats do not meet the required dimensions, the van's side windows cannot be used as emergency exits, and the van lacks a roll cage to help prevent injuries in the event of a rollover accident. Additionally, the DPS official stated

Required safety features designed to decrease the risk to students in the event of a crash not present in a 15-passenger van



- Seats do not meet required dimensions.
- Side windows cannot be used as emergency exits.
- Does not have a roll cage installed.

Source: Photos taken by Auditor General staff.

<sup>17</sup> A.R.S. §15-925.

<sup>18</sup> 28 Arizona Administrative Register 2499, September 23, 2022.

<sup>19</sup> According to DPS' substantive policy statement, the substantive policy is effective until DPS adopts final safety rules for the use of 11- to 15-passenger vehicles for student transportation.

that while it may be possible to retrofit such vans to meet the safety requirements specified in the substantive policy statement, doing so would likely cost more than purchasing a school bus already manufactured to meet required safety standards.

District officials indicated that they have been transporting the student using the van because it is more cost-effective than using a regular school bus. However, the District's van does not meet the safety requirements specified in DPS' substantive policy statement, and therefore it should not use the van for transporting students to or from home or school. By using a van that lacks important safety features outlined in DPS' substantive policy statement, the District increased safety risks to the student it transports.

## Issue 2: The District failed to take action to remedy a potentially structurally unsound school building

The State's minimum school facility adequacy guidelines for school buildings require that each school building should be structurally sound.<sup>20</sup> However, 1 building at the District's elementary school campus may be structurally unsound, according to insurance experts, and the District has not taken action to fix the building's structural issues or have it demolished. According to District officials, this building has not been used for over 20 years and has been in a state of disrepair for at least the last 4 years. In March 2023, the District's insurance provider performed an assessment of the District's campus and noted the potential structural issues with this building, specifically a risk that the building's porch could potentially collapse (see Photo 1). The insurance provider recommended that the District restrict access to the area and in April 2023, the District added metal fencing around the building to do so. However, we observed the fence and concluded that it may be insufficient to fully restrict access to the building (see Photo 2).

**Photo 1**  
District building with potential structural deficiencies



Source: Photo taken by District's insurance provider, March 2023.

**Photo 2**  
Metal fencing may be insufficient to restrict building access



Source: Photo taken during our review of District facilities in April 2023.

Despite acknowledging the building's longstanding structural and safety concerns, District officials reported that they had not taken action to demolish the building because they believed that the building may have been a historical site requiring preservation. However, in response to our inquiries, District officials reported that they had checked State and county historic building registries and determined that this was not the case. By not ensuring that all school buildings are structurally sound as required by the State's minimum adequacy guidelines, the District increased risks to student safety and its potential liability in the event of injury or other incidences related to the building.

<sup>20</sup> AAC R7-6-270.

## Recommendations

The District should:

14. Ensure it transports all students to and from school using vehicles that meet all applicable safety guidelines, including DPS' substantive policy statement regarding the use of 11- to 15-passenger vans.
15. Ensure the potentially structurally unsound building on its elementary school campus does not pose a safety risk to students by taking action to remedy it, such as repairing or demolishing the building.
16. Ensure that all school buildings meet the State's minimum school facility adequacy guidelines, including that all buildings are structurally sound.

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



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

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

The USFR and credible industry standards, such as those developed by the National Institute of Standards and Technology (NIST), set forth important IT security requirements and recommended standards 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 regularly review and limit user access to its network and accounting system, increasing its risk of unauthorized access to sensitive information, data loss, errors, and fraud

