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August 11, 2020

The Honorable Anthony T. Kern, Chair
Joint Legislative Audit Committee

The Honorable Rick Gray, Vice Chair
Joint Legislative Audit Committee

Dear Representative Kern and Senator Gray:

We recently completed a 24-month followup of Mobile Elementary School District's implementation status for the 13 audit recommendations presented in the performance audit report released in April 2018. As the attached grid indicates:

- 8 recommendations have been implemented.
- 5 recommendations are in the process of being implemented.

Unless otherwise directed by the Joint Legislative Audit Committee, this report concludes our follow-up work on the District's efforts to implement the recommendations resulting from the April 2018 performance audit.

Sincerely,
Vicki Hanson, Director
Division of School Audits

cc: Governing Board
Ms. Teri Dominguez, District Administrator
Mobile Elementary School District

MOBILE ELEMENTARY SCHOOL DISTRICT

Auditor General Performance Audit Report Issued April 2018 24-Month Follow-Up Report

Recommendation	Status/Additional Explanation
FINDING 1: District had much higher administrative costs and needs to strengthen accounting and computer controls	
<p>1. The District should review its superintendent position, related duties, and salary to determine how it can reduce administrative costs and make changes accordingly.</p>	<p>Implementation in process As we reported in our 6-month follow-up report, in fiscal year 2019, the District created and filled a head teacher position that has part-time administrative responsibilities, intending to phase out the superintendent's position in the future. In January 2020, the District's Governing Board (Board) reduced the superintendent's position (and pay rate) to administrative advisor, with the understanding that she would remain with the District only through February or March 2020. However, because of the COVID-19 pandemic, District officials reported that the Board voted to continue employing the former superintendent to advise the District's Board and head teacher on financial, legal, and pandemic-related issues, including working on plans to reopen the District's school for fiscal year 2021. With these administrative changes, the District's preliminary fiscal year 2020 administrative spending was 6 percent lower than in fiscal year 2016, the audit year. However, the District's administrative costs remained higher than most similarly sized peer districts' costs. Continuing to reduce its administrative spending would allow the District to reallocate dollars to instruction, such as increasing teacher salaries, purchasing instructional materials, or other District priorities.</p>
<p>2. The District should pay its hourly employees for only the actual number of hours they worked.</p>	<p>Implemented at 6 months</p>
<p>3. The District should pay performance pay to eligible employees only for the goals they have met in accordance with its approved performance pay plan. Further, the District should ensure that it retains adequate documentation to demonstrate that employees who received performance pay met their goals.</p>	<p>Implemented at 24 months</p>

Recommendation

Status/Additional Explanation

4. The District should ensure that payments are made in a timely manner to avoid late fees and finance charges.

Implementation in process

According to District officials, the District attempts to pay invoices in a timely manner to avoid late fees and finance charges. Although the District did not pay any late fees or finance charges from July 2019 through February 2020, the District paid \$189 in late fees and finance charges between March and June 2020. In March 2020, due to the COVID-19 pandemic, the County School Superintendent’s Office began issuing checks to pay the District’s invoices twice a week instead of daily. District officials stated that this change has made it more difficult to make timely payments. The District should continue working toward paying invoices in a timely manner to avoid spending its monies on late fees and finance charges and free up these dollars for District priorities.

5. The District should ensure lease agreements specify the lease charges and establish a process to ensure that it collects full and timely lease payments.

Implementation in process

The District still does not have a current signed agreement specifying lease charges with the entity leasing a 10,000-square foot portion of its land. However, it received an email from the renting entity outlining the lease-payment amounts and the lease-payment escalation schedule, with payment escalations occurring every 5 years. Based on the lease payments the District currently receives from the renting entity, lease payments have increased according to the schedule set forth in the email. However, it would be prudent for the District to have a current signed lease agreement with the entity leasing its land that specifies the lease charges as well as each party’s responsibilities. Additionally, although the District established a process for ensuring it receives timely lease payments, it did not deposit all lease payments in a timely manner. We reviewed lease payment deposits for July 2019 through March 2020 and found that 4 of the 9 payments were not deposited within 30 days, with 1 of the payments not deposited until 65 days after receipt. Because of the high risk associated with cash transactions, including checks, the District should ensure that it deposits these lease payments within 7 days of receiving them as required by the *Uniform System of Financial Records for Arizona School Districts*.

6. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

Implemented at 12 months

7. The District should implement stronger password requirements related to password length, complexity, and expiration.

Implemented at 12 months

Recommendation	Status/Additional Explanation
<p>8. The District should limit employees' access in the accounting system to only those accounting system functions necessary to perform their job duties, including transferring the business office employees' administrator-level access to someone outside of the business office.</p>	<p>Implementation in process We reviewed the District's May 2020 accounting system user access report and found that the District eliminated 1 employee's access. However, the remaining 2 District accounting system users both had full access to the system, giving the employees the ability to perform all payroll and purchasing transactions without an independent review and approval. Granting such broad access exposes the District to a greater risk of errors and fraud, such as processing false invoices or adding and paying nonexistent vendors or employees, and should be remedied. According to District officials, the District intended to work with the County School Superintendent's Office to update user access and obtain accounting system trainings over the past few months, but due to the COVID-19 pandemic, these activities were postponed.</p>

FINDING 2: District needs to improve transportation program oversight

<p>1. The District should implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's Minimum Standards.</p>	<p>Implemented at 12 months</p>
<p>2. The District should develop and follow a formal preventative maintenance policy that meets the State's Minimum Standards and includes the maximum number of miles and the maximum amount of time a bus can travel before it receives preventative maintenance services. Additionally, the District should ensure that it conducts bus preventative maintenance in a systematic and timely manner and documents it in accordance with its formal policy.</p>	<p>Implemented at 12 months</p>
<p>3. The District should develop and implement the use of a checklist to document that its buses receive required preventative maintenance as specified in the State's Minimum Standards.</p>	<p>Implemented at 12 months</p>
<p>4. The District should accurately calculate and report to the Arizona Department of Education the actual number of riders transported for state funding purposes.</p>	<p>Implemented at 12 months</p>

Recommendation

Status/Additional Explanation

FINDING 3: District likely has options to lower costs

1. The District should look for ways to improve its efficiency and lower its costs, including the possibility of cooperatively providing services with other school districts or the County School Superintendent’s Office, or paying tuition to a nearby district to educate its students.

Implementation in process

As reported in the explanation for Finding 1, recommendation 1, the District’s preliminary fiscal year 2020 administrative spending was 6 percent lower than its fiscal year 2016 (the audit year) costs. Since fiscal year 2016, the District has eliminated its superintendent position and replaced it with a lower-cost head teacher position. However, the District has continued to employ its former superintendent as an advisor to help it navigate the COVID-19 pandemic. Once the former superintendent is no longer needed as an advisor, the District’s administrative spending should further decrease. In addition, the District continues to receive some business office services and training from the County School Superintendent’s Office, which allowed it to eliminate its use of outside financial consultants, saving about \$8,000 annually. District officials did not report looking into cooperatively providing services with other school districts or paying tuition to a nearby district to educate its students. The District should continue looking for ways to improve its efficiency and lower spending in noninstructional areas so that it can free up dollars that could be spent on instruction or other District priorities.