

Aguila Elementary School District

District lacked internal controls and did not comply with requirements in multiple areas, putting public monies, student safety, and sensitive computerized data at risk

Performance Audit

August 2023
Report 23-203

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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August 2, 2023

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Governing Board
Aguila Elementary School District

Dr. Andrew Wannemacher, Superintendent
Aguila Elementary School District

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

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

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

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Aguila Elementary School District

District lacked internal controls and did not comply with requirements in multiple areas, putting public monies, student safety, and sensitive computerized data 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 did not always prepare receipts or separate cash-handling responsibilities, increasing the risk of errors and fraud.
- District incorrectly calculated hours worked for some hourly employees and processed payroll without supervisory review, leading to improper payments.
- District increased risks to student safety by not completing required daily operations checks and recommended preventative maintenance on its school buses, and could not account for all District keys that access school buildings, gates, and equipment.
- District's excessive access to its sensitive computerized data and lack of security awareness training increased risk of unauthorized access, errors, fraud, and data loss.

Key recommendations

The District should:

- Develop and implement written cash-handling policies and procedures for cash collection, deposit, and review.
- Require a supervisory review during its payroll process or develop and implement other compensatory controls to ensure that all hourly employees are paid accurately based on actual hours worked.
- Develop and implement written policies and procedures for school bus operations checks and preventative maintenance to ensure school passengers' safety and extend the useful life of its school buses.
- Develop and implement a written policy for distributing, tracking, and collecting keys that requires employees to sign user agreements outlining their responsibilities as a key holder and that would allow the District to account for all distributed and collected keys.
- Conduct a physical key inventory to determine how many District facility keys exist, including how many are distributed and to whom.
- Establish and implement written policies and procedures to assign and periodically review accounting system access for employee accounts in the accounting system to ensure they have access to only those accounting system functions needed to perform their job duties.
- Establish and implement written policies and procedures to annually conduct the necessary security awareness training and document training completion.



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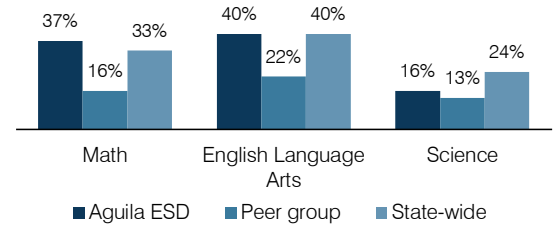
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Rural district in Maricopa County
Grades: Pre-kindergarten through 8th
FY 2021 students attending: 131
FY 2021 number of schools: 1
FY 2022 school letter grade¹: A

Students who passed State assessments¹



¹ Laws 2021, Ch. 19, modified statutory requirements for mandatory State-wide assessments and school letter grades in fiscal year 2021 because of the COVID-19 pandemic. As a result, we reported assessment results and school letter grades from fiscal year 2022.

FY 2021 total operational spending—\$1.63 million (\$12,392 per student)

Instructional—59.9% (\$7,424 per student)

Noninstructional—40.1% (\$4,968 per student)

Operational overview—FY 2021

	Measure	Aguila ESD	Peer average
<p>Administration—lower per student spending, but improvements needed</p> <p>The District spent 53 percent less per student on administration than its peer districts averaged primarily due to lower spending on salaries and benefits and purchased services. However, the District did not comply with important cash-handling and payroll requirements, putting public monies at an increased risk of errors, fraud, and improper payments (see Finding 1, page 3). Further, the District’s excessive access to its sensitive computerized data and lack of security awareness training increased the risk of unauthorized access, errors, fraud, and data loss (see Finding 3, page 10).</p>	Spending per student	\$1,856	\$3,907
<p>Plant operations—lower per square foot spending, but District put property at risk by not restricting access to appropriate personnel</p> <p>The District spent 10 percent less per square foot than its peer districts averaged, but the District did not follow requirements to safeguard property and restrict equipment and building access to appropriate personnel (see Finding 2, page 7).</p>	Spending per square foot	\$7.43	\$8.23
<p>Food service—lower per meal spending and no reported findings</p> <p>The District spent 54 percent less per meal on food service than its peer districts averaged. We did not report any findings in this area.</p>	Spending per meal	\$3.28	\$7.12

Operational overview—FY 2021

	Measure	Aguila ESD	Peer average
<p>Transportation—improvements needed to help ensure student safety</p> <p>We did not compare the District’s transportation spending measures to its peers for fiscal year 2021 due to the effect of school closures related to the COVID-19 pandemic on districts’ transportation spending. However, the District did not systemically perform school bus operations checks and maintenance, putting student safety at risk (see Finding 2, page 7).</p>	Spending per mile	\$0.49	N/A ²
	Spending per rider	\$818	N/A ²

² We did not assign transportation peer groups or compare districts’ transportation costs in our *School District Spending Analysis—Fiscal year 2021* because many districts’ miles travelled and riders transported changed substantially from prior years due to the impact of school closures resulting from the COVID-19 pandemic. These changes were primarily based on the degree to which districts continued to operate their transportation programs through virtual, in-person, and hybrid learning environments during the COVID-19 pandemic.