The USFR requires that school districts limit users' access to information and restrict the types of access to only what is necessary for users to carry out their assigned duties. Credible industry standards recommend that districts develop policies and procedures to regularly review and limit user access, which would help the District ensure it meets this USFR requirement. However, our July 2023 review of accounting system access levels for the District's 4 active users at the time of our review found that 2 users' access was more than what was necessary to complete their job duties and allowed these users the ability to initiate and complete payroll transactions without another employee reviewing and approving the transactions. Further, 1 of these 2 users' access also allowed them the ability to initiate and complete purchasing transactions without another employee reviewing and approving the transactions. As a result, the District increased its risk for errors and fraud because these users could have completed payroll and purchasing transactions or changes without a second employee to verify the payroll transactions or changes were accurate and appropriate. The District also granted administrator-level access to 1 business office employee, providing them with full control over all system settings and the ability to grant themselves full access to view and edit all system information, further increasing the risk for errors and fraud. For example, users with administrator-level access could process false invoices; change employee pay rates, including their own; or add and pay nonexistent vendors or employees without detection.

Similarly, we reviewed user accounts on the District's network in September 2023 and found that the District had granted administrator-level access to 10 of the District's 12 active user accounts that did not require this level of access. As a result, the District increased its risk of security breaches and data loss because hackers typically target administrator accounts for their greater access privileges. Although we did not identify any improper transactions due to these deficiencies, system access beyond what is needed for an employee's job duties increases the risk of errors and fraud.

## **Deficiency 2: District did not monitor external party access to its accounting system, increasing its risk of unauthorized access to sensitive information, data loss, errors, and fraud**

As stated previously, the USFR requires that school districts limit users' access to information and restrict the types of access to only what is necessary for users to carry out their assigned duties. When that is not possible, credible industry standards recommend that entities implement compensating controls to reduce risk to an acceptable level as they provide alternative and suitable security and privacy protections to facilitate risk management.<sup>21</sup> Our July 2023 review of accounting system access levels identified 6 active users with administrator-level access associated with County employees. District officials stated this level of access was necessary because County employees provide assistance to the District due to the administrative transition that occurred in July 2023 (see Finding 1 for more information about the District resuming responsibility for some functions it had previously outsourced). However, this level of access increases the District's risk of errors and fraud going undetected as well as the risk of unauthorized access to and loss of sensitive data or disruption of some District operations. By not implementing compensating controls to ensure that the activities performed by the County users with administrator-level access are necessary and appropriate, such as reviewing County employee user activity logs, unauthorized activities performed by these County users may go undetected by the District.

## **Deficiency 3: District's authentication controls did not meet USFR requirements, putting District operations at risk**

The USFR requires that districts implement multifactor authentication (MFA) for all users with remote access, administrative access, and access to its critical IT systems or implement compensating controls if any of these systems are not capable of implementing MFA. However, as of September 2023, the District did not require MFA to sign into some systems or implement compensating controls for systems not capable of implementing MFA to adequately secure any systems and related data. As a result, the District increased the risk that unauthorized individuals could access sensitive District information and disrupt District operations.

## **Deficiency 4: District did not ensure all employees completed required annual security awareness training, 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. Although the District provides annual security awareness training to its employees, District records indicate that only 43 percent of District employees completed the training in fiscal year 2023. Ensuring that all employees complete security awareness training 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.

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<sup>21</sup> National Institute of Standards and Technology (NIST). (2020). *NIST Special Publication 800-53B: Control baselines for information systems and organizations*. Gaithersburg, MD. Retrieved 11/14/23 from <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP800-53B.pdf>.

## Deficiency 5: District IT contingency plan was incomplete, increasing its risk of interrupted operations and data loss

To help ensure continued operations and data recovery in the event of a system outage, the USFR requires, and credible industry standards recommend, that districts develop and implement an IT contingency plan. As of July 2023, the District did not have a complete IT contingency plan. We reviewed the District's IT contingency plan and found that it was missing some key components. Specifically, as indicated in Figure 1, the plan did not indicate the order in which critical systems should be restored, clearly outline who is responsible for which activities during a system outage or attack, contain contingencies for continued business operations during a system outage, or contain detailed procedures for restoring critical systems and equipment. In addition to developing and implementing a complete contingency plan, the District should test the plan at least annually to help ensure it is effective, which should include ensuring all parties understand their roles and responsibilities, identifying internal and external vulnerabilities, taking action to update equipment or remedy any issues identified, testing its ability to restore electronic data files for critical systems from backups stored offsite, and documenting the results of the tests. Not having a complete contingency plan increases the District's risk of being unable to continue operations and restore its systems in the event of a system outage.

