

# Bagdad Unified School District

District did not comply with State laws or USFR requirements, putting public monies and sensitive information at risk, and risked student safety by not complying with school bus driver random drug and alcohol testing requirements and not performing systematic bus preventative maintenance

Performance Audit

June 2022  
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A Report to the Arizona Legislature

Lindsey A. Perry  
Auditor General





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June 24, 2022

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board  
Bagdad Unified School District

Mr. Bryan Bullington, Superintendent  
Bagdad Unified School District

Transmitted herewith is the Auditor General's report, *A Performance Audit of Bagdad 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.

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

## Bagdad Unified School District

**District did not comply with State laws or USFR requirements, putting public monies and sensitive information at risk, and risked student safety by not complying with school bus driver random drug and alcohol testing requirements and not performing systematic bus preventative maintenance**

### 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 did not follow open meeting laws when it failed to accept almost \$3.6 million in contributions during Governing Board meetings that were open to the public.
- District superintendent improperly participated in drafting and revising service proposals with nearby school district despite an apparent conflict of interest, and the District failed to use statutorily required intergovernmental agreements (IGAs) for these services.
- District did not safeguard donations valued at \$2,825 and could not provide evidence they were distributed to intended graduating students, increasing its risk of loss or misuse.
- District allowed users too much accounting system and network access and did not implement an IT contingency plan, increasing its risk of errors, fraud, and data loss.
- District did not comply with school bus driver random drug and alcohol testing requirements and did not perform systematic bus maintenance nor keep bus maintenance records, putting student safety at risk.

### Key recommendations

The District should:

- Strengthen existing policies and develop and implement written policies and procedures to ensure it complies with State laws governing open meetings, conflicts of interest, and IGAs.
- Develop and provide periodic employee training regarding open meeting, conflict-of-interest, and IGA requirements to ensure employees are aware of these requirements and how to comply with them.
- Follow the *Uniform System of Financial Records for Arizona School Districts* (USFR) separation of duties requirements to ensure no one employee can receive and record donated items without an independent review.
- Review and limit accounting system users' access levels, remove unnecessary user accounts from its network, and develop and implement an IT contingency plan that meets USFR requirements.
- Develop and implement a school bus driver random drug and alcohol testing policy in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers*, and develop and implement bus preventative maintenance policies and ensure mechanics perform and document services on schedule.



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District and a local mining company developed an ongoing financial relationship in 2008

Contrary to State law, Governing Board did not accept contributions from local mining company during meetings open to public

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District did not safeguard donations and could not provide evidence they were distributed to intended graduating students, increasing its risk of loss or misuse

District assigned some employees too much access to its accounting system, increasing its risk of errors and fraud

District allowed user accounts that no longer needed it to have access to its network, increasing its risk of unauthorized access to sensitive information and data loss

District did not have an IT contingency plan, increasing its risk of interrupted operations and data loss

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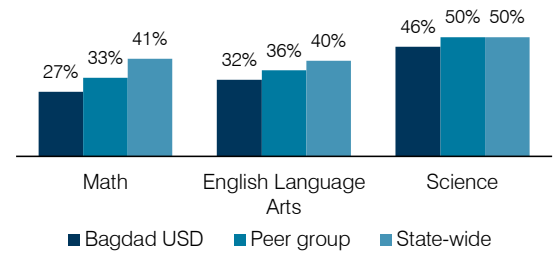
**Table**

1 Criteria for selecting peer school districts for comparative purposes  
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Rural district in Yavapai County  
Grades: Kindergarten through 12th  
Students attending: 454  
Number of schools: 2  
School letter grades<sup>1</sup>: 1 B, 1 C  
Graduation rate: 84%

**Students who passed State assessments<sup>1</sup>**



<sup>1</sup> Laws 2020, Ch. 47, modified statutory requirements to cancel State-wide assessments and school letter grades in fiscal year 2020 because of school closures resulting from the COVID-19 pandemic. As a result, we reported assessment results and school letter grades from fiscal year 2019.

**Total operational spending—\$6.05 million (\$13,327 per pupil)**

**Instructional—59.1% (\$7,879 per pupil)**

**Noninstructional—40.9% (\$5,448 per pupil)**

Operational overview	Measure	Bagdad USD	Peer average
<p><b>Administration—similar spending but District did not comply with State laws and requirements</b></p> <p>The District spent a similar amount per pupil on administration as its peer districts averaged, and we did not have any findings related to the District's administrative spending. However, the District did not follow the State's open meeting laws when it failed to accept almost \$3.6 million of contributions during Governing Board meetings open to the public and did not use statutorily required intergovernmental agreements (IGAs) for services it provided to a nearby school district, and the District's superintendent improperly participated in drafting and revising proposals for these services despite an apparent substantial interest conflict (see Finding 1, page 3). Further, the District did not follow <i>Uniform System of Financial Records for Arizona School Districts</i> (USFR) requirements for safeguarding donations, restricting accounting system and network access, implementing an IT contingency plan, and correctly classifying expenditures (see Finding 2, page 9).</p>	Spending per pupil	\$1,887	\$1,873
<p><b>Plant operations—spending measures mixed and no reported findings</b></p> <p>The District spent 26 percent more per square foot but 17 percent less per pupil on plant operations than its peer districts averaged primarily because it maintained 38 percent fewer square feet per student. Districts that operate fewer square feet per student tend to have higher costs per square foot due to higher usage. We did not report any findings in this area.</p>	Spending per square foot	\$6.88	\$5.44
	Spending per pupil	\$1,499	\$1,803
<p><b>Food service—lower spending and no reported findings</b></p> <p>The District spent 8 percent less per meal and 42 percent less per pupil on its food service program than peer districts averaged. We did not report any findings in this area.</p>	Spending per meal	\$3.95	\$4.30
	Spending per pupil	\$368	\$633

