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December 29, 2023

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Governing Board
Sanders Unified School District

Mr. Kim Pearce, Superintendent
Sanders Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Sanders 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 CPA firm Walker & Armstrong 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 plans to implement or implement in a different manner 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 Pearce 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

Sanders Unified School District

District spent more on salaries and benefits in all operational areas than its peers, lacked internal controls and did not comply with important requirements in multiple areas, putting public monies, sensitive computerized data, and District property at risk

Performance Audit
A Report to the Arizona Legislature
December 2023
Report 23-209



Walker & Armstrong

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

December 27, 2023

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 Sanders Unified School District for fiscal years 2022 and 2023, conducted pursuant to Arizona Revised Statutes §41-1279.03.

As outlined in its response, the District agrees with all the findings and plans to implement or implement in a different manner all the recommendations.

We appreciate the opportunity to provide these services and work with your Office. Please let us know if you have any questions.

Sincerely,



Walker & Armstrong, LLP
Phoenix, Arizona

Sanders Unified School District

District spent more on salaries and benefits in all operational areas than its peers, lacked internal controls and did not comply with important requirements in multiple areas, putting public monies, sensitive computerized data, and District property at risk

Audit purpose

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

Key findings

- District operated its schools far below capacity levels, using at least an estimated \$697,000 that may have been more effectively used for other priorities.
- District did not adequately monitor its contracted food service management company, resulting in wasted food and spending.
- District did not systematically perform school bus preventative maintenance, risking student safety.
- District lacked approval for some purchases and paid travel reimbursements in advance of travel, resulting in unauthorized purchases and increasing its risk of waste, fraud and abuse.
- District assigned too much access to its accounting system and did not secure its information technology (IT) equipment, increasing its risk of errors, fraud, property damage, and data loss.

Key recommendations

The District should:

- Evaluate how it utilizes its space at its schools and determine and implement ways to reduce it, including evaluating whether to consolidate school operations to increase operating capacity to a more efficient level.
- Provide student counts to its food service contractor and monitor meal production to minimize wasted food and consider rebidding its food service contract to obtain a contract based on cost per meal rather than cost reimbursement.
- Develop and implement procedures to ensure school bus maintenance and mileage is tracked and monitored, so that maintenance is performed according to the District's preventative maintenance schedule and document preventative maintenance in accordance with Minimum Standards requirements.
- Require authorized District officials to independently review and approve purchases and payments prior to being made and discontinue paying travel reimbursements in advance and reconcile travel expense claims to actual travel costs incurred to determine whether any public monies were overpaid to recover any overpayments identified.
- Limit employees' access to its accounting system to only those functions needed to perform their job duties and develop and implement written policies and procedures to limit physical access to its IT server room so that only appropriate personnel have access.

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District lacked adequate purchasing controls to ensure credit card and fuel card purchases were approved and appropriate

District paid for travel per diem and mileage up to months in advance of travel dates, increasing the risk of overpayments

District failed to ensure board members and employees properly completed conflict-of-interest disclosure forms, limiting transparency and increasing the risk that District board members and employees had not disclosed substantial interests that might influence or affect their official conduct

Recommendations


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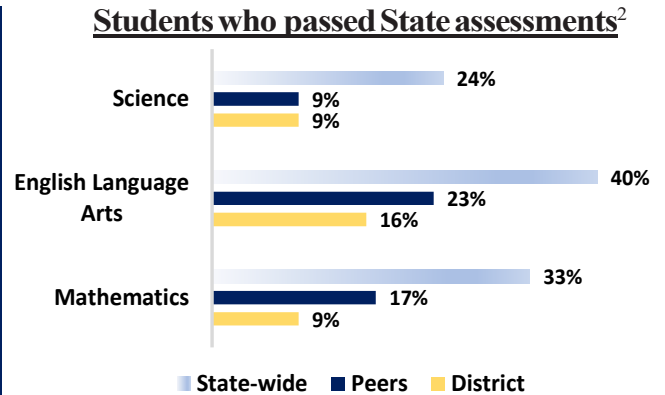
Sanders Unified School District—Performance Audit

Fiscal Years 2022 and 2023

December 2023



Rural district in Apache County
Grades: Kindergarten through 12th
FY 2022
Students attending: 586
Number of schools: 3
School letter grades¹: 2 Bs, 1 C



¹ Source: Arizona State Board of Education 2021-2022.

² Source: Arizona school district spending analysis—Fiscal year 2022.

FY 2022 total operational spending – \$12.8 million (\$21,923 per student)

Instructional – 54% (\$11,833 per student)

Noninstructional – 46% (\$10,090 per student)

Operational overview—FY 2022

	Measure	Sanders USD	Peer average
Administration—higher per student spending and improvements needed The District spent more per student on administration than its peer districts averaged, primarily due to higher salaries and benefits costs, and its internal controls over multiple areas need improvement. Specifically, the District’s inadequate accounting controls increased its risk of errors and fraud and led to unauthorized purchases (see Finding 4, page 9). Additionally, the District’s excessive access to its sensitive computerized data and other IT deficiencies increased the risk of unauthorized access to its network and sensitive information, errors, fraud, and data loss (see Finding 5, page 11).	Spending per student	\$3,434	\$1,405
	Spending per square foot	\$6.98	\$5.87
Plant operations—higher spending and schools operated at low capacity The District spent more per square foot and per student than its peer districts averaged. This was likely due to the District operating far below its capacity at all 3 of its schools, using monies that may have been more effectively used for other District priorities, such as improving student achievement (see Finding 1, page 3).	Spending per student	\$3,925	\$1,568

