

Owens-Whitney Elementary School District

District did not comply with State laws and USFR requirements in multiple areas, resulting in 2 employees participating in possible substantial interest conflicts, a negative general fund balance at the end of fiscal years 2020 and 2021, and increased risk for loss or misuse of public monies

Performance Audit

October 2023
Report 23-206

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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

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October 19, 2023

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Governing Board
Owens-Whitney Elementary School District

Mr. Bryan Bullington, Administrator
Owens-Whitney Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Owens-Whitney 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

Owens-Whitney Elementary School District

District did not comply with State laws and USFR requirements in multiple areas, resulting in 2 employees participating in possible substantial interest conflicts, a negative general fund balance at the end of fiscal years 2020 and 2021, and increased risk for loss or misuse of public monies

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 act in accordance with the State's open meeting laws when it accepted a \$30,000 contribution from a local mining company outside of a meeting open to the public.
- District did not act in accordance with the State's conflict-of-interest laws when the District administrator drafted and revised service proposals and a District employee approved a contract proposal that may have represented substantial interests to themselves.
- District did not act in accordance with intergovernmental agreement (IGA) laws when it entered into the service proposals rather than statutorily required IGAs.
- District had not established a cash receipts process and used debit cards contrary to the USFR prohibition.
- District did not comply with USFR budgeting and revenue monitoring requirements, resulting in a negative fund balance and purchases the District could not pay for.

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.
- Establish a written cash-receipting process and discontinue using bank account debit cards as a payment method to comply with the USFR.
- Comply with USFR requirements and good business practices related to budgeting, revenue amounts, and purchasing to ensure it has enough cash to meet its financial obligations.



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Rural district in Mohave County
Grades: Kindergarten through 8th
FY 2020 students attending: 17
FY 2020 number of schools: 1
FY 2019 school letter grade:¹ D



¹ 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 school letter grades from fiscal year 2019.

FY 2020 total operational spending—\$388,458 (\$22,922 per student)

Instructional—47.8% (\$10,951 per student)

Noninstructional—52.2% (\$11,971 per student)

| Operational overview—FY 2020 | Measure | Owens-Whitney ESD | Peer average |
|--|--------------------------|-------------------|--------------|
| <p>Administration—lower spending but District did not comply with State laws and other requirements</p> <p>The District’s administrative spending per student was 44 percent lower than its peer districts averaged, primarily because it did not employ a principal or superintendent. Instead, the District paid a nearby district \$12,000 annually for these services. However, the District did not enter into statutorily required intergovernmental agreements for these services and did not follow the State’s open meeting laws when it failed to accept \$30,000 of contributions during Governing Board meetings open to the public (see Finding 1, page 3). Additionally, 2 District employees improperly participated in matters in which they had a possible substantial interest (see Finding 1, page 3). Further, the District did not have a cash-receipting process and inappropriately used debit cards to make purchases (see Finding 2, page 8). Finally, the District’s budgeting, revenue monitoring, and purchasing processes did not comply with USFR requirements and resulted in the District making purchases that it did not have the cash to pay for (see Finding 3, page 10).</p> | Spending per student | \$4,388 | \$7,803 |
| <p>Plant operations—lower spending and no reported findings</p> <p>The District spent 14 percent less per square foot and 19 percent less per student than its peer districts averaged, and the District operated and maintained 26 percent fewer square feet per student. We did not report any findings in this area.</p> | Spending per square foot | \$9.43 | \$11.01 |
| | Spending per student | \$4,147 | \$5,106 |

Operational overview—FY 2020

| | Measure | Owens-Whitney ESD | Peer average |
|---|----------------------|-------------------|--------------|
| <p>Food service—higher spending and no reported findings</p> <p>The District spent 36 percent more per meal and 18 percent more per student than its peer districts averaged, primarily because it spent more on salaries and benefits compared to its peer districts. We did not report any findings in this area.</p> | Spending per meal | \$15.38 | \$11.33 |
| | Spending per student | \$2,264 | \$1,912 |
| <p>Transportation—lower spending and no reported findings</p> <p>The District spent approximately 80 percent less per mile and per rider than its peer districts averaged. The District did not operate a school bus transportation program and instead reimbursed parents for transporting their students to and from school at a rate of 44.5 cents per mile. We did not report any findings in this area.</p> | Spending per mile | \$0.38 | \$2.06 |
| | Spending per rider | \$377 | \$1,887 |



Contrary to State laws, District failed to accept \$30,000 contribution during public meeting, 2 employees improperly participated in possible substantial interests, and District entered into service proposals rather than required IGAs

The District and its employees did not act in accordance with State laws in 3 areas. Specifically, (1) the District did not act in accordance with the State’s open meeting laws when it accepted a contribution from a local mining company outside of a meeting open to the public; (2) the District’s administrator and an employee did not act in accordance with the State’s conflict-of-interest laws when the administrator drafted and revised service proposals and an employee approved a contract proposal that could have represented substantial interests to themselves; and (3) the District did not act in accordance with intergovernmental agreement (IGA) laws when it entered into the service proposals rather than statutorily required IGAs.