District did not comply with important cash-handling and payroll requirements, putting public monies at an increased risk of errors, fraud, and improper payments

As part of our fiscal years 2021 and 2022 review, we identified 2 primary deficiencies in the District's internal controls and failure to follow requirements set forth by the *Uniform System of Financial Records for Arizona School Districts* (USFR) that resulted in an increased risk of errors and fraud and improper payments.¹ See the details below.

Deficiency 1: District did not always prepare receipts or separate cash-handling responsibilities, increasing the risk of errors and fraud

The USFR requires districts to establish and maintain effective policies and procedures to safeguard cash, prevent its loss or misuse, and provide prompt and intact depositing and ensure its accurate recording.² The USFR further requires districts to prepare evidence of receipt, such as by using sequential, prenumbered receipts, for each cash or check payment received and to separate duties between employees with cash-handling and recordkeeping responsibilities. However, our review of the District's available cash collection and deposit documentation for \$161,681 of cash received in fiscal year 2021, found that the District had not established and maintained effective policies and procedures to safeguard its cash, increasing its risk of errors and fraud.³ Specifically, and as shown in Figure 1, page 4, the District:

- **Did not prepare receipts or other supporting documentation for 68 percent of the cash collected**—The District did not prepare sequential, prenumbered receipts or maintain other supporting documentation, such as a mail log, for \$110,534, or 68 percent of the fiscal year 2021 cash collected, as required by the USFR. District officials reported that they were not aware of USFR requirements to always prepare sequential, prenumbered receipts or maintain other documentation to track cash received and ensure the public monies are deposited. The District increases its risk of errors and fraud by not documenting all collections and it was unable to demonstrate that all public monies collected were deposited.
- **Did not separate cash-handling duties**—The District had not separated duties for cash handling and recordkeeping, contrary to USFR requirements. Specifically, of the \$110,534 the District received but for which it did not prepare receipts, the former business manager received and deposited \$54,114, or nearly half of this amount without a secondary review. District officials stated that separating duties was challenging due to the District's limited staff size. However, if adequate separation was not possible

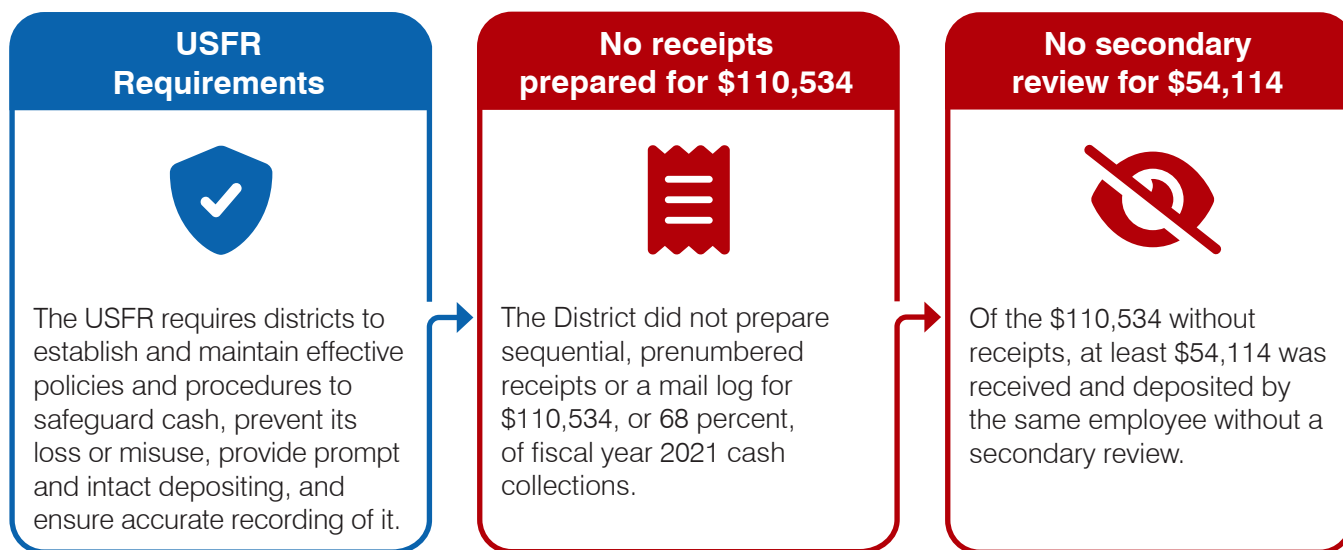
¹ The Arizona Auditor General and the Arizona Department of Education (ADE) developed the USFR pursuant to Arizona Revised Statutes (A.R.S.) §15-271. The USFR and related guidance prescribes the minimum internal control policies and procedures to be used by Arizona school districts for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements.

² The term "cash" used throughout this report includes cash (coins and dollars), checks, and any other physical form of payment, such as money orders.

³ These cash collections included those from extracurricular tax credits, State grants, and other collections.

because of the District's limited staff size, the District should have implemented additional management review procedures to compensate for an employee performing incompatible functions. For example, the District could have required an employee without cash-handling responsibilities to review cash receipt, deposit, and reconciliation documentation to ensure all cash received was deposited and to protect public monies from potential errors and fraud.