Operational overview	Measure	Bagdad USD	Peer average
<p><b>Transportation—spending measures mixed but student safety at risk</b></p> <p>The District spent 30 percent less per mile but 26 percent more per rider than its peer districts averaged primarily because it transported its riders 75 percent more miles, on average. However, the District did not comply with school bus driver random drug and alcohol testing and did not perform systematic bus maintenance, putting student safety at risk (see Finding 3, page 12).</p>	Spending per mile	\$1.40	\$2.00
	Spending per rider	\$2,196	\$1,741





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

The District and its superintendent did not act in accordance with State laws in 2 areas. Specifically, (1) the District did not act in accordance with the State's open meeting law when it accepted contributions from a local mining company outside of a meeting open to the public, and (2) the superintendent and District did not act in accordance with the State's conflict-of-interest and IGA laws when the superintendent drafted and revised District service proposals that appear to have represented a substantial interest to himself, and the District entered into these service proposals rather than the statutorily required IGAs.

### **Issue 1: Contrary to State law, District failed to accept almost \$3.6 million of contributions during Governing Board meetings open to public**

#### **District and a local mining company developed an ongoing financial relationship in 2008**

The District has received ongoing financial support from Freeport McMoRan Inc. (Freeport), an international mining company with an active copper mine operation located in Bagdad, Arizona. Freeport employs most of the community and is the main property taxpayer for the District. Additionally, Owens Whitney Elementary School District (Owens Whitney ESD), which is a nearby school district, serves the Wikieup community where the water source and pump are located for Freeport's mine.<sup>1</sup> Around 2008, the District and Freeport began a financial relationship in which Freeport provides monthly contributions to the District to support its operations but considers these contributions to be donations that the District can use at its discretion. A Freeport manager of strategic community development told us the company supports communities through 3 key priorities, including educational attainment. Further, the manager explained to us that since the District serves Freeport's employees by teaching their children and Owens Whitney ESD is located by the water source for the company's mine, Freeport considers both district communities to be priorities. To receive its annual contributions, the District provides Freeport with its annual and continuing educational priorities and then submits an annual contribution request letter to Freeport that Freeport uses to determine how much it will provide in annual contributions to support District operations and capital improvements. Specifically, the superintendent along with 1 Governing Board (Board) member meet with Freeport representatives annually to provide the District's annual and ongoing educational priorities and later submits the contribution request letter. The superintendent told us Freeport's previous 2 District contacts for contributions preferred not discussing the contributions publicly, so he continued to conduct the annual meetings as had occurred prior to his arrival. Freeport requires the District to provide it monthly invoices so that it can remit monthly payments to the District totaling the annual contribution amount throughout the year.

<sup>1</sup> In fiscal year 2019, the District's superintendent concurrently became the administrator of Owens Whitney ESD.

## Contrary to State law, Governing Board did not accept contributions from local mining company during meetings open to public

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>2</sup> However, Freeport paid contributions of approximately \$1.66 million and \$1.93 million in fiscal years 2020 and 2021, respectively, to the District that were not accepted during meetings open to the public. The superintendent told us the Board does not accept the Freeport contributions during meetings open to the public, but the Board members know the District's budgetary line item from which the contributions are spent. He also told us he generally receives feedback from the Board on the District's financial needs, but he is solely responsible for determining and drafting the contribution request letter amounts. Consistent with the superintendent's statements, our review found no evidence that these contributions were accepted during an open meeting as required by State law, and instead were received through the District's day-to-day invoicing and cash receipting processes.

The superintendent told us the District did not accept Freeport's contributions during meetings open to the public because Freeport did not like the contributions discussed publicly. Likewise, the Board president told us there is some concern talking about the contribution amounts in front of the community because community members might similarly ask Freeport to contribute money. However, when we asked the Freeport manager of strategic community development about these concerns, he told us the public was well aware of the contributions, which are disclosed in the company's quarterly financial reports aggregated with contributions to other community organizations. The District strengthening its existing policy and establishing written procedures requiring that if the Governing Board accepts a contribution, it should ensure the superintendent acknowledges the contribution's receipt, purpose, and value during meetings open to the public, regardless of a contributor's request to maintain privacy, which would help ensure transparency and compliance with the State's open meeting law.

## Issue 2: Superintendent improperly participated in drafting and revising service proposals despite an apparent substantial interest conflict, and the District failed to use statutorily required IGAs for these services

### Superintendent drafted service proposals entitling himself to \$12,000 per year and revised service proposal that may have entitled himself to \$30,000 of additional compensation while failing to make known his substantial interest on a disclosure form

State conflict-of-interest law and District policy requires public officers or employees to make known in official records and refrain from participating in any manner in a contract for which the officer has a substantial interest. However, our review found the superintendent drafted District administrative services proposals (service proposals) that were incorporated in the superintendent's employment agreement as compensation, thereby representing an apparent substantial interest conflict.<sup>3,4</sup> The superintendent failed to disclose this substantial interest on an August 2019 disclosure form he signed. Specifically, the superintendent drafted and the District entered into a service proposal for fiscal year 2020 to provide administrative, fiscal and grants management, and student achievement services for \$12,000 paid to the District; the superintendent was 1 of 2 individuals

<sup>2</sup> Op.Atty.Gen. No. I80-156 determined the acceptance of a gift by a school board is school business, requiring compliance with State open meeting laws. Arizona Revised Statutes (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>3</sup> A.R.S. §38-503(A).