<p>Food service—higher spending and a lack of oversight over food service contract</p> <p>The District spent more per meal and per student on food service than its peer districts averaged. This was likely due to the District’s lack of oversight over its contracted food service vendor, leading to wasted food and spending (see Finding 2, page 5).</p>	Spending per meal	\$4.62	\$4.05
	Spending per student	\$843	\$477
<p>Transportation—higher spending and student safety at risk</p> <p>The District spent more per mile and rider on its transportation program than its peer districts averaged, primarily due to higher salaries and benefits costs. Despite this increased spending to staff its transportation program, the District failed to perform and document timely school bus preventative maintenance, increasing safety risks to the students it transports and potentially lessening the useful life of school buses (see Finding 3, page 7).</p>	Spending per mile	\$4.25	\$3.10
	Spending per rider	\$3,128	\$2,035

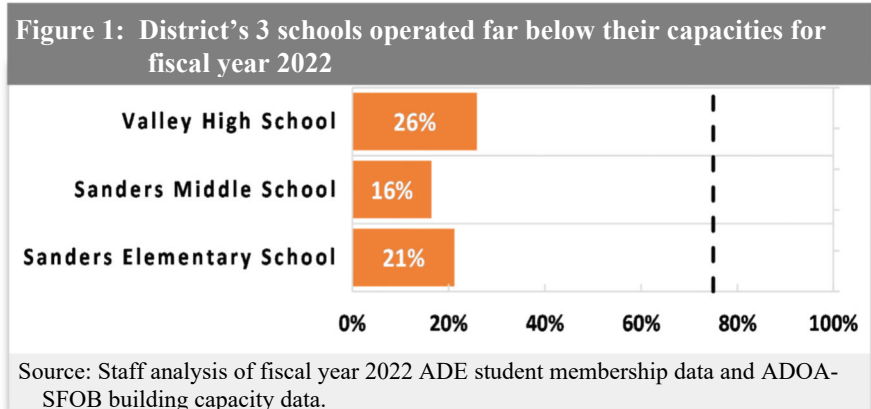
District operated its schools far below capacity levels, using at least an estimated \$697,000 that may have been more effectively used for other priorities, such as improving student achievement

The optimal rate of capacity usage for a district to operate is at least 75 percent and is calculated using the number of students attending divided by the student capacity as defined by the Arizona Department of Administration–School Facilities Oversight Board (ADOA-SFOB). When a district operates below 75 percent, the individual capacity usage at each district school should be evaluated to determine whether there are options for a district to change how it operates its schools to increase capacity usage.

District operated its schools at a low capacity despite having capacity to consolidate students, using at least an estimated \$697,000 annually that could have been redirected to other District priorities

In fiscal year 2022, the District operated at a District-level capacity of 21 percent, and all 3 of its schools operated below their ADOA-SFOB calculated capacities, leaving significant available capacity at each school (see Figure 1). We confirmed this unused capacity while at the District in our September 2023 tour of the District’s facilities, where we observed that there were many empty classrooms and unused buildings. Additionally, 2 of the District’s 3 schools, an elementary school and middle school, are within less than 1 mile of each other. These 2 schools had a combined 391 students attending for fiscal year 2022, while their capacities were 1,059 and 1,011, respectively, demonstrating that the District could serve students from both schools at either site and could have saved costs associated with

staffing and maintaining the other school. Based on students attending its schools in fiscal year 2022 and spending per square foot data, we estimate that the District may be able to reallocate between approximately \$697,000 and \$861,000 annually in spending, depending on which location it chose to consolidate its elementary and middle school students.³



staffing and maintaining the other school. Based on students attending its schools in fiscal year 2022 and spending per square foot data, we estimate that the District may be able to reallocate between approximately \$697,000 and \$861,000 annually in spending, depending on which location it chose to consolidate its elementary and middle school students.³

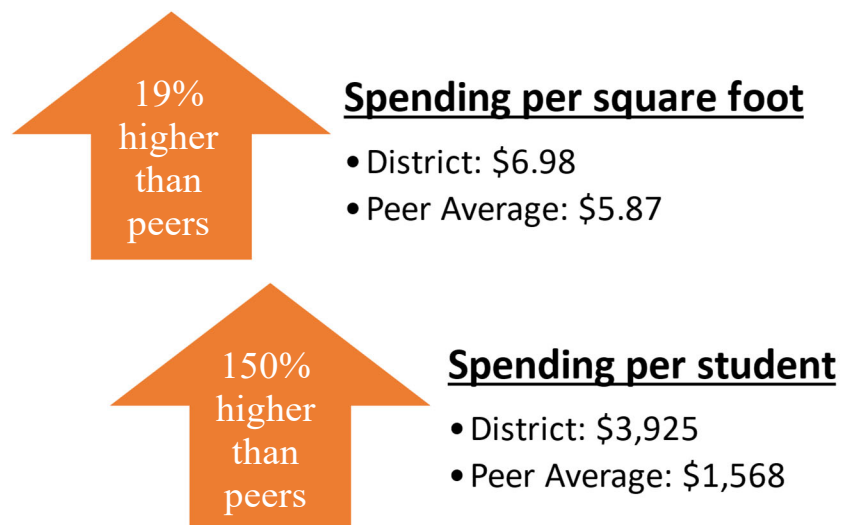
³ This estimate of spending includes plant operations and maintenance costs such as salaries and benefits for custodial and maintenance staff, utilities, repairs, and other related building upkeep costs. It does not account for any spending in other areas, such as administration or food service, that may also see reductions as a result of consolidating students.