Figure 1
District failed to prepare receipts or a mail log for all cash collected and did not separate cash-handling responsibilities



Source: Auditor General staff analysis of available fiscal year 2021 District cash collections supporting documentation.

Due to the District's cash-handling deficiencies we identified, we were unable to determine whether the District had fully accounted for and deposited all the monies it received in fiscal year 2021. The District formalizing a cash-collection process, including using sequential, prenumbered receipts or preparing other documentation for all cash received and separating cash-handling responsibilities, would help it ensure it safeguards public monies and complies with USFR requirements.

Deficiency 2: District incorrectly calculated hours worked for some hourly employees and processed payroll without supervisory review, leading to improper payments

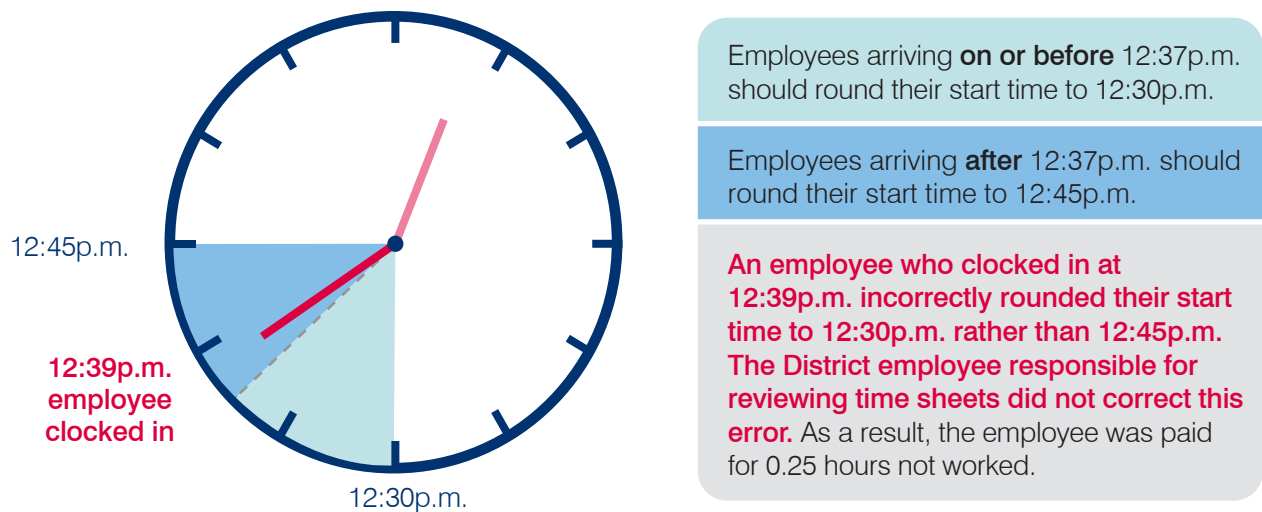
Although the District did not have formal, written policies and procedures for its payroll process, it had informal procedures for reviewing employee time sheets before processing payroll, which included recalculating employee hours and compensatory time accrued.⁴ The District's informal procedures included how to round the number of hours worked for hourly employees and how to calculate and record compensatory time for any overtime worked by hourly employees. However, our review of payroll payments for all 14 hourly employees during 2 fiscal year 2022 pay periods found that the

Errors calculating regular and overtime hours worked led to improper payments— Across 2 separate pay periods, the District miscalculated, and therefore incorrectly paid 10 of 14 hourly employees for time worked.

⁴ According to District officials, hourly employees accrued paid time off for any hours worked over 80 hours during a pay period, referred to as compensatory time, instead of being paid an overtime rate per hour for these additional hours worked.

District did not follow its informal procedures, resulting in 6 employees in each pay period, or 43 percent of all hourly employees, being over- or underpaid because of incorrect application of its rounding procedure. Specifically, the District’s informal procedures included rounding each clock-in and clock-out time to the nearest 15-minute interval. However, our review found that District employees incorrectly reported the number of hours worked by improperly rounding their clock-in and clock-out times, and the District employee responsible for reviewing time sheets did not identify these errors. As a result, 6 employees in each pay period we reviewed received too much or too little compensation.⁵ For example, on 1 time sheet we reviewed (see Figure 2), an hourly employee incorrectly calculated 1 hour worked based on their clock-in and clock-out times, and the District employee responsible for reviewing time sheets reviewed and approved it. However, according to the District’s informal procedures, the employee should have reported and been paid for 0.75 hours, resulting in the District paying the employee for 0.25 hours not worked. Additionally, we found the District improperly paid and gave compensatory time to 2 employees for additional hours worked, resulting in approximately \$40 overpaid for the 2 pay periods we reviewed.

Figure 2
District employees incorrectly rounded hours on time sheets, leading to improper payments



Source: Auditor General staff analysis of a fiscal year 2022 District employee time sheet and related payroll payment.

Although the District had informal procedures for calculating hourly employee pay, it did not have adequate controls in place to ensure the informal procedures were followed. Our review found that in fiscal year 2022, a single District employee reviewed the hourly employee time sheets and manually calculated total hours worked without a supervisory review before payroll was processed.⁶ However, the USFR requires a supervisory review that may have identified the errors we identified in our review prior to the District paying its employees incorrect amounts. Because the District did not have a supervisory review before processing payroll, over- and underpayments may have accumulated over time, adding to the improper payment amounts we identified. By failing to include a supervisory review of payroll calculations prior to processing payroll and authorizing payment, the District increases its risk for errors and fraud, and cannot ensure it pays its hourly employees the correct amount.