### Figure 1 District's contingency plan missing key components

- ✓ Identify all critical systems.
- ✗ Indicate system restoration order.
- ✗ Outline individual responsibilities.
- ✗ Contain plans for business continuity.
- ✗ Include detailed restoration steps.

Source: Auditor General staff review of District's contingency plan, USFR requirements, and credible industry standards.

## District reported costs, a lack of knowledge of duties performed in the IT department prior to its administrative transition, and a lack of knowledge of requirements contributed to its failures to comply with IT requirements

District officials reported various reasons for the IT deficiencies we identified. Specifically, the District had not limited network access or addressed its incomplete contingency plan due to not yet having reviewed these items since assuming responsibility for these functions in July 2023 (see Finding 1, pages 3 through 5, for more information about the District resuming responsibility for some functions it had previously outsourced). Additionally, District officials reported that the District granted its employees broad access to its accounting system while they receive training for their new roles and to adjust user access. However, as noted previously, providing employees access to its accounting system beyond what is needed to perform their job duties increases the District's risk of unauthorized access to its system and sensitive District information, errors, and fraud. Further, the District reported that it did not monitor external parties with broad access to its accounting system or ensure all employees completed security awareness training because the District was unaware of the USFR requirements and credible industry standards that recommend doing so. However, the USFR, which districts are required to follow, provides guidance and resources for districts to implement IT requirements. Additionally, the District reported its authentication controls did not align with USFR requirements due to concerns related to the cost of implementing MFA.

### Recommendations

The District should:

17. Limit employees' access in the accounting system to only those accounting system functions needed to perform their job duties, including removing the business office employee's administrator-level access.



18. Review and reduce the number of users with administrator-level access to its network and train employees on District policies regarding periodically reviewing network accounts to ensure access aligns with job duties.
19. Develop and implement a process to assign new employees appropriate access in the accounting system, a process to change employees' access if their assigned duties change, and a process to periodically review users' access to help ensure employees have only the access necessary to accomplish their job duties.
20. Work with the County to review and limit the access of County accounting system user accounts to only those functions needed to support the District and ensure that no one person can initiate and complete a transaction without an independent review and approval. If County users' access cannot be limited, the District should implement compensating controls to limit risks of unauthorized access, errors, and fraud.
21. Implement and enforce strong authentication controls such as multifactor authentication, including compensating controls if necessary, as required by the USFR, to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.
22. Develop and implement policy and procedures to review the District's authentication controls against USFR requirements at least annually.
23. Require and track employee participation in security awareness training for employees who have not done so in the past year.
24. Review its IT contingency plan to ensure that it meets USFR requirements and credible industry standards; test its plan at least annually to identify and remedy any deficiencies, which should include testing the District's ability to restore electronic data files for critical systems from backups; and document the test results.

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



# SUMMARY OF RECOMMENDATIONS

## Auditor General makes 24 recommendations to the District

The District should:

1. Perform its payroll and cash-handling responsibilities in conformance with the USFR and its school bus preventative maintenance in conformance with DPS' Minimum Standards (see Finding 1, pages 3 through 5, for more information).
2. Utilize external guidance, such as from MCSSO staff or resources available on the Arizona Auditor General's website, to develop and implement written policies and procedures that require it to:
  - a. Separate responsibilities in its payroll process to ensure that no individual employee is responsible for preparing payroll, authorizing payroll, and distributing warrants in accordance with the USFR (see Finding 1, pages 3 through 5, for more information);
  - b. Separate responsibilities in its cash-handling processes to ensure that no individual employee is responsible for cash-handling and recordkeeping functions in accordance with the USFR (see Finding 1, pages 3 through 5, for more information);
  - c. Perform and track systematic preventative maintenance on its school buses that considers maximum mileage and time frame intervals and the maintenance work that should be completed in accordance with DPS' Minimum Standards (see Finding 1, pages 3 through 5, for more information).
3. Identify and provide training to staff responsible for payroll, cash-handling, and school bus preventative maintenance to ensure they follow the developed policies and procedures (see Finding 1, pages 3 through 5, for more information).
4. Ensure it continues to develop and implement processes, including creating written policies and procedures, for responsibilities other than payroll, cash-handling, and school bus preventative maintenance that it had previously outsourced in accordance with the USFR, DPS' Minimum Standards, and other applicable requirements and train applicable staff, accordingly (see Finding 1, pages 3 through 5, for more information).
5. Determine whether it should continue offering its community preschool program and, if it does, charge fees or student tuition rates and/or obtain grants or donations that cover the costs of operating the program consistent with statutory requirements and Arizona Attorney General Opinion No. 182-136 (see Finding 2, pages 6 through 8, for more information).
6. Review and update its policies and procedures to ensure that employee tax withholdings are remitted in accordance with IRS requirements to avoid penalties and interest charges (see Finding 2, pages 6 through 8, for more information).
7. Review and update its policies and procedures to ensure that if employee tax withholdings are remitted late, the late payments are resolved in a timely manner (see Finding 2, pages 6 through 8, for more information).
8. Ensure it acknowledges the receipt and value of donations and that the Governing Board accepts all donations during meetings open to the public (see Finding 2, pages 6 through 8, for more information).

9. In consultation with legal counsel, strengthen existing policies and develop and implement written policies and procedures governing open meetings. These policies and procedures should specifically require the Governing Board to accept donations in public meetings (see Finding 2, pages 6 through 8, for more information).
10. Consult with legal counsel and the Arizona Attorney General's Office to ensure that any District actions taken contrary to open meeting laws are appropriately addressed to be made valid (see Finding 2, pages 6 through 8, for more information).
11. Include in its employee training information regarding the importance of complying with State laws related to open meetings (see Finding 2, pages 6 through 8, for more information).
12. Work with the ASRS to:
  - a. Determine if its termination incentive program created any unfunded liabilities and, if so, resolve them (see Finding 3, pages 9 through 11, for more information).
  - b. Identify and correct any excess contributions that should not have been included as compensation for the calculation of ASRS benefits (see Finding 3, pages 9 through 11, for more information).
13. Develop and implement written policies and procedures specifying the types of payments to employees that should be included as compensation for the calculation of ASRS benefits that comply with State laws and regulations (see Finding 3, pages 9 through 11, for more information).
14. Ensure it transports all students to and from school using vehicles that meet all applicable safety guidelines, including DPS' substantive policy statement regarding the use of 11- to 15-passenger vans (see Finding 4, pages 12 through 14, for more information).
15. Ensure the potentially structurally unsound building on its elementary school campus does not pose a safety risk to students by taking action to remedy it, such as repairing or demolishing the building (see Finding 4, pages 12 through 14, for more information).
16. Ensure that all school buildings meet the State's minimum school facility adequacy guidelines, including that all buildings are structurally sound (see Finding 4, pages 12 through 14, for more information).
17. Limit employees' access in the accounting system to only those accounting system functions needed to perform their job duties, including removing the business office employee's administrator-level access (see Finding 5, pages 15 through 18, for more information).
18. Review and reduce the number of users with administrator-level access to its network and train employees on District policies regarding periodically reviewing network accounts to ensure access aligns with job duties (see Finding 5, pages 15 through 18, for more information).
19. Develop and implement a process to assign new employees appropriate access in the accounting system, a process to change employees' access if their assigned duties change, and a process to periodically review users' access to help ensure employees have only the access necessary to accomplish their job duties (see Finding 5, pages 15 through 18, for more information).
20. Work with the County to review and limit the access of County accounting system user accounts to only those functions needed to support the District and ensure that no one person can initiate and complete a transaction without an independent review and approval. If County users' access cannot be limited, the District should implement compensating controls to limit risks of unauthorized access, errors, and fraud (see Finding 5, pages 15 through 18, for more information).