Issue 1: Contrary to State law, District failed to accept \$30,000 contribution during Governing Board meeting

District administrator requested \$30,000 contribution from local mining company he had relationship with through his role as superintendent for Bagdad USD

Freeport McMoran Inc. (Freeport) is an international mining company with an active copper mine operation located in nearby Bagdad, Arizona. In our June 2022 report on Bagdad USD, we reported that Bagdad USD and Freeport developed an ongoing financial relationship in 2008 and that the Bagdad USD superintendent also has served as the District’s administrator since fiscal year 2019. In his role as the nearby Bagdad USD superintendent, he has met with Freeport to provide Bagdad USD’s annual and ongoing educational priorities and then later submitted contribution request letters, which resulted in Freeport providing monthly monetary contributions to support Bagdad USD’s operations and capital improvements.¹

According to the District’s administrator (also Bagdad USD’s superintendent), the District began experiencing cash flow issues and needed monies to meet its payroll obligations. Therefore, in an effort to alleviate these issues, the administrator sent Freeport a letter in August 2020 requesting that it provide a \$30,000 cash contribution to the District instead of Freeport providing Bagdad USD \$30,000 of ongoing contributions. The administrator further stipulated in the letter that the District intended to return the \$30,000 to Bagdad USD through its annual administrative service proposal (service proposal) (see Issue 2 on page 5 for more information about the service proposals). Freeport subsequently provided \$30,000 to the District in September

¹ According to a Freeport official, Freeport contributes monies to support local communities such as school districts through 3 key priorities—educational attainment, economic development, and social resilience.

2020 and reduced the amount of 1 of its monthly contributions it provided to Bagdad USD by the same amount.²

Contrary to State laws, Governing Board did not accept \$30,000 contribution from local mining company during public meeting

According to State law, school district governing boards' business is required to be conducted at regular or special meetings, and school district governing boards can accept a gift only through action at a public meeting.³ However, Freeport's \$30,000 contribution to the District in September 2020 was not accepted during a public meeting. The administrator reported that the District did not accept Freeport's contribution in a public meeting because Freeport's previous community managers told him that Freeport preferred to not discuss company contributions publicly.⁴ When we asked Freeport's manager of strategic community development about these concerns, he told us the public is well aware of its 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 to require the Governing Board (Board) to accept any contributions and the administrator to acknowledge the contribution's receipt, purpose, and value during public meetings regardless of a contributor's request to maintain privacy would help the District ensure transparency and compliance with the State's open meeting laws.

Recommendation

1. The District should ensure it complies with State laws governing open, public meetings by:
 - a. In consultation with legal counsel, strengthening its policy and establishing a written procedure to require:
 - i. The Board to accept any contributions, gifts, and donations, including those from the mining company, during public meetings.
 - ii. The administrator to acknowledge the contribution's receipt, purpose, and value during public meetings, regardless of a contributor's request to maintain privacy.
 - b. Including in its employee training information regarding the importance of complying with the State's open meeting laws.

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

² Although the Bagdad USD Governing Board president reported to us in May 2021 that the District's administrator (also Bagdad USD's superintendent) made her aware of the District administrator's request of Freeport to divert \$30,000 from Bagdad USD to the District, our review of Bagdad USD Governing Board meeting minutes from August through October 2020 found that the District administrator (also Bagdad USD's superintendent) did not make the Bagdad USD Governing Board aware of or seek approval for this request in a public meeting.

³ Op. Atty. Gen. No. I80-156 determined Arizona Revised Statutes (A.R.S.) §15-321(E) requires school district governing boards' business to be conducted at regular or special meetings, A.R.S. §15-432(D).

⁴ We similarly reported in our June 2022 Bagdad USD report that Bagdad USD's practice was to not accept Freeport's contributions during public meetings because Freeport preferred to not have its contributions discussed publicly.