⁵ The District made overpayments totaling approximately \$50 and underpayments totaling approximately \$53 to its 6 employees over the 2 pay periods we reviewed.

⁶ District officials reported that the process of a single District employee reviewing and manually calculating hourly time sheets was also followed in fiscal year 2021.

Recommendations

The District should:

1. Develop and implement written cash-handling policies and procedures for cash collection, deposit, and review.
2. Prepare and maintain evidence, such as sequential, prenumbered receipts or a mail log, for all cash received.
3. Separate cash-handling duties from employees with recordkeeping responsibilities, such as requiring a separate employee to prepare either deposits or reconciliations, but not both. If adequate separation is not possible due to the District's limited staff size, ensure adequate management review procedures are in place, such as requiring an employee without cash-handling responsibilities to review cash receipt, deposit, and reconciliation documentation, to protect public monies from potential errors and fraud.
4. Provide training on USFR cash-handling requirements and its cash-handling policies and procedures to all employees involved in cash collection, deposit, and review.
5. Develop formal, written policies and procedures for its payroll process in accordance with USFR requirements and provide training to staff on these policies and procedures to reduce the risk of errors and incorrect payments.
6. Ensure it follows its payroll policies and procedures, including its procedures for rounding employee hours worked and compensatory time accrual.
7. Require a supervisory review during its payroll process or develop and implement other compensatory controls to ensure that all hourly employees are paid accurately based on actual hours worked.
8. Identify and correct over- and underpayments made to all current hourly employees from fiscal year 2021 to the present, including the over- and underpayments we identified.

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



District put student safety and District property at risk by not systematically performing school bus operations checks and preventative maintenance, and not restricting equipment and building access to appropriate personnel

District is required to follow certain requirements to ensure student safety and protect District property

Arizona school districts are required to follow Arizona Department of Public Safety's (DPS) *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards) to help ensure student safety and extend the useful life of school buses. Minimum Standards require school districts to perform and document pre-trip school bus operations checks before transporting students for the first time each day to ensure the buses are safe to operate and that all defective and damaged items are addressed in a timely manner. Minimum Standards also require a more limited operations check for each subsequent operation of the school bus after its first trip each day to ensure that the school bus is fully operational and safe to transport students. Finally, 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. Although the State's Minimum Standards do not include a required time frame for performing systematic school bus preventative maintenance, vehicle manufacturers' guidelines for the District's school buses recommend performing preventative maintenance at least every 12 months.⁷

Additionally, Districts are required to follow the USFR, which prescribes the minimum internal control policies and procedures districts should use in various areas, including for physical building security to protect District property. The USFR requires districts to safeguard their property from unauthorized use, theft, and damage by restricting access to district buildings and equipment to appropriate personnel.

District did not follow some Minimum Standards requirements and did not safeguard property from unauthorized use

Despite being required to do so, the District did not follow Minimum Standards for operations checks or preventative maintenance for all 3 of its school buses in fiscal years 2019 through 2022 and did not follow the USFR minimum internal control policies and procedures to safeguard property by restricting access to appropriate personnel in fiscal years 2021 through 2022. Specifically, the District:

- **Did not complete required daily operations checks on all school buses**—The District did not maintain any documentation for operations check procedures that should have been conducted during fiscal years 2019 through 2022 for all 3 District school buses. According to District officials, District staff

⁷ The manufacturers' guidelines also indicated a mileage threshold that indicated preventative maintenance should be completed sooner than 12 months if the mileage threshold of 15,000 is reached first.

did not document operations checks because they instead relied on verbal communication to notify each other of issues and needed repairs. District officials further reported that staff were not aware that they were required to perform a subsequent operations check of their school buses for afternoon drop-off trips. Finally, the District had not developed or implemented written policies and procedures for conducting and documenting required operations checks.