District’s spending on schools operating far below capacity could potentially be more effectively used for other priorities, such as improving student achievement

Operating schools far below capacity results in the District spending resources on areas such as building maintenance and administrative costs that could be redirected to other priorities such as improving student achievement. Operating in this manner requires more staff to work at each school, additional utility and maintenance costs, and additional supplies. In fiscal year 2022, the District’s plant operation and maintenance spending per square foot and per student were much higher than their peer district average (see Figure 2). As previously discussed, the District may be able to reallocate an estimated \$697,000 to \$861,000 annually by consolidating its elementary and middle school operations at a single location. The District could then redirect these savings toward other priorities such as improving the District’s student achievement, which in fiscal year 2022 was much lower than the State’s average in Math, English Language Arts, and Science.

District officials stated that they were aware that the schools were operating below capacity primarily due to a lack of employment opportunities in the area and that the student count had also decreased by 80 students or 14 percent from the previous year because people had moved out of the area. District officials further stated that 1 wing of the middle school had been shut down to try to save costs on utility and maintenance expenses and that 2 buildings at the elementary school had been condemned, but the District did not have the resources to demolish them.

Figure 2: Plant operations spending compared to peer average for fiscal year 2022



Source: *Arizona School District Spending Analysis—Fiscal year 2022.*

Recommendation

The District should:

1. Evaluate how it utilizes its space at its schools and determine and implement ways to reduce it, including evaluating whether to consolidate school operations in order to increase operating capacity to a more efficient level and focus more resources to other District priorities like improving student achievement.

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

District did not adequately monitor its contracted food service management company, leading to wasteful production of food and spending

District did not oversee its food service contractor, leading to wasteful spending on meals that were never served

In fiscal year 2022, the District outsourced its food service program operations to a contractor who was responsible for planning menus, purchasing and preparing food, and serving students. The District's contract with its food service contractor specified that the District would pay the contractor on a cost-reimbursement basis, meaning that the District agreed to pay the contractor for all direct costs it incurred to operate the food service program such as costs for labor, food, and other supplies. The District also paid administrative and management fees to cover indirect overhead costs. Further, the contract guaranteed that food service revenues would exceed expenditures for the fiscal year. Due to the provisions of its food service contract, effective monitoring and oversight processes are essential for the District to ensure that its contractor operated the food service program as efficiently as possible, given the contract requires the District to reimburse the contractor for all costs.

We visited the District in September 2023 and observed its food service program during lunch service at the District's elementary school because that location had the most students attending and found that a significant amount of food was being thrown away. The food service contractor's staff at the elementary school reported that they prepare 300 meals for lunch service each day, regardless of student attendance for the day. However, total enrollment at the elementary school was 225 students, and the average student attendance for fiscal year 2022 was 220, meaning that an average of 80 meals were discarded for lunch each day because the District did not monitor its food service contractor. This amounts to over 14,000 meals estimated to be wasted per school year for elementary school lunches.

District's lack of oversight of its food service contractor led to an estimated \$65,000 that could have been redirected to other District priorities

As previously discussed, effective monitoring and oversight of its food service contractor is important for the District to ensure the contractor was operating the program most efficiently. By failing to do so, the District wasted an estimated \$65,000, based on the District's fiscal year 2022 spending per meal and the estimated number of meals wasted, that could have been redirected to other District priorities. District officials responsible for overseeing the food service contractor were not aware that the contractor was preparing 300 lunches per day and reported that they thought the food service contractor was obtaining daily student attendance prior to preparing meals. Additionally, invoices submitted by the food service contractor did not include detailed explanations of charges, but the District paid all invoices

in full without evaluating the reasonableness of the charges. District officials stated that although detailed charges are not provided in the invoices, the District can request the details of amounts being charged, but it typically does not do so, and we did not note any District requests for details in the documents we reviewed. District oversight and review of detailed charges would have helped the District determine that charges were appropriate and accurate prior to payment and identify meal overproduction as well as ensuring that there were no losses for its food service program in accordance with the terms of the contract.

District staff responsible for overseeing the food service contractor indicated that they monitored lunch services the first 2 weeks of the school year and then again midyear, but not on a regular basis throughout the year. By failing to monitor its food service contractor, we estimate that the District could have saved at least \$65,000 that it could have used for other District priorities, such as improving the District's student achievement, which in fiscal year 2022 was much lower than the State's average in Math, English Language Arts, and Science.

Recommendations

The District should:

2. Consider rebidding its food service contract to obtain a contract based on cost per meal rather than cost reimbursement that would require the vendor to stay within the agreed-upon cost per meal.
3. Develop a process to take counts of students intending to purchase lunch in the cafeteria each day and report these counts to its food service contractor so that it knows how many meals to prepare or implement some other process that minimizes the number of wasted meals.
4. Monitor its food service contractor, including monitoring meal production throughout the fiscal year, to ensure it produces only the meals needed for students.
5. Require its food service contractor to provide detailed invoices with explanations of charges that would allow the District to ensure the charges are reasonable and in accordance with the terms of the contract prior to paying the invoices.

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

District did not systematically perform school bus preventative maintenance, putting student safety at risk

District did not systematically perform and document required school bus preventative maintenance, putting student safety at risk and potentially lessening the useful life of its school buses

To help ensure student safety as well as extend the useful life of school buses, the State's Department of Public Safety (DPS) has adopted *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards). Minimum Standards require school districts to perform systematic school bus preventative maintenance, such as brake and tire inspections, safety feature inspections, and oil changes, and maintain records of this preventative maintenance. To meet the Minimum Standards, the District's written school bus maintenance schedule requires preventative maintenance to be performed every 7,000 miles, with no additional time frame requirement when buses are not being used. However, our review of 30 of 38 required preventative maintenance services, based on recorded miles traveled by buses for fiscal year 2022, found that the District had not followed its school bus preventative maintenance policy. Specifically, 3 of 25 school buses did not receive their required preventative maintenance, exceeding the mileage requirement by between 4,900 and 14,000 miles. According to the District's school maintenance staff, the District did not have a process in place for monitoring when maintenance was coming due to ensure it scheduled and performed maintenance timely.