Issue 2: Two District employees improperly participated in possible substantial interest conflicts

Administrator drafted service proposals entitling himself to \$12,000 per year paid to him by Bagdad USD and revised service proposal that could have entitled himself to \$30,000 of additional compensation and did not make known his possible substantial interest

State conflict-of-interest laws 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 or employee has a substantial interest.⁵ However, our review found that the Bagdad USD superintendent, who the Board had also appointed as the District's acting administrator, drafted administrative services proposals (service proposals) that were incorporated in the superintendent's employment agreement as compensation, thereby representing a possible substantial interest conflict.⁶ The acting administrator did not disclose this possible substantial interest to the District. Specifically, the Bagdad USD superintendent drafted and the District agreed to enter into a service proposal for fiscal year 2020 for Bagdad USD to provide the District with administrative, fiscal and grants management, and student achievement services for \$12,000; the Bagdad USD superintendent was 1 of 2 individuals authorized to provide these services to the District. In fiscal years 2020 and 2021, Bagdad USD paid its superintendent, the concurrent acting administrator of the District, additional compensation totaling \$12,000 per year to provide these services to the District. As previously mentioned, when the District began experiencing cash flow issues and needed to meet its payroll obligations, the administrator coordinated the \$30,000 contribution using monies from Freeport that would have otherwise been provided to Bagdad USD. The administrator further stipulated that the District intended to return the Freeport monies to Bagdad USD through its service proposal that he had revised, and which was approved by both districts' governing boards in October 2020, from \$12,000 to \$42,000.

The administrator's employment agreements with Bagdad USD as superintendent, from fiscal years 2020 to 2022, included provisions entitling him to receive additional compensation equal to the annual financial value specified within the districts' service proposals. As mentioned earlier, the service proposals were drafted by the administrator, which is inconsistent with 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 administrator drafted and revised the fiscal year 2021 service proposal to include an additional \$30,000, his Bagdad USD superintendent employment agreement could have entitled him to the additional revised amount. However, the administrator reported that it did not occur to him that the provision in his fiscal year 2021 employment agreement would create a conflict of interest, this was an oversight, and he did not intend to receive additional compensation through the service proposal. Additionally, the Bagdad USD Governing Board president reported that she did not realize that the service proposal could have entitled the administrator to an additional \$30,000 of compensation. Further, our review of Bagdad USD financial records confirmed the

Keys 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 8/30/2023 from <https://www.azag.gov/outreach/publications/agency-handbook>.

⁵ A.R.S. §38-503(A).

⁶ In fiscal year 2019, the Bagdad USD superintendent concurrently became the District's acting administrator.

administrator did not receive the additional \$30,000 of compensation and that no additional compensation was paid to the administrator in his superintendent role based on his revisions to the service proposal. However, it appears that the administrator acted inconsistently with the State's conflict-of-interest laws when he drafted and revised to increase the amount of the service proposals in which he had a possible substantial interest.

At the time of our review, District employees reported to us that they did not have a documented process in place to specifically require employees to follow the District policy regarding conflict-of-interest disclosures, such as requiring employees to fill out forms detailing substantial interests. Rather, the former business manager told us that the District is small, so conflicts have not been an issue and a process was not needed, although employees were required to notify the administrator if a conflict existed. The District establishing a written procedure to require employees to disclose on a District form substantial interests and affirm that they will refrain from participating in approving any contract, sale, purchase, or service representing a substantial interest would help its employees comply with the State's conflict-of-interest laws. Further, when the administrator has a conflict, the District's procedures should also require the administrator to disclose the conflict to the Board in a public meeting. In addition, the District including information about the importance of employees complying with the State's conflict-of-interest laws and District policy as part of its trainings could help further assist with this compliance.

District employee approved contract proposal paying spouse \$2,000 for services and failed to disclose her substantial interest on required form

Another District employee also did not act in accordance with the State's conflict-of-interest laws when she approved a contract proposal paying her spouse over \$2,000 for quality control and assurance services overseeing a construction project in November 2019. Although the Board and administrator were aware the employee's spouse was a licensed contractor, the employee did not disclose the substantial interest and did not refrain from signing the proposal that her spouse and another consultant also signed. The administrator told us it is difficult to hire qualified contractors to oversee projects in Wikieup, and since he knew the employee's spouse was a licensed contractor, the District administrator hired the spouse for the construction project. As indicated earlier, the District establishing a written procedure to require employees to disclose on District form substantial interests and affirm that they will refrain from participating in approving any contract, sale, purchase, or service representing a substantial interest could help its employees comply with the State's conflict-of-interest laws.