<sup>4</sup> The superintendent informed us that in addition to drafting the administrative services proposal, he also drafted the provision in his employment agreement that authorized paying him additional compensation equal to the financial value set forth in the administrative services proposals.

authorized to provide these services to Owens Whitney ESD, which is a nearby school district. In fiscal years 2020 and 2021, the District paid the superintendent additional compensation totaling \$12,000 per year to provide these services to Owens Whitney ESD. When Owens Whitney ESD was experiencing cash flow issues and needed monies to meet its payroll obligations in August 2020, the superintendent, acting in his role as the Owens Whitney ESD's administrator, coordinated a loan by sending Freeport a letter requesting that it provide a \$30,000 cash contribution to Owens Whitney ESD, in lieu of \$30,000 of ongoing contributions paid to the District. The superintendent, acting in his role as the Owens Whitney ESD's administrator, further stipulated Owens Whitney ESD intended to return the Freeport monies to the District through its annual administrative services proposal that he revised, and was approved by both districts in October 2020 from \$12,000 to \$42,000. Freeport subsequently paid \$30,000 to Owens Whitney ESD and reduced the amount of 1 of its monthly contributions it paid to the District by the same amount.

The superintendent's employment agreements, from fiscal years 2020 to 2022, included provisions entitling him to receive additional compensation equal to the annual financial value specified within the districts' administrative services proposals. As mentioned earlier, the service proposals were drafted by the superintendent, which is

### Key terms

**Substantial interest**—Any direct or indirect monetary or ownership interest that is not hypothetical and is not defined in statute as a "remote interest."

**Remote interest**—Any of several specific categories of interest defined in statute that are exempt from the conflict-of-interest requirements. For example, an employee or public officer who is reimbursed for actual and necessary expenses incurred while performing official duties.

Source: Auditor General staff review of A.R.S. §38-502 and the *Arizona agency handbook*. Arizona Office of the Attorney General. (2018). *Arizona agency handbook*. Phoenix, AZ. Retrieved 4/9/2019 from <http://www.azag.gov/outreach/publications/agency-handbook>.

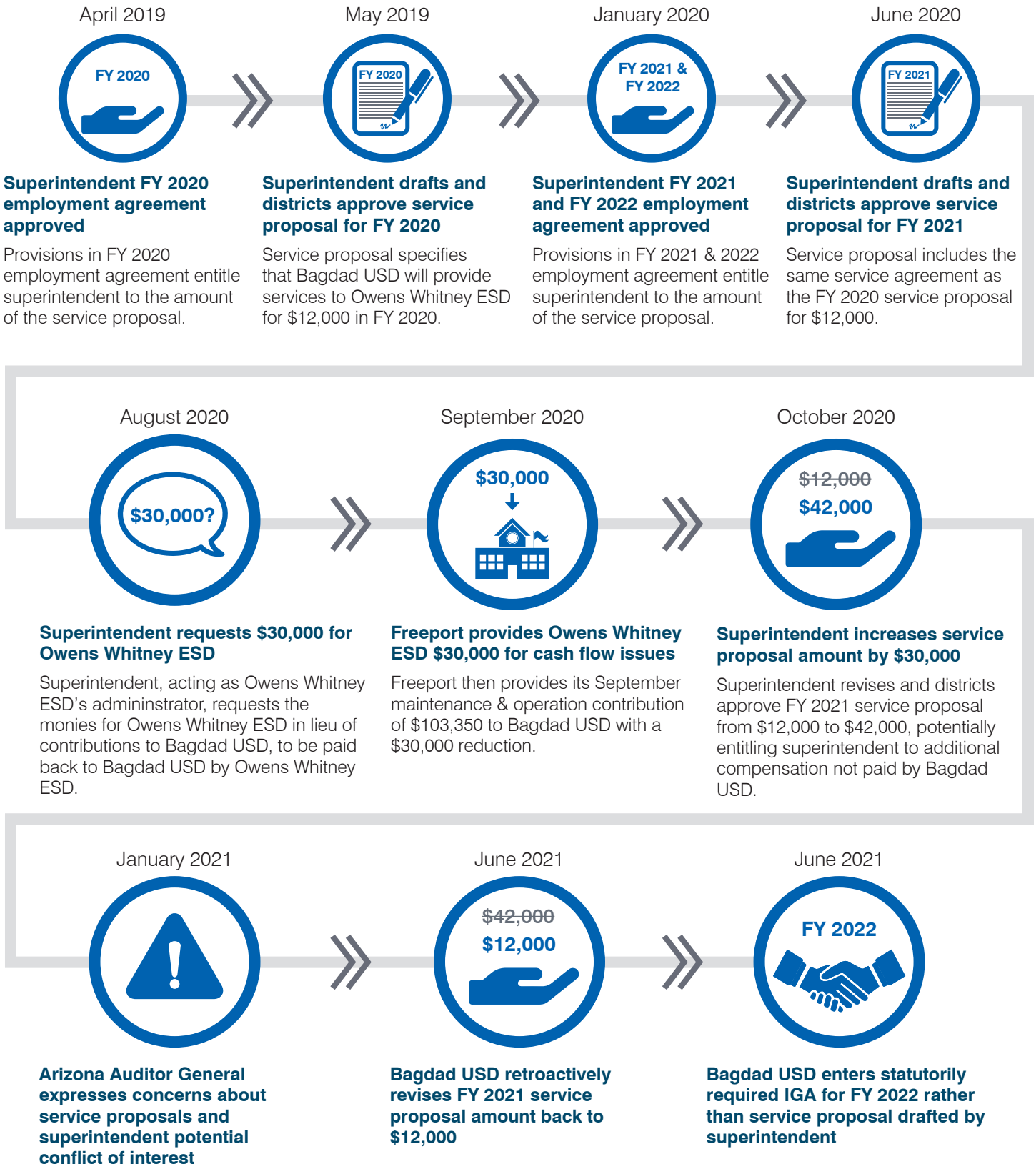
contrary to State conflict-of-interest laws that mandate that any public officer or employee refrain from participating in any manner in a contract for which the officer or employee has a substantial interest. Specifically, since the superintendent drafted and revised the fiscal year 2021 service proposal to include an additional \$30,000, his employment agreement may have entitled him to the additional revised amount. Although our review confirmed the superintendent did not receive the additional \$30,000 of compensation, it appears that the superintendent acted contrary to the State's conflict-of-interest law when he drafted and revised to increase the amount of the service proposals in which he had an apparent substantial interest, and he failed to include on a disclosure form in August 2019 that those amounts were required to be paid to the superintendent as additional compensation.