In addition, we found 2 additional school buses that had exceeded their preventative maintenance mileage intervals by approximately 1,000 and 1,300 miles, respectively, during our observations of pretrip school bus inspections at the District in September 2023. The District's transportation director reported that these buses had not received preventative maintenance due to 2 of the 3 maintenance personnel being out of town at training when the maintenance thresholds were reached. However, the District should have procedures in place to ensure that its preventative maintenance is timely and systematically performed to ensure the safety of students riding its school buses.

Recommendations

The District should:

6. Perform and document required school bus preventative maintenance in accordance with Minimum Standards requirements.
7. Update its written school bus maintenance schedule to include a time frame requirement for when preventative maintenance should occur to ensure that buses drive fewer miles still receive timely maintenance.

8. Develop and implement procedures to ensure school bus maintenance and mileage is tracked and monitored so that maintenance is performed according to the District's preventative maintenance schedule.

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

District's inadequate accounting controls increased its risk of errors and fraud and led to unauthorized purchases

District lacked adequate purchasing controls to ensure credit card and fuel card purchases were approved and appropriate

The *Uniform System of Financial Records for Arizona School Districts* (USFR)⁴ requires districts to implement policies and procedures that provide effective internal controls over credit cards, including implementing and monitoring adherence to those internal controls. However, our review of 30 judgmentally selected fiscal year 2022 credit and fuel card purchases totaling \$15,057 found that the District had not followed its procedures related to credit card usage. For a fuel purchase and a purchase at Walmart, the District could not provide supporting documentation, such as receipts, to demonstrate the purchases were for an allowable District purpose. Additionally, a purchase from Home Depot did not have evidence of prior approval before making the purchase. District business office staff indicated that although they have a process in place for checking out and using credit and fuel cards and requiring receipts upon their return, the District but had not taken action to ensure District credit and fuel card users followed them.

District paid for travel per diem and mileage up to months in advance of travel dates, increasing the risk of overpayments

The USFR and District policy establish procedures and amounts for reimbursing travel expenses, and all reimbursements must not exceed the maximum amounts established by the Arizona Department of Administration (ADOA)'s *State of Arizona Accounting Manual* (SAAM). We reviewed 30 travel expenses from 315 invoices recorded in the District's accounting system for fiscal year 2022 and found that 27 of the expenses totaling \$1,609 had travel reimbursements for per diem and mileage allowances that were paid 9 days to 3 months in advance of when travel occurred because the District paid the per diem allowance when the travel request was submitted for preapproval instead of after the travel occurred. District business office staff indicated that paying travel costs in advance of travel occurring is an informal but regular practice for the District and that there is no reconciliation completed to ensure that the travel actually occurred, including determining whether the travel advance was more than the actual travel costs incurred. Paying travel-related costs in advance is prohibited under most circumstances by SAAM and increases the risk of overpayments and fraud.

⁴ The Arizona Auditor General and the Arizona Department of Education developed the USFR pursuant to Arizona Revised Statutes (A.R.S.) §15-271. The USFR prescribes the minimum internal control policies and procedures to be used by Arizona school districts for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements.

District failed to ensure board members and employees properly completed conflict-of-interest disclosure forms, limiting transparency and increasing the risk that District board members and employees had not disclosed substantial interests that might influence or affect their official conduct

State conflict-of-interest laws and District policy require public officers or employees to make known in official records and refrain from participating in any manner in a contract for which the officer or employee has a substantial interest.⁵ Statute and USFR further require districts to maintain a conflict-of-interest file available for public inspection that includes information regarding substantial interests disclosed by governing board members and employees.⁶

To meet this requirement, the District requires all governing board members and employees to complete a conflict-of-interest disclosure form within 5 calendar days of commencing work and at least annually thereafter. However, the District did not have a process in place to review the forms to identify and mitigate any disclosed substantial interests and identify whether governing board members and employees properly completed the form. Our review of all 145 fiscal year 2022 conflict-of-interest disclosure forms for District governing board members and employees found that 83 forms were not completed properly. For example, some employees indicated that they both had and did not have a conflict of interest while others indicated they have a substantial interest but did not specify what it was. By lacking a process to review completed disclosure forms to ensure the forms are complete and accurate, the District cannot ensure its staff and board comply with State conflict-of-interest laws, may not provide all statutorily required information to the public related to disclosed conflicts, and increases 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:

9. Develop and implement processes for overseeing and enforcing the District's fuel and credit card use policy, such as updating the policy to require that credit card users repay the District for unsupported charges on its cards, and limiting or revoking card privileges when credit card users do not comply with the District's policy.
10. Ensure that purchases and payments are independently reviewed and approved by authorized District officials prior to being made.
11. Discontinue paying travel reimbursements in advance of travel occurring.
12. Identify travel expense claims that the District paid in advance of travel since at least fiscal year 2022 to the present, and reconcile those travel expense claims to actual travel costs incurred to determine whether any public monies were overpaid and, if so, recover those monies paid in excess of actual travel costs incurred.

⁵ A.R.S. §38-503.

⁶ A.R.S. §38-509.

13. Follow its travel policies and procedures require staff to submit a travel expense claim form with itemized daily expenses and supporting documents after travel is completed for reimbursement.
14. Develop and implement policies and procedures for reviewing completed conflict-of-interest forms in a timely manner to identify and communicate conflicts of interest to ensure safeguards are taken and District policies and State law are appropriately followed.