- **Did not complete preventative maintenance on all school buses according to manufacturer guidelines**—Our review of available preventative maintenance records for fiscal years 2019 through 2022, found that the District had not performed and documented some preventative maintenance procedures for its 3 school buses, as required by the Minimum Standards. Specifically, District records indicated that 2 of the 3 school buses had each exceeded the manufacturers' guidelines for preventative maintenance by nearly 2 years. We were unable to determine when the third school bus had last received preventative maintenance due to the District's lack of documentation. District officials stated that the District had not performed preventative maintenance because 2 school buses had been recently purchased and few miles had been driven on all 3 District school buses due to COVID-19 school closures. Although the District may have driven fewer miles than the manufacturers' prescribed mileage thresholds for preventative maintenance, it failed to perform oil and filter changes at least every 12 months regardless of miles driven, which, according to the manufactures' guidelines, can decrease engine life due to factors such as corrosion, deposits, and wear. Additionally, the District lacked a formal preventative maintenance plan specifying the services and mileage or time intervals that preventative maintenance should be performed.
- **Could not account for all District keys that access school buildings, gates, and equipment**—Our review of the District's building and gate key logs from fiscal years 2021 and 2022 found that the District could not identify all individuals who had keys to its buildings and gates and did not maintain complete and accurate key records. For example, the District could not provide documentation showing how many of each key type exists and therefore had no way to ensure all keys were accounted for and restricted to appropriate personnel. Although the District reported it had informal procedures for tracking the issuance and return of its keys, we found that the District had not followed these procedures and could not account for all District keys, including keys with high levels of access to District buildings. We reviewed available District documentation since fiscal year 2000 for District keys with the highest level of access and found that the District could not account for at least 6 exterior-door keys and 2 grandmaster keys that unlock all interior and exterior locks on campus, except the front office. Specifically, District documentation showed that these 8 keys had been assigned to former District employees whose employment with the District had ended between fiscal years 2000 and 2012. However, District officials did not know who currently had possession of these keys and did not have documentation to support that the keys had been returned by the former employees prior to their employment ending. District officials reported that the District's key log process had not been evaluated or updated the process in at least 8 years and that they had not developed or implemented documented policies or procedures for tracking building and gate keys. However, District officials had a responsibility to safeguard District property by restricting access to school buildings, gates, and equipment to appropriate personnel, and they failed to do so by not ensuring that keys issued to District employees were returned to the District prior to employees' District employment ending.

District's failure to meet Minimum Standards and follow minimum USFR internal control policies increases risks to student safety and District property

By not performing and documenting required school bus operations checks and timely routine preventative maintenance as required by the Minimum Standards, the District increases the risk of mechanical issues, which may lead to school buses breaking down, expensive repairs, and defective safety features that are important for ensuring school buses can safely transport students. Additionally, by not ensuring its building and gate keys were restricted to appropriate personnel, including 2 grandmaster keys, the District increased the risk of unauthorized use, theft, or damage to its property and increased risks to student safety.

Recommendations

The District should:

9. Develop and implement written policies and procedures for school bus operations checks and preventative maintenance to ensure school passengers' safety and extend the useful life of its school buses. Specifically, to comply with DPS Minimum Standards, these policies and procedures should:
 - a. Include lists of items required to be inspected by school bus drivers before a school bus is operated for the first time each day and for each subsequent operation;
 - b. Include a schedule of when mechanics should perform preventative maintenance, including maximum mileage and time frame intervals, and what maintenance work should be completed; and
 - c. Train and require that District employees, including school bus drivers, perform and document required school bus operations checks and preventative maintenance in a systematic and timely manner.
10. Conduct a physical key inventory to determine how many District facility keys exist, including how many are distributed and to whom.
11. Develop and implement a written policy for distributing, tracking, and collecting keys that requires employees to sign user agreements outlining their responsibilities as a key holder and that would allow the District to account for all distributed and collected keys.

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 lack of security awareness training increased risk of unauthorized access, errors, fraud, and data loss

District assigned some users 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 August 2022 review of accounting system access levels for the 6 District employee accounts found that 2 users had too much access, allowing them to initiate and complete purchasing and/or payroll transactions without any independent review. As a result, the District increased its risk for errors and fraud because these users could have completed payroll transactions or changes without a second employee to verify the payroll transactions or changes were accurate and appropriate. Additionally, the District granted administrator-level access to 1 business office employee, which gave the employee full control over accounting system settings, such as the ability to grant themselves full access to view and edit all system information, further increasing the risk for errors and fraud. For example, users with administrator-level access could process false invoices; change employee pay rates, including their own; or add and pay nonexistent vendors or employees without detection. Additionally, the District increased its risk of security breaches because hackers typically target administrator accounts for their greater access privileges, which could result in unauthorized access to and loss of sensitive data or disruption of some District operations. According to District officials, these increased levels of access were granted during staff transitions. However, the District did not have written policies and procedures to ensure employees' system access was consistent with the level of access necessary for their assigned duties, including changing employees' access if their assigned duties changed. Although we did not identify any improper transactions due to these deficiencies within the accounting system, allowing such broad access increased the District's risk of errors and fraud.

Terminated District employees had access to the District's network, increasing the District's risk of unauthorized access to sensitive information and data loss

The USFR requires that when user accounts are no longer needed, access to information systems should be disabled immediately. However, our August 2022 review of the District's 61 active user accounts with access to the District's network found that 3 network user accounts were active despite being associated with employees whose District employment had terminated more than a year prior to our review. Because these terminated employees' network accounts were still active, the District increased its risk of unauthorized access to its sensitive information and potential data loss. After we notified the District of these 3 network accounts, District officials determined that 2 of the 3 terminated employees had accessed the District's network through a mobile device to access their District email accounts after their termination dates and the District disabled the accounts. As of May 2023, the District had not taken action to assess the effects of the unauthorized access to

the District's networks by its former employees, such as evaluating any unauthorized activities or changes that may have occurred as a result of the unauthorized access. According to District officials, the District has an informal policy and procedure to disable user accounts for employees upon termination, but this process was not followed for these 3 terminated employees.