21. Implement and enforce strong authentication controls such as multifactor authentication, including compensating controls if necessary, as required by the USFR, to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations (see Finding 5, pages 15 through 18, for more information).
22. Develop and implement policy and procedures to review the District's authentication controls against USFR requirements at least annually (see Finding 5, pages 15 through 18, for more information).
23. Require and track employee participation in security awareness training for employees who have not done so in the past year (see Finding 5, pages 15 through 18, for more information).
24. Review its IT contingency plan to ensure that it meets USFR requirements and credible industry standards; test its plan at least annually to identify and remedy any deficiencies, which should include testing the District's ability to restore electronic data files for critical systems from backups; and document the test results (see Finding 5, pages 15 through 18, for more information).

## Objectives, scope, and methodology

We have conducted a performance audit of Morrystown Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness primarily in fiscal year 2022 in the 4 operational areas bulleted below because of their effect on instructional spending, as previously reported in our 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 supporting documentation for 11 of 886 fiscal year 2022 accounts payable transactions. After adjusting transactions for proper account classification, we reviewed fiscal year 2022 spending and prior years' spending trends across operational categories to assess data validity and identify substantial changes in spending patterns. We also evaluated other internal controls that we considered significant to the audit objectives. This work included reviewing the District's policies and procedures and, where applicable, testing compliance with these policies and procedures; reviewing controls over the District's relevant computer systems; and reviewing controls over reporting various information used for this audit. We reported our conclusions on applicable internal controls in Findings 1 through 5 (see pages 3 through 18).

**Peer groups**—We developed 2 peer groups for comparative purposes. To compare the District’s student achievement, we developed a peer group using district poverty rates, type, and location because these factors have been shown to be 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 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, food service, and transportation, we developed a peer group using district size and location. We used these factors because they are associated with districts’ cost measures in these areas.

For very small districts, such as Morrystown ESD, increasing or decreasing student enrollment by just 5 or 10 students or employing 1 additional part-time position can dramatically impact the district’s costs per student in any given year. As a result, and as noted in the *Arizona School District Spending Analysis—Fiscal year 2022*, very small districts’ spending patterns are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of the District’s operations, less weight was given to various cost measures, and more weight was given to our reviews and analysis of the District’s operations.

**Table 1**  
**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	Poverty rate District type Location	Between 19% and 25% Elementary school districts Towns and rural areas	16
Administration, plant operations and maintenance, food service, and transportation	District size Location	Fewer than 200 students Towns and rural areas	57 <sup>1</sup>

<sup>1</sup> Very small districts were grouped into the same transportation and operational peer group, but the transportation peer group only includes 52 of these districts as 5 districts do not provide transportation.

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

**Efficiency and effectiveness**—In addition to the considerations previously discussed, we also considered other information that impacts spending and operational efficiency and effectiveness as described below:

- **Interviews**—We interviewed various District employees and contracted staff in the operational areas we reviewed about their duties. This included District and school administrators, department supervisors, and other support staff who were involved in activities we considered significant to the audit objectives. We also interviewed a District Governing Board member and officials from the Arizona State Retirement System, Arizona Department of Public Safety, and the Maricopa County School Superintendent’s Office.
- **Observations**—To further evaluate District operations, we observed various day-to-day activities in the operational areas we reviewed. This included facility tours, food service operations, and transportation services.