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 the risk of unauthorized access to network and 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 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 enforce its password policies, putting District operations at risk

The USFR requires that districts implement strong passwords that align with credible industry standards. Although the District had a password policy, it was not ensuring that network users' passwords met policy requirements. For example, the District's policy had requirements for password length, complexity, and expiration, but our July 2023 review of the District's network settings found that the District's system settings were not programmed to enforce these requirements. For example, although the District had requirements for account passwords to be updated every 60 or 90 days depending on the account's level of system access, we identified users who had not updated their password in more than 20 years. As a result, the District increased the risk that unauthorized individuals could access its sensitive District information and disrupt operations.

Deficiency 2: District did not regularly review and limit user access to its network and critical systems, increasing its risk of unauthorized access to sensitive information, data loss, 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. The USFR further requires that when user accounts are no longer needed, such as when an employee terminates, access to information systems should be immediately disabled. 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 these USFR requirements. However, our July 2023 review of accounts on the District's network, student information system, and accounting system found the District did not regularly review and limit users' access to what they need to perform job duties. Specifically:

- **District did not ensure users only had access necessary to perform their job duties**—We found 14 of 42 accounting system users and 17 of 190 student information system users had more access than was necessary to perform their job duties. Allowing users to have excessive access increases the District's risk of unauthorized access to its systems and any sensitive information on those systems and potential data loss. Further, although we did not identify any improper transactions due to this deficiency, system access beyond what is needed for an employee's job duties increases the District's risk of errors and fraud.
- **District did not limit the number of users with administrator-level access**—Of the 14 accounting system users we identified with excess access to the accounting system, 6 users, including the business manager, had administrator-level access, which gave these users full control over all accounting system settings. For example, users with administrator-level access have the ability to process false invoices, change employee pay rates, including their own; or add and pay nonexistent vendors or employees without detection. Additionally, although we did not identify any improper transactions due to this deficiency, the District increased its risk of security breaches because hackers typically target administrator accounts for their greater access privileges.
- **District did not adequately remove terminated employee access**—We found 26 of a sample of 85 network user accounts reviewed, 72 of 190 student information system accounts, and 13 of 42 accounting system accounts were associated with employees whose District employment had ended 1 month to 6 years prior to our review. Because these terminated employees' accounts were still active, the District increased its risk of unauthorized access to its sensitive information and potential data loss. The District also had a greater risk of security breaches because one of these network accounts associated with a terminated employee also had administrator-level access, which as previously discussed, has greater access privileges and therefore represents a higher risk to the District.

After we notified the District of these accounts, District officials indicated they began disabling terminated user accounts and IT staff were going to work with the business manager to restrict users' access to only those functions necessary to perform their assigned job duties.

Deficiency 3: District lacked a complete IT contingency plan, increasing the risk of data loss and disruptions to District operations

As of July 2023, the District did not have a complete, up-to-date IT contingency plan. To help ensure continued operations and data recovery in the event of a system outage, the USFR requires and credible industry standards recommend that districts develop and implement an IT contingency plan. The plan should identify all critical systems, including the order in which they should be restored or criticality of the systems; clearly outline who is responsible for which activities during a system outage or attack; contain contingencies for continued business operations during a system outage; and contain detailed

procedures for restoring critical systems and equipment. In addition to developing and implementing a comprehensive contingency plan, the District should test the plan at least annually to help ensure it is effective, which should include ensuring all parties understand their roles and responsibilities, identifying internal and external vulnerabilities, taking action to update equipment or remedy any issues identified, testing its ability to restore electronic data files for critical systems from backups, and documenting the results of the test. However, based on our July 2023 review, the District's plan did not contain some key components, and the District did not regularly test its plan. Specifically, the District's plan did not include a detailed action plan for employees in the event of a system outage or a contact list for the District's emergency response team. By lacking a comprehensive and complete contingency plan, the District is at an increased risk of being unable to continue operations and restore the District's systems in the event of a system outage.

Deficiency 4: District did not adequately secure its IT equipment, increasing its risk of property damage and data loss

The USFR requires that districts implement security-related controls over access to IT systems and data, including physical access to IT systems and data. However, the District was unable to confirm who had access to the server room, and during our visits to the District, we observed that the District did not adequately secure its IT equipment, including its server, because it maintained it in an unlocked room. Specifically, during our July 2023 visit to the District, we observed the unlocked server room, and District officials reported that it was unlocked due to maintenance occurring. However, we subsequently observed that the server room was still unlocked during a September 2023 visit, and District staff could not provide an explanation for why the room was unlocked. We additionally observed water damage on the ceiling tiles of the server room. District officials reported that the leak had just been repaired and that they forgot to submit a maintenance ticket to have the tile replaced, which they subsequently did upon our bringing it to their attention. Allowing broad access to the server room and failing to properly protect computer equipment increases the risk of network interruption, equipment loss, and possible loss of sensitive data.

District failed to develop and implement IT policies and procedures to comply with requirements after ending its outsourcing agreement

Prior to June 2022, the District outsourced its IT functions to a third-party vendor. When District staff began performing these responsibilities in June 2022, the District did not develop and implement policies and procedures to ensure it complied with important IT requirements. Upon our review and inquiries regarding its IT operations in July 2023, the District provided procedures that it was still in the process of developing. However, the USFR, which districts are required to follow, requires at a minimum that districts have standards and procedures related to IT systems development, change management, security, and computer operations that should be developed and regularly maintained. Although the District had previously outsourced these responsibilities to a vendor, it should still have maintained up-to-date policies and procedures to ensure the services its IT vendor was providing met USFR requirements.