District did not conduct annual security awareness training, increasing employees' vulnerability to cyberattacks

According to the USFR, basic security awareness training that addresses prevention and detection of technology-related threats should be provided to system users at least annually. This is important because cyberattacks commonly use social engineering techniques to trick employees into giving up sensitive information or downloading dangerous software onto workstations. However, the District did not require security awareness training for its employees and instead sent an email annually to employees describing security awareness information. According to District officials, they were not aware that an email to all staff about security awareness information did not qualify as training. The District providing security awareness education and training would lessen the risk and help to ensure that its employees understand the meaning of information security and their individual information security responsibilities.

Recommendations

The District should:

12. Protect its sensitive computerized data by limiting users' access in the accounting system to only those accounting system functions needed to perform their job duties, including removing the business office employee's administrator-level access.
13. Establish and implement written policies and procedures to assign and periodically review accounting system access for employee accounts in the accounting system to ensure they have access to only those accounting system functions needed to perform their job duties.
14. Immediately disable or remove all network accounts associated with terminated employees.
15. Evaluate and document the effects of terminated employees having accessed the District's network after their employment ended, such as any unauthorized activities or changes that may have occurred as a result of the improper access, and remedy any identified effects.
16. Establish and implement written policies and procedures to ensure terminated employees' network access is promptly removed.
17. Require and track employee participation in security awareness training for employees who have not done so in the past year.
18. Establish and implement written policies and procedures to conduct security awareness training that meets USFR requirements and follows credible industry standards, is provided to its employees at least annually, and includes documentation of training completion.

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



SUMMARY OF RECOMMENDATIONS

Auditor General makes 18 recommendations to the District

The District should:

1. Develop and implement written cash-handling policies and procedures for cash collection, deposit, and review (see Finding 1, pages 3 through 6, for more information).
2. Prepare and maintain evidence, such as sequential, prenumbered receipts or a mail log, for all cash received (see Finding 1, pages 3 through 6, for more information).
3. Separate cash-handling duties from employees with recordkeeping responsibilities, such as requiring a separate employee to prepare either deposits or reconciliations, but not both. If adequate separation is not possible due to the District's limited staff size, ensure adequate management review procedures are in place, such as requiring an employee without cash-handling responsibilities to review cash receipt, deposit, and reconciliation documentation, to protect public monies from potential errors and fraud (see Finding 1, pages 3 through 6, for more information).
4. Provide training on USFR cash-handling requirements and its cash-handling policies and procedures to all employees involved in cash collection, deposit, and review (see Finding 1, pages 3 through 6, for more information).
5. Develop formal, written policies and procedures for its payroll process in accordance with USFR requirements and provide training to staff on these policies and procedures to reduce the risk of errors and incorrect payments (see Finding 1, pages 3 through 6, for more information).
6. Ensure it follows its payroll policies and procedures, including its procedures for rounding employee hours worked and compensatory time accrual (see Finding 1, pages 3 through 6, for more information).
7. Require a supervisory review during its payroll process or develop and implement other compensatory controls to ensure that all hourly employees are paid accurately based on actual hours worked (see Finding 1, pages 3 through 6, for more information).
8. Identify and correct over- and underpayments made to all current hourly employees from fiscal year 2021 to the present, including the over- and underpayments we identified (see Finding 1, pages 3 through 6, for more information).
9. Develop and implement written policies and procedures for school bus operations checks and preventative maintenance to ensure school passengers' safety and extend the useful life of its school buses. Specifically, to comply with DPS Minimum Standards, these policies and procedures should:
 - a. Include lists of items required to be inspected by school bus drivers before a school bus is operated for the first time each day and for each subsequent operation (see Finding 2, pages 7 through 9, for more information);
 - b. Include a schedule of when mechanics should perform preventative maintenance, including maximum mileage and time frame intervals, and what maintenance work should be completed; and (see Finding 2, pages 7 through 9, for more information)

- c. Train and require that District employees, including school bus drivers, perform and document required school bus operations checks and preventative maintenance in a systematic and timely manner (see Finding 2, pages 7 through 9, for more information).
10. Conduct a physical key inventory to determine how many District facility keys exist, including how many are distributed and to whom (see Finding 2, pages 7 through 9, for more information).
11. Develop and implement a written policy for distributing, tracking, and collecting keys that requires employees to sign user agreements outlining their responsibilities as a key holder and that would allow the District to account for all distributed and collected keys (see Finding 2, pages 7 through 9, for more information).
12. Protect its sensitive computerized data by limiting users' access in the accounting system to only those accounting system functions needed to perform their job duties, including removing the business office employee's administrator-level access (see Finding 3, pages 10 through 11, for more information).
13. Establish and implement written policies and procedures to assign and periodically review accounting system access for employee accounts in the accounting system to ensure they have access to only those accounting system functions needed to perform their job duties (see Finding 3, pages 10 through 11, for more information).
14. Immediately disable or remove all network accounts associated with terminated employees (see Finding 3, pages 10 through 11, for more information).
15. Evaluate and document the effects of terminated employees having accessed the District's network after their employment ended, such as any unauthorized activities or changes that may have occurred as a result of the improper access, and remedy any identified effects (see Finding 3, pages 10 through 11, for more information).
16. Establish and implement written policies and procedures to ensure terminated employees' network access is promptly removed (see Finding 3, pages 10 through 11, for more information).
17. Require and track employee participation in security awareness training for employees who have not done so in the past year (see Finding 3, pages 10 through 11, for more information).
18. Establish and implement written policies and procedures to conduct security awareness training that meets USFR requirements and follows credible industry standards, is provided to its employees at least annually, and includes documentation of training completion (see Finding 3, pages 10 through 11, for more information).