- **Report reviews**—We reviewed various summary reports of District-reported data including its *Annual Financial Report*, District-wide building reports provided by the Arizona Department of Administration’s School Facilities Oversight Board, transportation safety reports provided by the Department of Public Safety, and reports required for the federal school lunch program. Additionally, we reviewed food service-monitoring reports from ADE, a building inspection report from the District’s insurance provider, and District-submitted compliance questionnaire results that its contracted external audit firm completed.
- **Documentation reviews**—We reviewed various sets of District documentation including payroll records, termination incentive and donation policies, and Governing Board meeting minutes.
- **Analysis**—We estimated the impact to employee retirement benefits due to improper ASRS contributions using fiscal year 2020 through 2022 payroll records for District employees who participated in the District’s termination incentive program. Additionally, we reviewed the District’s revenues and expenditures associated with its community preschool program and food service program to determine whether the District significantly subsidized its community preschool or food service program with other District monies.

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





MORRISTOWN SCHOOL DISTRICT #75  
25950 West Rockaway Hills Drive  
P.O. Box 98  
Morristown, Arizona 85342  
623-546-5100

December 19, 2023

Lindsey Perry  
Office of the Auditor General  
2910 N. 44th Street, Suite 410  
Phoenix, AZ 85018

Ms. Lindsey Perry,

Morristown Elementary School District has received and reviewed the Fiscal Year 2022 Performance Audit Report. After our review and reflection, the District agrees with the findings and recommendations. Please accept our district response to the performance audit that you have recently completed. I would like to thank you for your assistance in providing direction for our district. Your staff was very cordial and has provided us with valuable information.

After several years of maintaining IGA's with a neighboring school district to support Administration, Business Services, Human Resources, Special Education, Technology, Maintenance, and Transportation, the Governing Board made the decision as of July 1, 2023 to bring all services back to the district. We have hired new staff to take on these roles and are working diligently with the Maricopa County School Superintendent's Office to provide training, and develop necessary processes and procedures in alignment with the USFR.

We look forward to continuing to collaborate with your staff in the future, and we thank you for your assistance.

Respectfully,

*Dr. Jennifer Petty*

Dr. Jennifer Petty  
Principal/Superintendent

**Finding 1:** District used informal, deficient processes in some areas after it stopped outsourcing various District responsibilities, increasing risk to District assets and student safety

**Recommendation 1:** The District should perform its payroll and cash-handling responsibilities in conformance with the USFR and its school bus preventative maintenance in conformance with DPS' Minimum Standards.

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

Response explanation: Prior to July 1<sup>st</sup>, 2023 we did not have any written processes for staff to follow. However, since that time we are working with MCSSO to develop processes and procedures for all tasks. We currently have written procedures for revenue process as well as the expenditure cycle.

**Recommendation 2:** The District should utilize external guidance, such as from MCSSO staff or resources available on the Arizona Auditor General's website, to develop and implement written policies and procedures that require it to:

- a. Separate responsibilities in its payroll process to ensure that no individual employee is responsible for preparing payroll, authorizing payroll, and distributing warrants in accordance with the USFR;

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

Response explanation: Prior to July 1<sup>st</sup>, 2023 we did not have any written processes for staff to follow. However, since that time we are working with MCSSO to develop processes and procedures for all tasks. We currently have written procedures for revenue process as well as the expenditure cycle.

- b. Separate responsibilities in its cash-handling processes to ensure that no individual employee is responsible for cash-handling and recordkeeping functions in accordance with the USFR;

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

Response explanation: Prior to July 1<sup>st</sup>, 2023 we did not have any written processes for staff to follow. However, since that time we are working with MCSSO to develop processes and procedures for all tasks. We currently have written procedures for revenue process as well as the expenditure cycle.

- c. Perform and track systematic preventative maintenance on its school buses that considers maximum mileage and time frame intervals and the maintenance work that should be completed in accordance with DPS' Minimum Standards.