Recommendations

The District should:

15. Implement and enforce strong network password requirements to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.
16. Protect its sensitive computerized data by limiting users' access to its network, accounting system, and student information system to only those functions needed to perform their job duties, including removing the business office employees' administrator-level access.
17. Establish and implement written policies and procedures to assign and periodically review network, accounting system, and student information system access for employee accounts to ensure they have access to only those functions needed to perform their job duties.
18. Immediately disable all network accounting system and student information system accounts associated with terminated employees.
19. Establish and implement written policies and procedures to ensure terminated employees have their access promptly removed.
20. Develop and implement an IT contingency plan that meets USFR requirements and credible industry standards and test the plan at least annually to identify and remedy deficiencies and document the test results.
21. Develop and implement written policies and procedures to limit physical access to its IT server room so that only appropriate personnel have access, including procedures for distributing, tracking, and collecting keys to areas that have sensitive IT equipment and requiring employees to sign agreements outlining their responsibilities for maintaining access to IT areas.
22. Conduct a physical key inventory to determine and document the number of keys that exist and who has access to IT areas.
23. Maintain security of IT areas by keeping doors locked at all times to protect equipment and data from damage or destruction.
24. Perform regular inspections of IT areas for maintenance needs to protect property and data.

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

SUMMARY OF RECOMMENDATIONS

Walker & Armstrong makes 24 recommendations to the District

The District should:

1. Evaluate how it utilizes its space at its schools and determine and implement ways to reduce it, including evaluating whether to consolidate school operations in order to increase operating capacity to a more efficient level and focus more resources to other District priorities like improving student achievement (see Finding 1, pages 3 and 4, for more information).
2. Consider rebidding its food service contract to obtain a contract based on cost per meal rather than cost reimbursement that would require the vendor to stay within the agreed-upon cost per meal (see Finding 2, pages 5 and 6, for more information).
3. Develop a process to take counts of students intending to purchase lunch in the cafeteria each day and report these counts to its food service contractor so that it knows how many meals to prepare or implement some other process that minimizes the number of wasted meals (see Finding 2, pages 5 and 6, for more information).
4. Monitor its food service contractor, including monitoring meal production throughout the fiscal year, to ensure it produces only the meals needed for students (see Finding 2, pages 5 and 6, for more information).
5. Require its food service contractor to provide detailed invoices with explanations of charges that would allow the District to ensure the charges are reasonable and in accordance with the terms of the contract prior to paying the invoices (see Finding 2, pages 5 and 6, for more information).
6. Perform and document required school bus preventative maintenance in accordance with Minimum Standards requirements (see Finding 3, pages 7 and 8, for more information).
7. Update its written school bus maintenance schedule to include a time frame requirement for when preventative maintenance should occur to ensure buses that drive fewer miles still receive timely maintenance (see Finding 3, pages 7 and 8, for more information).
8. Develop and implement procedures to ensure school bus maintenance and mileage is tracked and monitored so that maintenance is performed according to the District's preventative maintenance schedule (see Finding 3, pages 7 and 8, for more information).
9. Develop and implement processes for overseeing and enforcing the District's fuel and credit card use policy, such as updating the policy to require that credit card users repay the District for unsupported charges on its cards, and limiting or revoking card privileges when credit card users do not comply with the District's policy (see Finding 4, pages 9 through 11, for more information).
10. Ensure that purchases and payments are independently reviewed and approved by authorized District officials prior to being made (see Finding 4, pages 9 through 11, for more information).
11. Discontinue paying travel reimbursements in advance of travel occurring (see Finding 4, pages 9 through 11, for more information).

12. Identify travel expense claims that the District paid in advance of travel since at least fiscal year 2022 to the present, and reconcile those travel expense claims to actual travel costs incurred to determine whether any public monies were overpaid, and if so, recover those monies paid in excess of actual travel costs incurred (see Finding 4, pages 9 through 11, for more information).
13. Follow its travel policies and procedures require staff to submit a travel expense claim form with itemized daily expenses and supporting documents after travel is completed for reimbursement (see Finding 4, pages 9 through 11, for more information).
14. Develop and implement policies and procedures for reviewing completed conflict-of-interest forms in a timely manner to identify and communicate conflicts of interest to ensure safeguards are taken and District policies are appropriately followed (see Finding 4, pages 9 through 11, for more information).
15. Implement and enforce strong network password requirements to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations (see Finding 5, pages 12 through 15, for more information).
16. Protect its sensitive computerized data by limiting users' access to its network, accounting system, and student information system to only those functions needed to perform their job duties, including removing the business office employees' administrator-level access (see Finding 5, pages 12 through 15, for more information).
17. Establish and implement written policies and procedures to assign and periodically review network, accounting system, and student information system access for employee accounts to ensure they have access to only those functions needed to perform their job duties (see Finding 5, pages 12 through 15, for more information).
18. Immediately disable all network accounting system and student information system accounts associated with terminated employees (see Finding 5, pages 12 through 15, for more information).
19. Establish and implement written policies and procedures to ensure terminated employees have their access promptly removed (see Finding 5, pages 12 through 15, for more information).
20. Develop and implement an IT contingency plan that meets USFR requirements and credible industry standards and test the plan at least annually to identify and remedy deficiencies and document the test results (see Finding 5, pages 12 through 15, for more information).
21. Develop and implement written policies and procedures to limit physical access to its IT server room so that only appropriate personnel have access, including procedures for distributing, tracking, and collecting keys to areas that have sensitive IT equipment and requiring employees to sign agreements outlining their responsibilities for maintaining access to IT areas (see Finding 5, pages 12 through 15, for more information).
22. Conduct a physical key inventory to determine and document the number of keys that exist and who has access to IT areas (see Finding 5, pages 12 through 15, for more information).
23. Maintain security of IT areas by keeping doors locked at all times to protect equipment and data from damage or destruction (see Finding 5, pages 12 through 15, for more information).
24. Perform regular inspections of IT areas for maintenance needs to protect property and data (see Finding 5, pages 12 through 15, for more information).