Objectives, scope, and methodology

We have conducted a performance audit of Aguila Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness primarily in fiscal year 2021, unless otherwise noted, in the 4 operational areas bulleted below because of their effect on instructional spending, as previously reported in our annual School District Spending Analysis. This audit was limited to reviewing instructional and noninstructional operational spending (see textbox). Instructional spending includes salaries and benefits for teachers, teachers' aides, and substitute teachers; instructional supplies and aids such as paper, pencils, textbooks, workbooks, and instructional software; instructional activities such as field trips, athletics, and co-curricular activities, such as choir or band; and tuition paid to out-of-State and private institutions. Noninstructional spending reviewed for this audit includes the following operational categories:

Operational spending

Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with acquiring capital assets (such as purchasing or leasing land, buildings, and equipment), interest, and programs such as adult education and community service that are outside the scope of preschool through grade 12 education.

- **Administration**—Salaries and benefits for superintendents, principals, business managers, and clerical and other staff who perform accounting, payroll, purchasing, warehousing, printing, human resource activities, and administrative technology services, and other spending related to these services and the governing board.
- **Plant operations and maintenance**—Salaries, benefits, and other spending related to equipment repair, building maintenance, custodial services, groundskeeping, and security; and spending for heating, cooling, lighting, and property insurance.
- **Food service**—Salaries, benefits, food supplies, and other spending related to preparing, transporting, and serving meals and snacks.
- **Transportation**—Salaries, benefits, and other spending related to maintaining school buses and transporting students to and from school and school activities.

Financial accounting data and internal controls—We evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2021 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 all 14 hourly rate employees who received payments in fiscal year 2022 through the District's payroll system and reviewed supporting documentation for 18 of 556 fiscal year 2021 accounts payable transactions. After adjusting transactions for proper account classification, we reviewed fiscal year 2021 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 11).

Peer groups—We developed 2 peer groups for comparative purposes. To compare the District’s student achievement, we 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 2022 ADE-assigned school letter grade.⁸ To compare the District’s fiscal year 2021 operational efficiency in administration, plant operations and maintenance, and food service, we developed a peer group using district size and location because these factors are associated with districts’ cost measures in these operational areas. We did not assign or evaluate peer group averages for districts’ transportation spending in our *School District Spending Analysis—Fiscal year 2021* because many districts’ miles travelled and riders transported changed substantially from prior years due to the impact of school closures resulting from the COVID-19 pandemic. These changes were primarily based on the degree to which districts continued to operate their transportation programs through virtual, in-person, and hybrid learning environments during the COVID-19 pandemic.

To compare the District’s operational efficiency in administration, plant operations and maintenance, food service, and transportation, we developed a peer group based on district size and location. We used these factors because they are associated with districts’ cost measures in these areas. For very small districts, such as Aguila Elementary School District, increasing or decreasing student enrollment by just 5 or 10 students or employing even 1 additional part-time position can dramatically impact the district’s costs per pupil in any given year. As a result, and as noted in our annual School District Spending Analysis, very small districts’ spending patterns are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of the District’s operations, less weight was given to various cost measures, and more weight was given to our reviews and analysis of the District’s operations.

Table 1
Criteria for selecting peer school districts for comparative purposes
Fiscal years as noted

Comparison areas	Factors	Group characteristics	Number of districts in peer group
Student achievement (fiscal year 2022)	Poverty rate District type Location	Between 31 and 37 percent Elementary school districts Towns and rural areas	11
Administration, plant operations and maintenance, and food service (fiscal year 2021)	District size Location	Fewer than 200 students Towns and rural areas	58

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

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

- **Interviews**—We interviewed various District employees in the scoped operational areas 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.

⁸ Laws 2021, Ch. 19, modified statutory requirements for mandatory State-wide assessments and school letter grades in fiscal year 2021 because of the COVID-19 pandemic. As a result, we reported assessment results and school letter grades from fiscal year 2022.

- **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 Arizona Department of Administration's School Facilities Oversight Board, transportation route reports provided by ADE, transportation safety reports provided by the Department of Public Safety, and reports required for the federal school lunch program. Additionally, we reviewed food service-monitoring reports from ADE and District-submitted compliance questionnaire results that its contracted external audit firm completed.
- **Documentation reviews**—We reviewed various sets of District documentation including both District credit card accounts; bank statements for 2 external bank accounts for fiscal year 2021; conflict-of-interest policies and disclosures; cash receipts the District collected for fiscal year 2021; all available physical key log documentation for fiscal years 2000 to 2022; and bus maintenance and repair records for all 3 District school buses from fiscal years 2019 to 2022.
- **Analysis**—We reviewed and evaluated fiscal year 2021 spending on administration, plant operations and maintenance, and food service, and compared it to peer districts'. We also compared the District's square footage per student, use of building space, building age, 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.