Recommendation

2. The District should ensure it complies with State laws governing conflicts of interest by:
 - a. In consultation with legal counsel, strengthening existing policies and developing and implementing written policies and procedures governing conflicts of interest in conformance with State laws. These policies and procedures should specifically require District employees to fill out disclosure forms, disallow District employees from participating in matters for which they have a substantial interest, and when the District's administrator has a conflict, require the administrator to disclose the conflict to the Governing Board in a public meeting.
 - b. Ensuring District employees, including the administrator, follow the State conflict-of-interest laws and District policy by following the practices they learned in the District-provided training (see recommendation 2c), including describing their substantial interests on a conflict-of-interest disclosure form as required and refraining from participating in any decision, contract, sale, purchase, or service for which they have a substantial interest.
 - c. Developing and providing periodic training to its employees on its conflict-of-interest requirements, process, and disclosure forms and how they relate to the District's and employee's unique programs, functions, or responsibilities.

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

Issue 3: District failed to use statutorily required IGAs for services with Bagdad USD

District used service proposals rather than required IGAs when complying with Board requests

The districts' service proposals in fiscal years 2020 and 2021 discussed earlier were statutorily required to have been written as IGAs specifying duration, purpose, manner of financing and budgeting, the permissible method(s) to use in terminating the agreement, and any other necessary and proper matters.⁷ Further, both districts were statutorily required to have submitted the documents to their respective attorneys for determination of whether they were in proper form and within the powers and authority granted under State laws.⁸ The administrator acknowledged that State law required the service proposals to be drafted as IGAs and to adhere to the related statutory requirements. However, he explained the 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 Board president acknowledged to us that the Board asked the administrator 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 with Bagdad USD for fiscal year 2022. By not using statutorily required IGAs between the District and Bagdad USD and not requiring the District's attorney to review them, the District increased the risk that it was acting beyond its legal powers and authority. Additionally, without an IGA in proper form, as required by statute, the District increased the risk that it may not be able to hold Bagdad USD accountable for the services it paid for under terms of the service agreement. The District implementing written policies and procedures and including in its employee training information regarding the importance of complying with the State's IGA laws would help ensure employees comply with those requirements.

Recommendation

3. The District should ensure it complies with State laws governing IGAs by:
 - a. In consultation with legal counsel, developing and implementing written policies and procedures governing IGAs in conformance with State law. These policies and procedures should specifically require agreements to comply with IGA statutory requirements.
 - b. Ensuring 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 disposing of property, and any other necessary and proper matters; and are reviewed by District attorneys to determine whether the IGAs are in proper form and within the powers and authority granted under State law.
 - c. Including in its employee training information regarding the importance of complying with State laws related to IGAs.

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

⁷ A.R.S. §11-952.

⁸ A.R.S. §11-952(D).



District did not have established process over cash receipts and used debit cards contrary to USFR prohibition, increasing risk of fraud, waste, and abuse

Contrary to requirements, District lacked cash-receipting process to safeguard nearly \$20,000 received at District office for health insurance, teacherage rent, and donations

The *Uniform System of Financial Records for Arizona School Districts* (USFR) requires districts to establish and maintain effective policies and procedures to safeguard cash, prevent loss or misuse, provide prompt and intact depositing, and ensure accurate recording.⁹ Specifically, the USFR requires districts to separate cash-handling and recordkeeping functions and to prepare evidence of receipt for each cash or check payment received. However, our review found the District lacked a cash-receipting process. Specifically, during fiscal year 2020, the District office received almost \$20,000 of cash in person and through the mail from a Board member, employees, and local citizens for health insurance, teacherage payments, and donations but did not have an established process for receipting and logging the monies.¹⁰ Further, the business manager at that time performed most cash-handling functions, including receiving and filing copies of checks and then mailing them to the County Treasurer for deposit. As a result of the deficiencies in the District's cash-handling, the District could not demonstrate that all cash received had been recorded and deposited.

The business manager at that time of our review told us that the District received so few checks from the public that a cash-receipting process was not necessary. However, a lack of such a process placed the monies at greater risk of fraud, waste, or abuse, and the District could not demonstrate that all public monies received had been recorded and deposited. The District developing and implementing written policies and procedures for cash receipting and logging that comply with USFR requirements and providing training to the responsible employees on these procedures could help ensure public monies are better protected.