See Figure 1 on page 6 for a timeline of the service proposals and the contributions requested by the District's superintendent for Owens Whitney ESD.

Although the Board president told us she supported the superintendent lowering the District's contribution amounts from Freeport to help alleviate Owens Whitney ESD's cash flow issues, she was not aware that the superintendent's fiscal year 2021 employment agreement may have entitled him to \$30,000 of additional compensation due to the service proposal revisions he had drafted. She acknowledged she is still learning in her role and reiterated she did not think the superintendent could get the additional monies. The superintendent told us he was not aware his fiscal year 2021 employment agreement created an oversight and may have raised his compensation when he revised the service proposal and that was not his intention. Financial records provided by the District indicated that no additional compensation was paid to the superintendent based on his revisions to the service proposal.

**Figure 1**

**Timeline of service proposals with and contributions requested for Owens Whitney ESD**



Source: Auditor General staff interviews of District employees and analysis of District-provided service proposals, superintendent employment agreements, contribution documents, and IGAs.

## District failed to enter into required IGAs while instead complying with Owens Whitney ESD's requests

The districts' service proposals in fiscal years 2020 and 2021 were statutorily required to have been written as IGAs specifying duration, purpose, manner of financing and budgeting, the permissible method(s) to be employed in terminating the agreement, and any other necessary and proper matters.<sup>5</sup> Further, both districts were statutorily required to have submitted the documents to the districts' attorneys for determination of whether they were in proper form and within the powers and authority granted under State laws.<sup>6</sup> The superintendent acknowledged that State law required the service proposals to be drafted as IGAs and to adhere to the related statutory requirements. However, he explained that the Owens Whitney ESD's Governing Board did not want lengthy and complex legal documents and instead preferred simple agreements so he drafted them himself to comply with their wishes and did not send them to the District's attorney. The Owens Whitney ESD's Governing Board president acknowledged to us that the Governing Board had asked the superintendent to keep the service proposals simple until we asked questions about them, at which time the District took corrective action and entered into an IGA for fiscal year 2022.

## District revised service proposal and entered into required IGA after we expressed concerns

After we brought our concerns with the superintendent drafting service proposals contractually entitling himself to additional compensation to the District's attention, in June 2021 the District retroactively revised its fiscal year 2021 service proposal back to \$12,000 and entered into an IGA with Owens Whitney ESD for fiscal year 2022. However, the District's Governing Board president told us she was not expecting Owens Whitney ESD to repay the \$30,000 it originally agreed to pay back to the District. Our review confirmed the superintendent did not receive the additional \$30,000 of compensation. The District including in its employee training information regarding the importance of complying with the State's conflict-of-interest law, District policy, and IGA laws would help ensure employees comply with those requirements.

### Recommendations

The District should:

1. Ensure it complies with State laws governing open meetings, conflicts of interest, and IGAs. Specifically:
  - a. If the Governing Board accepts a contribution, including those from the mining company and any other gifts and donations, it should ensure the superintendent acknowledges the contribution's receipt, purpose, and value during meetings open to the public, regardless of a contributor's request to maintain privacy.
  - b. District employees, including the superintendent, should ensure they follow the State conflict-of-interest law and District policy by following the practices they learned in the District-provided training (see recommendation 3), including describing their substantial interests on the District's conflict-of-interest form as required and refraining from participating in any decision, contract, sale, purchase, or service, such as drafting and revising a service proposal/agreement, for which they have a substantial interest.
  - c. District employees should ensure District legal agreements with other school districts are written as IGAs specifying duration, purpose, manner of financing and budgeting, the permissible method(s) to be employed in terminating the agreement, and any other necessary and proper matters; and are reviewed by District attorneys for determination of whether the IGAs are in proper form and within the powers and authority granted under the laws of this State.

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<sup>5</sup> A.R.S. §11-952.

<sup>6</sup> A.R.S. §11-952(D).

2. In consultation with legal counsel, strengthen existing policies and develop and implement written policies and procedures governing open meetings, conflicts of interest, and IGAs in conformance with State law. These policies and procedures should specifically require the Governing Board to accept contributions in a meeting open to the public; disallow District employees from participating in matters for which they have a substantial interest, including drafting and revising service proposals/agreements; and require agreements to comply with IGA statutory requirements.
3. Develop and provide periodic training on conflict-of-interest requirements, process, and disclosure forms to its employees on how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.
4. Include in its employee training information regarding the importance of complying with State laws related to open meetings and IGAs.

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



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

#### **District did not safeguard donations and could not provide evidence they were distributed to intended graduating students, increasing its risk of loss or misuse**

To prevent loss or misuse and ensure accurate recording, the USFR requires districts to establish and maintain effective policies and procedures to safeguard cash, supplies, and other property by separating custodial and recordkeeping functions among employees.<sup>7</sup> However, we found the District received donated items valued at an estimated \$2,825 in fiscal year 2020, including gift cards, 6 computers, and storage containers intended to be given to graduating seniors during a 2020 graduation celebration, without separating duties of receiving the donations and recording them. Specifically, a District employee was responsible for receiving and tracking donated items without an independent review. By not separating these functions, the District increased its risk of loss or misuse because a second employee was not involved in the process to verify all donations were received and recorded.