Objectives, scope, and methodology

We have conducted a performance audit of Sanders 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 Arizona Auditor General's *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 processing expenditures and scanned 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 36 of 145 individuals who received payments through the District's payroll system in fiscal year 2022 and reviewed supporting documentation for 90 of 1,383 fiscal year 2022 accounts payable transactions. In addition, we reviewed fiscal year 2022 spending compared to the previous year and trends for the

different operational categories to assess reasonableness and identify significant 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 network and systems; and reviewing controls over reporting various information used for this audit. We reported our results on applicable internal control procedures in Findings 2 through 5 (see pages 5 through 15).

Peer groups—The Arizona Auditor General developed 3 types of peer groups 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 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 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	32% or higher but less than 35% Unified school districts Towns and rural areas	13
Administration, plant operations and maintenance, and food service	District size Location	500 to 1,199 students Towns and rural areas	15
Transportation	Miles per rider Location	511 to 720 miles per rider Towns and rural areas	17

Source: Staff analysis 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 and school administrators, department supervisors, and other support staff who were involved in activities we considered significant to the audit objectives.

- **Observations**—To further evaluate District operations, we observed various day-to-day activities in the operational areas we reviewed. This included facility tours, food services operations, and transportation services.
- **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-wide building reports provided by the Arizona Department of Administration’s School Facilities Oversight Board, and compliance questionnaire results that its external audit firm completed. We also reviewed District-provided accounting system and network user account reports and documentation related to the District’s fiscal year 2022 IT security awareness training.
- **Documentation reviews**—We reviewed various documentation provided by the District including credit card and fuel card statements and supporting documentation for fiscal year 2022 purchases; cash receipts documentation and bank statements from July 2021 to June 2022; Governing Board meeting minutes; fiscal year 2022 employment contracts and payroll records; Governing Board member and District employee conflict-of-interest disclosure forms; the District’s fiscal year 2022 food service contract; and all available school bus driver files, 30 of 38 school bus preventative maintenance records, and pre and post-trip bus inspection checklists for 1 week of each quarter for the District’s school buses for fiscal year 2022. We also reviewed Department of Public Safety school bus inspection reports for the school buses inspected in calendar years 2021 through 2023.
- **Analysis**—We reviewed and evaluated 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 compared the District’s square footage per student, use of building space, and meals served per student to peer districts’. Additionally, we reviewed the District’s food service program revenues and expenditures to evaluate the District’s ongoing ability to cover its food program costs and determine whether the District significantly subsidized its 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, as well as the Arizona Auditor General’s Office for their support.

DISTRICT RESPONSE



SANDERS UNIFIED SCHOOL DISTRICT #18

P.O. Box 250
Sanders, Arizona 86512

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Website: www.sandersusd.net

Kim J. Pearce, Superintendent

Barbara Baca, Business Manager

December 21, 2023

Lisa S. Parke, CPA
Audit & Assurance Partner
Walker & Armstrong
1850 N. Central Ave., Suite 400
Phoenix, AZ 85004

Dear Ms. Parke,

The Sanders Unified School District #18 has received and reviewed the Fiscal Year 2022 Preliminary Performance Audit Report. The District would like to share our appreciation for the audit team and the professionalism and assistance provided to our staff while conducting the audit. After review, the District agrees with the findings and recommendations.

The District has or is in the process of implementing the recommendations. Our staff will work diligently to improve the processes and procedures as provided in the findings. Knowing your audit team is available to provide guidance while we finalize our Corrective Action Plans is a comfort.

We look forward to working with and learning from the Walker & Armstrong audit team in the follow-up period.

Respectfully,

A handwritten signature in black ink that reads 'Kim J. Pearce'.

Kim J. Pearce
Superintendent

Arnold Goodluck
Board President

Daisy Slim
Board Clerk

Jackie Yazzie Jr.
Board Member

Marlene Apachee
Board Member

Lomardo Aseret
Board Member

Finding 1: District operated its schools far below capacity levels, using at least an estimated \$697,000 that may have been more effectively used for other priorities, such as improving student achievement

Recommendation 1: Evaluate how it utilizes its space at its schools and determine and implement ways to reduce it, including evaluating whether to consolidate school operations in order to increase operating capacity to a more efficient level and focus more resources to other District priorities like improving student achievement.

District Response: The finding is agreed to, and a different method of dealing with the finding will be implemented.

Response explanation: The Administration and Governing Board have been evaluating the operating capacity to bring it to an efficient level. We are working with the Facilities Oversight Board to assist us since there is not enough space at either school to consolidate. Enrollment is increasing after suffering a large decrease, which should fill some of the space. An update of present square footage usage is being conducted to ensure the current report at FOB is accurate.

Finding 2: District did not adequately monitor its contracted food service management company, leading to wasteful production of food and spending

Recommendation 2: Consider rebidding its food service contract to obtain a contract based on cost per meal rather than cost reimbursement, that would require the vendor to stay within the agreed-upon cost per meal.

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

Response explanation: The District will change its invitation to bid to a “cost per meal” reimbursement.

Recommendation 3: Develop a process to take counts of students intending to purchase lunch in the cafeteria each day and report these counts to its food service contractor, so that it knows how many meals to prepare or implement some other process that minimizes the number of wasted meals.

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

Response explanation: Teachers are required to submit daily lunch counts to the front office by 9 am. The daily counts are immediately sent to the Cafeteria Manager.

Recommendation 4: Monitor its food service contractor, including monitoring meal production throughout the fiscal year, to ensure it produces only the meals needed for students.