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

Response explanation: Prior to July 1<sup>st</sup>, 2023 we did not have any written processes for staff to follow. However, since that time we are working with MCSSO to develop processes and procedures for all tasks. We currently have had all vehicles inspected, and our buses will be inspected every winter break, summer break, and as needed in the future.

**Recommendation 3:** The District should identify and provide training to staff responsible for payroll, cash-handling, and school bus preventative maintenance to ensure they follow the developed policies and procedures.

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

Response explanation: Initial training has been provided to current staff and will continue as needed.

**Recommendation 4:** The District should ensure it continues to develop and implement processes, including creating written policies and procedures, for responsibilities other than payroll, cash-handling, and school bus preventative maintenance that it had previously outsourced in accordance with the USFR, DPS' Minimum Standards, and other applicable requirements and train applicable staff, accordingly.

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

Response explanation: Prior to July 1<sup>st</sup>, 2023 we did not have any written processes for staff to follow. However, since that time we are working with MCSSO to develop processes and procedures for all tasks. We currently have written procedures for revenue process as well as the expenditure cycle.

**Finding 2:** District did not comply with legal requirements in various areas, resulting in it spending monies for an unauthorized purpose, paying unnecessary penalties and fees, and limiting transparency into District activities

**Recommendation 5:** The District should determine whether it should continue offering its community preschool program and, if it does, charge fees or student tuition rates and/or obtain grants or donations that cover the costs of operating the program consistent with statutory requirements and Arizona Attorney General Opinion No. 182-136.

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

Response explanation: The ADE requires that we provide preschool for our students with special needs. Our IDEA preschool funding is not enough to cover the cost of the preschool program therefore; we have to have funding from other sources. We have applied for additional grants but have not received them. We also contacted the attorney general's office for clarification and suggested funding sources and were told that they

are working on a solution but do not have a recommendation at this time. We will continue to look for other funding sources to support our preschool.

**Recommendation 6:** The District should review and update its policies and procedures to ensure that employee tax withholdings are remitted in accordance with IRS requirements to avoid penalties and interest charges.

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

Response explanation: New staff has been hired; processes and procedures have been put into place so that all employee tax withholdings are remitted in accordance with the IRS requirements.

**Recommendation 7:** The District should review and update its policies and procedures to ensure that if employee tax withholdings are remitted late, the late payments are resolved in a timely manner.

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

Response explanation: New staff has been hired; processes and procedures have been put into place so that all employee tax withholdings are remitted in accordance with the IRS requirements.

**Recommendation 8:** The District should ensure it acknowledges the receipt and value of donations and that the Governing Board accepts all donations during meetings open to the public.

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

Response explanation: As of October 2023 there is an agenda item on all Governing Board Meetings to specifically accept all donations.

**Recommendation 9:** The District should, in consultation with legal counsel, strengthen existing policies and develop and implement written policies and procedures governing open meetings. These policies and procedures should specifically require the Governing Board to accept donations in public meetings.

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

Response explanation: As of October 2023 there is an agenda item on all Governing Board Meetings to specifically accept all donations.

**Recommendation 10:** The District should consult with legal counsel and the Arizona Attorney General's Office to ensure that any District actions taken contrary to open meeting laws are appropriately addressed to be made valid.

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

Response explanation: New staff has been hired; processes and procedures have been put into place to ensure all district actions are appropriately addressed and valid. We will also work with the Attorney General's Office to determine if an action needs to be taken for previously accepted donations.

**Recommendation 11:** The District should include in its employee training information regarding the importance of complying with State laws related to open meetings.

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

Response explanation: New staff has been hired; processes and procedures have been put into place to ensure all district actions are appropriately addressed and valid.

**Finding 3:** District did not provide required information about its retirement incentive program to ASRS, potentially resulting in unfunded liabilities and improper increases to future retirement benefits for some District employees

**Recommendation 12:** The District should work with the ASRS to:

- a. Determine if its termination incentive program created any unfunded liabilities and, if so, resolve them.