Additionally, to ensure items donated for graduating seniors were used for their intended purpose, the District's established procedures required signatures of students accepting donated items. However, the District distributed the donated items to graduating seniors during a 2020 graduation celebration without obtaining student signatures. District officials stated that the District employee normally responsible for distributing the donated items and collecting student signatures was unable to attend the 2020 graduation celebration, so another District employee took on the responsibility of distributing the donated items. However, this employee was not aware of the District's procedures for collecting student signatures and did not obtain the required proper signatures of students accepting donations. By not following its established procedures to collect student signatures when distributing donated items, the District increased its risk of loss or misuse, and it was unable to provide evidence that the \$2,825 of donations were used for their intended purpose.

#### **District assigned some employees too much access to its accounting system, increasing its risk of errors and fraud**

The USFR requires that 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. However, our October 2020 review of accounting system

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<sup>7</sup> The USFR is developed by the Arizona Auditor General and the Arizona Department of Education (ADE) pursuant to 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; and are in conformity with generally accepted practices and federal and State laws.

access levels for the District's 6 employees with access to the accounting system found that 2 employees had the ability to initiate and complete payroll transactions without an independent review and approval. This is more access than they needed and increased the District's risk of errors and fraud because a second employee was not involved in the process to verify payroll transactions and changes were accurate and appropriate. According to District officials, they did not realize these employees had more access than needed until our review. Although we did not identify any improper transactions, users with broad payroll access could change employee pay rates, including their own, or add and pay nonexistent employees without detection.

## **District allowed user accounts that no longer needed it to have access to its network, increasing its risk of unauthorized access to sensitive information and data loss**

The USFR requires that when user accounts are no longer needed, access to information systems should be disabled immediately. However, our November 2020 review of all 70 active user accounts with access to the District's network found that 9 network user accounts were no longer needed because they were linked to employees who no longer worked for the District, including 3 employees who had not worked for the District in over a year. Because terminated employees' network accounts were still active, the District increased its risk of unauthorized access to its sensitive information and potential data loss. According to District officials, the District relied on a manual process with no secondary review to remove terminated employees' access, which did not always result in terminated employees being removed from the District's systems immediately.

## **District did not have an IT contingency plan, increasing its risk of interrupted operations and data loss**

The District did not have a comprehensive IT contingency plan as of July 2021 that aligned with USFR requirements. To ensure continued operations and data recovery in the event of a system outage, the USFR requires districts to develop and implement an IT contingency plan that identifies all critical systems, including the order in which they should be restored or criticality of the systems; clearly outlines who is responsible for which activities during a system outage or attack; contains contingencies for continued business operations during a system outage; and contains 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 ensure it is effective, which should include ensuring all parties understand their roles and responsibilities, testing its ability to restore electronic data files for critical systems from backups, and documenting the results of the tests. Although the District had documented policies regarding how often it backed up its data, where it stored backups, and how often it tested backups, these policies did not include any of the other components of a comprehensive IT contingency plan. Not having a comprehensive contingency plan exposes the District to an increased risk of data loss and being unable to continue operations and restore the District's systems in the event of a system outage.

## **District misclassified 8.6 percent of its operational expenditures, causing it to misreport its spending by operational category**

The USFR requires school districts to follow the expenditure classification guidance included in the Uniform Chart of Accounts for school districts to ensure accurate financial reporting and comparability among Arizona school districts and nationally. In fiscal year 2020, the District misclassified about \$520,500, or 8.6 percent, of its \$6.05 million in operational spending. Specifically, the District did not accurately classify its expenditures in the correct operational categories, such as instruction, plant operations, instruction support services, and administration. As a result, the District's *Annual Financial Report* and supporting accounting data did not accurately present the District's spending in these operational categories to the public and decision-makers who may rely on the report and data to know how the District spent its public monies in these areas. When we corrected these classification errors, the District's instructional spending as a percentage of total operational spending decreased from 59.9 to 59.1 percent—a decrease of 0.8 percentage points. The dollar amount used for analysis and presented in this report reflect the necessary adjustments. When we brought the misclassifications to District officials' attention,



they said they classified expenditures the same way they had in prior years and based on guidance from the District's financial auditors and did not always review expenditure classification guidance included in the Uniform Chart of Accounts for school districts to ensure coding was accurate.

## Recommendations

The District should:

5. Separate custodial and recordkeeping functions among employees for items donated to the District and ensure that no one employee can receive and record donated items without an independent review.
6. Ensure staff follow District procedures to collect signatures of students accepting donated items to provide evidence that donated items were used for their intended purpose.
7. Review accounting system users' access levels and limit users' access in the accounting system to only those functions needed to perform their job duties and ensure that no one employee can initiate and complete a process without an independent review and approval.
8. Remove all unnecessary user accounts in its network and implement a review process to ensure that terminated employees' access is immediately removed.
9. Develop and implement an IT contingency plan that meets USFR requirements and test the plan at least annually to identify and remedy any deficiencies and document the test results.
10. Ensure staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and any time it is revised or updated, and implement its guidance to accurately account for and report the District's spending.

**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 school bus driver random drug and alcohol testing and did not perform systematic bus maintenance, putting student safety at risk**

#### **District did not comply with random drug and alcohol testing requirements for its school bus drivers, putting student safety at risk and increasing the District's liability**

To help ensure student safety, the State's Department of Public Safety (DPS) has adopted *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards). These standards require school districts to ensure that school bus drivers are properly certified and receive and pass random drug and alcohol tests and require districts to maintain documentation demonstrating that school bus drivers met all certification requirements for 2 years from the date of certification. Despite these requirements, the District did not conduct any random drug tests of its school bus drivers in fiscal year 2020. District officials stated that they were unaware of DPS requirements for random drug testing but that random alcohol tests of its school bus drivers were performed. However, the District did not provide documentation to demonstrate that any random alcohol tests occurred in fiscal year 2020 despite our requests and the requirement to maintain this documentation for 2 years. Further, the District did not have a policy or process in place to ensure school bus drivers received required random drug and alcohol tests. The District not complying with random drug and alcohol testing of its school bus drivers increased the risk to student safety as well as increased the District's liability if an incident compromising student safety occurred.