DISTRICT RESPONSE



Aguila Elementary School District #63

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July 26, 2023

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

Ms. Lindsey Perry,

Aguila Elementary School District #63 has received and reviewed the Fiscal Year 2021 Performance Audit Report. The District would like to share our appreciation to the audit team and the professionalism while conducting the audit. After review and reflection, the District agrees with the findings and recommendations.

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

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

Regards,

Andy Wannemacher, Ed.D.
Superintendent/Principal

Finding 1: District did not comply with important cash-handling and payroll requirements, putting public monies at an increased risk of errors, fraud, and improper payments.

Recommendation 1: The District should develop and implement written cash-handling policies and procedures for cash collection, deposit, and review.

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

Response explanation: The District has developed and implemented cash handling procedures according to the Uniform System of Financial Records (USFR). We continue to monitor and improve this process.

Recommendation 2: The District should prepare and maintain evidence, such as sequential, prenumbered receipts or a mail log, for all cash received.

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

Response explanation: The District has implemented this recommendation and continues to monitor the process.

Recommendation 3: The District should separate cash-handling duties from employees with recordkeeping responsibilities, such as requiring a separate employee to prepare either deposits or reconciliations, but not both. If adequate separation is not possible due to the District's limited staff size, ensure adequate management review procedures are in place, such as requiring an employee without cash-handling responsibilities to review cash receipt, deposit, and reconciliation documentation, to protect public monies from potential errors and fraud.

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

Response explanation: The District has implemented this recommendation and continues to monitor the process.

Recommendation 4: The District should provide training on USFR cash-handling requirements and its cash-handling policies and procedures to all employees involved in cash collection, deposit, and review.

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

Response explanation: The District will conduct an annual USFR training for all staff involved in cash collection, deposit, and review.

Recommendation 5: The District should develop formal, written policies and procedures for its payroll process in accordance with USFR requirements and provide training to staff on these policies and procedures to reduce the risk of errors and incorrect payments.

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

Recommendation 6: The District should ensure it follows its payroll policies and procedures, including its procedures for rounding employee hours worked and compensatory time accrual.

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

Recommendation 7: The District should require a supervisory review during its payroll process or develop and implement other compensatory controls to ensure that all hourly employees are paid accurately based on actual hours worked.

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

Recommendation 8: The District should identify and correct over- and underpayments made to all current hourly employees from fiscal year 2021 to the present, including the over- and underpayments we identified.

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

Response explanation: The District has purchased and implemented an automated time clock system. The District will review this finding with the school board and decide how to proceed.

Finding 2: District put student safety and District property at risk by not systematically performing school bus operations checks and preventative maintenance, and not restricting equipment and building access to appropriate personnel.

Recommendation 9: The District should develop and implement written policies and procedures for school bus operations checks and preventative maintenance to ensure school passengers' safety and extend the useful life of its school buses. Specifically, to comply with DPS Minimum Standards, these policies and procedures should:

- a. Include lists of items required to be inspected by school bus drivers before a school bus is operated for the first time each day and for each subsequent operation;

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

Response explanation: The District has implemented a daily checklist for all bus drivers to follow.

- b. Include a schedule of when mechanics should perform preventative maintenance, including maximum mileage and time frame intervals, and what maintenance work should be completed; and

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

Response explanation: The District has implemented an annual preventative maintenance plan.

- c. Train and require that District employees, including school bus drivers, perform and document required school bus operations checks and preventative maintenance in a systematic and timely manner.

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

Recommendation 10: The District should conduct a physical key inventory to determine how many facility District keys exist, including how many are distributed and to whom.

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

Recommendation 11: The District should develop and implement a written policy for distributing, tracking, and collecting keys that requires employees to sign user agreements outlining their responsibilities as a key holder and that would allow the District to account for all distributed and collected keys.

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

Finding 3: District's excessive access to its sensitive computerized data and lack of security awareness training increased risk of unauthorized access, errors, fraud, and data loss.

Recommendation 12: The District should protect its sensitive computerized data by limiting users' access in the accounting system to only those accounting system functions needed to perform their job duties, including removing the business office employee's administrator-level access.

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

Response explanation: The District has implemented this recommendation.

Recommendation 13: The District should establish and implement written policies and procedures to assign and periodically review accounting system access for employee accounts in the accounting system to ensure they have access to only those accounting system functions needed to perform their job duties.

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

Response explanation: The District has implemented this recommendation.

Recommendation 14: The District should immediately disable or remove all network accounts associated with terminated employees.

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

Response explanation: The District has implemented this recommendation.

Recommendation 15: The District should evaluate and document the effects of terminated employees having accessed the District's network after their employment ended, such as any unauthorized activities or changes that may have occurred as a result of the improper access, and remedy any identified effects.

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

Recommendation 16: The District should establish and implement written policies and procedures to ensure terminated employees' network access is promptly removed.

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

Response explanation: The District has implemented this recommendation.

Recommendation 17: The District should require and track employee participation in security awareness training for employees who have not done so in the past year.

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

Response explanation: The District has implemented this recommendation.

Recommendation 18: The District should establish and implement written policies and procedures to conduct security awareness training that meets USFR requirements and follows credible industry standards, is provided to its employees at least annually, and includes documentation of training completion.

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

Response explanation: The District has implemented this recommendation.