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

Response explanation: We are working with the ASRS to determine if there are any unfunded liabilities and if so to resolve them.

- b. Identify and correct any excess contributions that should not have been included as compensation for the calculation of ASRS benefits.

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

Response explanation: We are currently working with the ASRS to make any corrections.

**Recommendation 13:** The District should develop and implement written policies and procedures specifying the types of payments to employees that should be included as compensation for the calculation of ASRS benefits that comply with State laws and regulations.

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

Response explanation: We have corrected our implemented policies and are working to develop written documents to outline the procedures.

**Finding 4:** District increased risks to student safety by transporting a student in a vehicle that did not have important safety features and failing to ensure a school building was structurally sound

**Recommendation 14:** The District should ensure it transports all students to and from school using vehicles that meet all applicable safety guidelines, including DPS' substantive policy statement regarding the use of 11- to 15-passenger vans.

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

Response explanation: We are working to replace our 15 passenger van with a vehicle that meets all safety guidelines.

**Recommendation 15:** The District should ensure the potentially structurally unsound building on its elementary school campus does not pose a safety risk to students by taking action to remedy it, such as repairing or demolishing the building.

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

Response explanation: There are currently two structures keeping students/staff out of the building at this time and we are working on a plan to demolish the building.

**Recommendation 16:** The District should ensure that all school buildings meet the State's minimum school facility adequacy guidelines, including that all buildings are structurally sound.

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

Response explanation: The Arizona Department of Administration School Facilities Division was out in Dec. 2023 and provided the district with a report to verify the schools and relevant building systems meet the state's school facility adequacy guideline requirements.

**Finding 5:** 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 17:** The District should limit employees' access in the accounting system to only those accounting system functions needed to perform their job duties, including removing the business office employee's administrator-level access.

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

Response explanation: We worked with the MCSSO and all account access has been corrected.

**Recommendation 18:** The District should review and reduce the number of users with administrator-level access to its network and train employees on District policies regarding periodically reviewing network accounts to ensure access aligns with job duties.

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

Response explanation: New staff has been hired; processes and procedures have been put into place to ensure all district access to systems is correct and reviewed periodically.

**Recommendation 19:** The District should develop and implement a process to assign new employees appropriate access in the accounting system, a process to change employees' access if their assigned duties change, and a process to periodically review users' access to help ensure employees' have only the access necessary to accomplish their job duties.

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

Response explanation: New staff has been hired; processes and procedures have been put into place to ensure all district access to systems is correct and reviewed periodically.

**Recommendation 20:** The District should work with the County to review and limit the access of County accounting system user accounts to only those functions needed to support the District and ensure that no one person can initiate and complete a transaction without an independent review and approval. If County users' access cannot be limited, the District should implement compensating controls to limit risks of unauthorized access, errors, and fraud.

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

Response explanation: We worked with the MCSSO and all account access has been corrected.

**Recommendation 21:** The District should implement and enforce strong authentication controls such as multifactor authentication, including compensating controls if necessary, as required by the USFR, to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.

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

Response explanation: We use Google and have implemented multifactor authentication controls to Google. All of our other systems are third party systems and we are working to confirm they have controls in place.

**Recommendation 22:** The District should develop and implement policy and procedures to review the District's authentication controls against USFR requirements at least annually.

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

Response explanation: The district is currently working to develop and implement policy and procedures and they will be reviewed annually.

**Recommendation 23:** The District should require and track employee participation in security awareness training for employees who have not done so in the past year.

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

Response explanation: This has been implemented and we are currently 92% trained waiting on 2 participants to finish training.

**Recommendation 24:** The District should review its IT contingency plan to ensure that it meets USFR requirements and credible industry standards; test its plan at least annually to identify and remedy any deficiencies, which should include testing the District's ability to restore electronic data files for critical systems from backups; and document the test results.

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

Response explanation: We are working to establish and implement an IT contingency plan that is up to date with our current systems.