#### **District did not perform systematic bus preventative maintenance nor keep bus maintenance records, putting student safety at risk and potentially lessening the useful life of its buses**

To help ensure student safety as well as extend the useful life of school buses, the State's 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 maintenance. Further, although the State's Minimum Standards do not reference a required time range for performing systematic school bus preventative maintenance, vehicle manufacturers' guidelines for the District's school buses recommend using a time frame threshold of 6 months for performing timely preventative maintenance in addition to a mileage threshold. The District did not have a documented school bus maintenance policy, but according to District officials, they had an informal school bus preventative maintenance policy to perform preventative maintenance on each school bus every 7,500 to 10,000 miles.<sup>8</sup> However, the District's informal school bus preventative maintenance policy did not have a time frame threshold, and our review of the District's fiscal years 2016 through 2020 school bus preventative maintenance records for the District's 4 school buses found that each school bus received preventative maintenance once per year, on average. Additionally, based on our review of these

<sup>8</sup> Our review of the District's fiscal years 2016 through 2020 preventative maintenance records for the District's 4 school buses found that 1 of 16 services exceeded the District's maximum mileage threshold of 10,000. This service was done at 10,861 miles.

school bus preventative maintenance records, the District did not consistently maintain all records of preventative maintenance services as required by the State's Minimum Standards. Specifically, the District maintained a vehicle maintenance summary report for each school bus that listed the dates that a service or repair was performed, but our review found that for 8 of the 16 preventative maintenance services, the District did not have detailed records to support the specific preventative maintenance services listed on the District's summary reports, such as who performed the service and which components were serviced. By not ensuring it systematically performed and documented required school bus preventative maintenance on schedule and within manufacturers' guidelines, the District increased risk to student safety and potentially lessened the useful life of its buses.

Additionally, the District did not have a documented preventative maintenance policy for its white activity buses, but District officials stated that they had a separate informal white activity bus preventative maintenance policy to perform preventative maintenance on each white activity bus every 7,500 miles.<sup>9</sup> However, our review of the District's fiscal years 2016 through 2020 preventative maintenance records for the District's 3 white activity buses found that all 3 buses exceeded the District's informal mileage policy by amounts ranging from 1,243 miles to 9,656 miles. District officials stated that because white activity buses are not required to follow the State's Minimum Standards requirements, including preventative maintenance requirements, they did not always require the white activity buses to follow the District's informal preventative maintenance policy. As a result, each white activity bus surpassed the District's mileage policy at least 1 time during fiscal years 2016 through 2020. Further, based on our review of the District's fiscal years 2016 through 2020 white activity bus preventative maintenance records, the District did not consistently maintain all records of preventative maintenance services, similar to the issue we identified with the District's school bus maintenance records. Specifically, the District maintained a vehicle maintenance summary report for each white activity bus that listed the dates that a service or repair was performed, but our review found that for 9 of the 11 preventative maintenance services, the District did not have detailed records to support the specific preventative maintenance services listed on the District's summary reports, such as who performed the service and which components were serviced. By not ensuring it systematically performed and documented white activity bus preventative maintenance according to its informal policy, the District increased risk to student safety and potentially lessened the useful life of its white activity buses.

## Recommendations

The District should:

11. Develop and implement a random drug and alcohol testing policy in accordance with the State's Minimum Standards and conduct and document random drug and alcohol testing in accordance with its policy and the State's Minimum Standards.
12. Research school bus manufacturer preventative maintenance schedules and recommendations to develop and implement a documented school bus preventative maintenance policy that states what preventative maintenance will be completed at what mileage and time frame and ensure mechanics perform and document school bus preventative maintenance systematically and on schedule in accordance with the District's policy and the State's Minimum Standards.
13. Research white activity bus manufacturer preventative maintenance schedules and recommendations to develop and implement a documented white activity bus preventative maintenance policy that states what preventative maintenance will be completed at what mileage and time frame and ensure mechanics perform and document white activity bus preventative maintenance systematically and on schedule in accordance with the District's policy.

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

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<sup>9</sup> Based on guidance from DPS officials, the District used 14-passenger multifunction school activity buses (white activity buses) for 1 of the District's 3 bus routes in fiscal years 2020 and 2021 to transport students directly to and from a nearby elementary school.



# SUMMARY OF RECOMMENDATIONS

## Auditor General makes 13 recommendations to the District

The District should:

1. Ensure it complies with State laws governing open meetings, conflicts of interest, and IGAs. Specifically:
  - a. If the Governing Board accepts a contribution, including those from the mining company and any other gifts and donations, it should ensure the superintendent acknowledges the contribution's receipt, purpose, and value during meetings open to the public, regardless of a contributors' request to maintain privacy (see Finding 1, pages 3 through 8, for more information).
  - b. District employees, including the superintendent, should ensure they follow the State conflict-of-interest law and District policy by following the practices they learned in the District-provided training (see recommendation 3), including describing their substantial interests on the District's conflict-of-interest form as required and refraining from participating in any decision, contract, sale, purchase, or service, such as drafting and revising a service proposal/agreement, for which they have a substantial interest (see Finding 1, pages 3 through 8, for more information).
  - c. District employees should ensure District legal agreements with other school districts are written as IGAs specifying duration, purpose, manner of financing and budgeting, the permissible method(s) to be employed in terminating the agreement, and any other necessary and proper matters; and are reviewed by District attorneys for determination of whether the IGAs are in proper form and within the powers and authority granted under the laws of this State (see Finding 1, pages 3 through 8, for more information).
2. In consultation with legal counsel, strengthen existing policies and develop and implement written policies and procedures governing open meetings, conflicts of interest, and IGAs in conformance with State law. These policies and procedures should specifically require the Governing Board to accept contributions in a meeting open to the public; disallow District employees from participating in matters for which they have a substantial interest, including drafting and revising service proposals/agreements; and require agreements to comply with IGA statutory requirements (see Finding 1, pages 3 through 8, for more information).
3. Develop and provide periodic training on conflict-of-interest requirements, process, and disclosure forms to its employees on how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities (see Finding 1, pages 3 through 8, for more information).
4. Include in its employee training information regarding the importance of complying with State laws related to open meetings and IGAs (see Finding 1, pages 3 through 8, for more information).
5. Separate custodial and recordkeeping functions among employees for items donated to the District and ensure that no one employee can receive and record donated items without an independent review (see Finding 2, pages 9 through 11, for more information).
6. Ensure staff follow District procedures to collect signatures of students accepting donated items to provide evidence that donated items were used for their intended purpose (see Finding 2, pages 9 through 11, for more information).
7. Review accounting system users' access levels and limit users' access in the accounting system to only those functions needed to perform their job duties and ensure that no one employee can initiate and

complete a process without an independent review and approval (see Finding 2, pages 9 through 11, for more information).

8. Remove all unnecessary user accounts in its network and implement a review process to ensure that terminated employees' access is immediately removed (see Finding 2, pages 9 through 11, for more information).
9. Develop and implement an IT contingency plan that meets USFR requirements and test the plan at least annually to identify and remedy any deficiencies and document the test results (see Finding 2, pages 9 through 11, for more information).
10. Ensure staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and any time it is revised or updated, and implement its guidance to accurately account for and report the District's spending (see Finding 2, pages 9 through 11, for more information).
11. Develop and implement a random drug and alcohol testing policy in accordance with the State's Minimum Standards and conduct and document random drug and alcohol testing in accordance with its policy and the State's Minimum Standards (see Finding 3, pages 12 through 13, for more information).
12. Research school bus manufacturer preventative maintenance schedules and recommendations to develop and implement a documented school bus preventative maintenance policy that states what preventative maintenance will be completed at what mileage and time frame and ensure mechanics perform and document school bus preventative maintenance systematically and on schedule in accordance with the District's policy and the State's Minimum Standards (see Finding 3, pages 12 through 13, for more information).
13. Research white activity bus manufacturer preventative maintenance schedules and recommendations to develop and implement a documented white activity bus preventative maintenance policy that states what preventative maintenance will be completed at what mileage and time frame and ensure mechanics perform and document white activity bus preventative maintenance systematically and on schedule in accordance with the District's policy (see Finding 3, pages 12 through 13, for more information).



## Objectives, scope, and methodology

We have conducted a performance audit of Bagdad Unified School District pursuant to A.R.S. §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness primarily in fiscal year 2020 in the 4 operational areas bulleted below because of their effect on instructional spending, as previously reported in our annual report, *Arizona School District Spending*. 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 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 2020 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 3 of the 99 individuals who received payments in fiscal year 2020 through the District's payroll system and reviewed supporting documentation for 24 of the 4,912 fiscal year 2020 accounts payable transactions. After adjusting transactions for proper account classification, we reviewed fiscal year 2020 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 3 (see pages 3 through 13).

**Peer groups**—We developed 3 peer groups for comparative purposes. To compare the District's student achievement, we developed a peer group using district poverty rates as the primary factor because poverty

rate has been shown to be associated with student achievement. District type and location were secondary factors used to refine these groups. We used this peer group to compare the District's fiscal year 2019 student passage rates on State assessments as reported by ADE. We also reported the District's fiscal year 2019 ADE-assigned school letter grades and graduation rate. We used fiscal year 2019 data for this audit because Laws 2020, Ch. 47, modified statutory requirements to cancel State-wide assessments and school letter grades in fiscal year 2020 because of school closures resulting from the COVID-19 pandemic. To compare the District's operational efficiency in administration, plant operations and maintenance, and food service, we developed a peer group using size, type, and location. To compare the District's transportation efficiency, we developed a peer group using a 5-year historical average of miles per rider and location. We 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 2020**

Comparison areas	Factors	Group characteristics	Number of districts in peer group
Student achievement	Poverty rate District type Location	Greater than 21% Unified school districts Towns and rural areas	18
Administration, plant operations and maintenance, and food service	District size District type Location	Between 200 and 599 students Unified and union high school districts Towns and rural areas	20
Transportation	Miles per rider Location	Greater than 630 miles per rider Towns and rural areas	18

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, number of students, miles, and riders 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 in the scoped operational areas about their duties. This included District administrators, department supervisors, and other support staff who were involved in activities we considered significant to the audit objectives. We also interviewed the District's Governing Board President and the Governing Board President of Owens Whitney ESD.
- **Observations**—To further evaluate District operations, we observed various day-to-day activities in the scoped areas. 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 School Facilities Board, transportation route reports provided by ADE, transportation safety reports provided by DPS, and reports required for the federal school lunch program. Additionally, we reviewed food-service-monitoring reports from ADE and District-submitted compliance questionnaire results that its contracted external audit firm completed.
- **Documentation reviews**—We reviewed various sets of District documentation including accounting system user role listing and access reports, conflict-of-interest policies and disclosures, credit card statements and cash deposit documentation for September through December 2019, and bus driver files and bus maintenance and repair records. We also reviewed the District's contracts, governing board meeting minutes, and administrative IGAs.