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

Response explanation: By Spring, the District will have a point-of-service system at each school. The daily reports will be reconciled against the contractor's invoice.

Recommendation 5: Require its food service contractor to provide detailed invoices with explanations of charges that would allow the District to ensure the charges are reasonable and in accordance with the terms of the contract, prior to paying the invoices.

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

Response explanation: As part of the district's stricter oversight, it has directed the contractor to provide detailed monthly invoices. An unreasonable charge or one that is outside of the contract is addressed.

Finding 3: District did not systematically perform school bus preventative maintenance, putting student safety at risk

Recommendation 6: Perform and document required school bus preventative maintenance in accordance with Minimum Standards requirements.

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

Response explanation: The Safety Inspection Checklist for buses is being updated to include identifying potential hazards and risks, establishing inspection criteria, the checklist will be integrated with the existing Preventative Maintenance Service Checklist, and requiring extensive inspection training for all drivers.

Recommendation 7: Update its written school bus maintenance schedule to include a time frame requirement for when preventative maintenance should occur to ensure buses that drive fewer miles still receive timely maintenance.

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

Response explanation: The period to schedule, a Preventative Maintenance will be within 10% of the prescribed interval

Recommendation 8: Develop and implement procedures to ensure school bus maintenance and mileage is tracked and monitored so that maintenance is performed according to the District's preventative maintenance schedule.

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

Response explanation: The Transportation Supervisor is developing an enhanced preventive maintenance schedule that includes the VIN, dates of last and next services, any issues identified, and the corrective action taken.

Finding 4: District's inadequate accounting controls increased its risk of errors and fraud and led to unauthorized purchases

Recommendation 9: Develop and implement processes for overseeing and enforcing the District's fuel and credit card use policy, such as updating the policy to require that credit card users repay the District for unsupported charges on its cards, and limiting or revoking card privileges when credit card users do not comply with the District's policy.

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

Response explanation: The District is revising its Policy DGD-R to require that credit card users repay the District for unsupported charges on its cards and revoking card privileges when users do not comply.

Recommendation 10: Ensure that purchases and payments are independently reviewed and approved by authorized District officials prior to being made.

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

Response explanation: Effective 1/12/24 prior to approval all requested credit card purchases shall require approval of two administrators.

Recommendation 11: Discontinue paying travel reimbursements in advance of travel occurring.

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

Response explanation: Governing Board approval to discontinue paying travel reimbursement in advance effective 10/3/23.

Recommendation 12: Discontinue paying travel reimbursements in advance of occurring.

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

Response explanation: Implemented 10/3/23

Recommendation 13: Follow its travel policies and procedures require staff to submit a travel expense claim form with itemized daily expenses and supporting documents after travel is completed for reimbursement.

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

Response explanation: Employees are required to bring proof of attendance and the motel receipt effective 10/3/23.

Recommendation 14: Develop and implement policies and procedures for reviewing completed conflict-of-interest forms in a timely manner to identify and communicate conflicts

of interest to ensure safeguards are taken and District policies and State law are appropriately followed.

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

Response explanation: HR Specialist reviews the Conflict of Interest form and has employees sign and submit it at the Orientation in July. The form is now part of the Onboarding packet for new hires. Implemented on 7/26/23.

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

Recommendation 15: Implement and enforce strong network password requirements to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.

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

Response explanation: IT is implementing and enforcing strong network password requirements and MFA for all users.

Recommendation 16: Protect its sensitive computerized data by limiting users' access to its network, accounting system, and student information system to only those functions needed to perform their job duties, including removing the business office employees' administrator-level access.

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

Response explanation: IT is reviewing each user's access and disabling certain access. HR submits a Work Order form to IT authorizing them to terminate or to add a new hire.

Recommendation 17: Establish and implement written policies and procedures to assign and periodically review network, accounting system, and student information system access for employee accounts to ensure they have access to only those functions needed to perform their job duties.

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

Response explanation: IT is implementing a new process in which employee access to Domain, Visions, and Synergy accounts are reviewed quarterly to ensure appropriate user access.

Recommendation 18: Immediately disable all network accounting system and student information system accounts associated with terminated employees.

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

Response explanation: IT is working with Principals and HR for a process that immediately alerts IT to terminate user access to SIS.

Recommendation 19: Establish and implement written policies and procedures to ensure terminated employees have their access promptly removed.

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

Response explanation: Effective 10/1/2023, HR or Principals submit a Work Order form to IT authorizing them to promptly terminate outgoing employees and students.

Recommendation 20: Develop and implement an IT contingency plan that meets USFR requirements and credible industry standards and test the plan at least annually to identify and remedy deficiencies and document the test results.

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

Response explanation: IT is working The TRUST to develop, author, and practice bi-annual DR simulated disaster.

Recommendation 21: Develop and implement written policies and procedures to limit physical access to its IT server room so that only appropriate personnel have access, including procedures for distributing, tracking, and collecting keys to areas that have sensitive IT equipment and requiring employees to sign agreements outlining their responsibilities for maintaining access to IT areas.

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

Response explanation: IT is working The TRUST to develop, author, and practice bi-annual DR simulated disaster.

Recommendation 22: Conduct a physical key inventory to determine and document the number of keys that exist and who has access to IT areas.

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

Response explanation: The Maintenance Supervisor controls access to server keys.

Recommendation 23: Maintain security of IT areas by keeping doors locked at all times to protect equipment and data from damage or destruction.

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

Response explanation: Training for custodial and maintenance staff is being conducted, which prohibits them access to server rooms.

Recommendation 24: Perform regular inspections of IT areas for maintenance needs to protect property and data.

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

Response explanation: A new procedure is in place, which requires IT staff to check the server room door at whichever site they are visiting.