- **Analysis**—We reviewed and evaluated fiscal year 2020 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 and meals served per student to peer districts'. Additionally, we reviewed the District's revenues and expenditures associated with its food service program to determine whether the District was covering all its costs and reviewed and compared administrative staffing levels to peer districts'.

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 board members, superintendent, and staff for their cooperation and assistance throughout the audit.



# DISTRICT RESPONSE



# Bagdad Unified School District, #20

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**"Home of the Sultans"**

Lindsay Jeans, Administrative Assistant  
Carl Peterson, Facilities/Trans. Director

[www.bagdadschools.org](http://www.bagdadschools.org)

Mary Diehl, Finance Director / HR  
Beth Cummins, IT Software Director  
Randi Diskin, Student Activities / Website

Governing Board:  
Amanda Armstrong, President  
Natalie Webber, Clerk  
Yady Carpenter, Member  
Wayne Overson, Member

Superintendent:  
Bryan Bullington

Tracie Loveall, Revenue / Purchasing  
Gary Cummins, IT Hardware Director

June 15, 2022

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

Dear Ms. Perry,

Bagdad Unified School District #20 has received and reviewed the Fiscal Year 2020 Performance Audit Report. The District would like share our appreciation to the audit team and the professionalism while conducting this audit. After considerable review and reflection, the District agrees with the findings and recommendations.

The District has implemented the recommendations and will work diligently to improve the processes and procedures as provided in the findings and look forward to working with the team in the follow-up period.

Please find attached the District's response to each finding and recommendations.

Sincerely,

Bryan Bullington  
Superintendent

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

District Response:

The District agrees with the finding and submits that all budgets, expenditures, and cash balance reports pertaining to donations and contributions were reviewed and accepted during meetings open to the public.

**Recommendation 1:** The District should ensure it complies with State laws governing open meetings, conflicts of interest, and IGAs. Specifically:

**Recommendation 1a:** If the Governing Board accepts a contribution, including those from the mining company and any other gifts and donations, it should ensure the superintendent acknowledges the contribution's receipt, purpose, and value during meetings open to the public, regardless of a contributors' request to maintain privacy.

District Response:

The District agrees with the recommendation and has implemented acceptance of the contribution receipts on an annual and monthly basis during meetings open to the public as of June, 2021.

**Recommendation 1b:** District employees, including the superintendent, should ensure they follow the State conflict-of-interest law and District policy by following the practices they learned in the District-provided training (see recommendation 3), including describing their substantial interests on the District's conflict-of-interest form as required and refraining from participating in any decision, contract, sale, purchase, or service, such as drafting and revising a service proposal/agreement, for which they have a substantial interest.

District Response:

The District agrees with the recommendation and has implemented the corrective actions recommended.

**Recommendation 1c:** District employees should ensure District legal agreements with other school districts are written as IGAs specifying duration, purpose, manner of financing and budgeting, the permissible method(s) to be employed in terminating the agreement, and any other necessary and proper matters; and are reviewed by District attorneys for determination of whether the IGAs are in proper form and within the powers and authority granted under the laws of this State.

District Response:

The District agrees with the recommendation and has entered into an IGA of proper form reviewed and approved by District attorneys as of June, 2021.

**Recommendation 2:** The District should, in consultation with legal counsel, strengthen existing policies and develop and implement written policies and procedures governing open meetings, conflicts of interest, and IGAs in conformance with State law. These policies and procedures should specifically require the Governing Board to accept contributions in a meeting open to the public; disallow District employees from participating in matters for which

they have a substantial interest, including drafting and revising service proposals/agreements; and require agreements to comply with IGA statutory requirements.

District Response:

The District agrees with the recommendation and has implemented the recommendations as outlined.

**Recommendation 3:** The District should develop and provide periodic training on conflict-of-interest requirements, process, and disclosure forms to its employees on how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

District Response:

The District agrees with the recommendation and has included unique programs, functions, and responsibilities in periodic training on conflict-of-interest requirements.

**Recommendation 4:** The District should include in its employee training information regarding the importance of complying with State laws related to open meetings and IGAs.

District Response:

The District agrees with the recommendation and has implemented employee training information regarding compliance with open meetings laws and Intergovernmental Agreements.

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

District Response:

The District agrees with the finding and has implemented procedures and strengthened staff training to adhere to the recommendations.

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

District Response:

The District agrees with the recommendation and has implemented employee training to ensure all compliance with custodial and recordkeeping functions by all employees.

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

District Response:

The District agrees with the recommendation and has implemented employee training to ensure compliance with custodial and recordkeeping functions by all employees.

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

District Response:

The District agrees with the recommendation and has implemented procedures to review accounting system users' access levels to ensure compliance with the USFR.

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

District Response:

The District agrees with the recommendation and has implemented multi-step procedures upon each employee's separation of service to immediately remove access to user accounts and network privileges reserved for active employees.

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

District Response:

The District agrees with the recommendation and has developed, adopted, and implemented an IT Contingency Plan that meets USFR requirements.

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

District Response:

The District agrees with the recommendation and has implemented procedures for review of the Uniform Chart of Accounts and updating expenditure accounting that will more accurately report the District's spending.

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

District Response: The District agrees with the finding.

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

District Response: The District agrees with the recommendation and will implement the necessary changes to meet the State's Minimum Standards for random drug and alcohol testing.

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

District Response:

The District agrees with the recommendation and has implemented a comprehensive preventative maintenance and documentation schedule in accordance with the District's policy and State's Minimum Standards for school buses.

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

District Response:

The District agrees with the recommendation and has implemented a comprehensive preventative maintenance and documentation schedule in accordance with the District's policy and activity bus manufacturer preventative maintenance recommendations.