District employees used bank debit cards to purchase over \$7,000 of goods and services despite USFR prohibition

The USFR prohibits districts from using bank account debit cards as a payment method. However, the District authorized bank account debit cards to 2 employees who then used them to purchase more than \$7,000 of goods and services in fiscal year 2020. Unlike purchasing or credit cards, using bank account debit cards increases the risk that if an individual improperly makes a purchase using the District's debit card without proper approval, the District may be unable to recover the monies used to pay for the improper purchase. Districts should instead use purchasing or credit cards because if an unauthorized or improper purchase were

⁹ The Arizona Auditor General and the Arizona Department of Education (ADE) developed the USFR pursuant to 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.

¹⁰ The term "cash" used throughout this report includes cash (coins and dollars), checks, and any other physical form of payment, such as money orders.

to be made with a credit card, the District would have recourse to contest the purchase and could possibly avoid having to pay for the purchase. Additionally, by using bank account debit cards, the District is at risk of employees making improper cash withdrawals—a risk mitigated by using purchasing or credit cards because they cannot be used to withdraw cash from a District bank account.

The business manager at that time told us that she was unaware of the USFR’s prohibition on bank account debit cards being used as a payment method associated with district bank accounts. The District discontinuing using bank account debit cards and instead implementing purchasing or credit cards, as well as establishing a training on USFR requirements for the responsible employees, could help the District ensure it complies with those important requirements.

Recommendations

The District can help ensure its employees comply with USFR requirements by:

4. Establishing a written cash-receipting process including policies and procedures requiring recording and logging of cash received in person and through the mail, including separating responsibilities between cash-handling and recordkeeping functions.
5. Discontinuing using bank account debit cards as a payment method and instead implementing purchasing or credit cards.
6. Developing and requiring training for the responsible employees about USFR requirements, including requirements for cash receipting and credit cards.

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



District’s budgeting, revenue monitoring, and purchasing processes did not comply with USFR requirements, resulting in \$233,000 of underfunding, a negative fund balance, and purchases the District could not pay for in fiscal year 2021

District did not accurately calculate revenue in its adopted budgets and did not analyze budget performance as required for fiscal years 2017 through 2019, resulting in \$233,000 of underfunding going unidentified until fiscal year 2021

District did not accurately calculate allowable transportation revenue in its adopted budgets for fiscal years 2017 through 2019, resulting in \$233,000 of underfunding—The USFR requires school districts to implement procedures to ensure their budgeted amounts are accurate when they prepare their budgets. However, the District did not accurately calculate its adopted budget in fiscal years 2017 through 2019 because it miscalculated the transportation support level (TSL) and transportation revenue control limit (TRCL) in each of these years.¹¹ The Mohave County Board of Supervisors adopted the District’s primary school tax levy and rate for fiscal years 2017 through 2019 based on these incorrect amounts the District calculated, which resulted in the District being underfunded by a total of \$233,000 in fiscal years 2017 through 2019 as compared to its final revised budgets in each of these years. Specifically, the District corrected the TSL and TRCL amounts in revised budgets, but did so after property tax rates had been set each year.¹² Therefore, the District did not receive the property tax revenues to fully fund the increased amounts in its revised budgets that resulted from the corrected TSL and TRCL amounts. The administrator reported that he began his District employment shortly before the deadline for completing the necessary corrections and the former business manager reported being unaware of the timeline and budget revision requirements.¹³

District did not identify it was underfunded in fiscal years 2017 through 2019 because it did not analyze budget performance as required, resulting in a negative Maintenance and Operation Fund balance at the end of fiscal years 2020 and 2021—The District’s failure to analyze its budget performance at the end of each year to identify and explain any significant variations between budgeted and actual amounts as required by the USFR, including budget revisions’ impact on current and future budgets, contributed to the District not identifying that it was underfunded by a total of \$233,000 in fiscal

¹¹ A.R.S. §15-945 defines how the TSL is calculated, and A.R.S. §15-946 defines how the TRCL is calculated. A.R.S. §15-992(G)(1) allows school districts to levy additional property taxes up to the difference between the TRCL and TSL.

¹² A.R.S. §42-17151 requires each county’s governing body to fix, levy, and assess the amount to be raised from primary and secondary property taxes by the third Monday in August each year.

¹³ The administrator began working for the District in July 2018 and therefore began his employment with the District after the deadline for the District to revise its budget to correct its erroneous TSL and TRCL amounts for fiscal years 2017 and 2018. The administrator reported that he was unaware of the District’s fiscal year 2019 budget miscalculations during his first months of employment and therefore did not have the necessary time to submit budget revisions before the County primary and secondary property taxes were set by the third Monday in August for fiscal year 2019.

years 2017 through 2019. Specifically, this review would have helped the District identify that it did not receive all of the revenues it anticipated after it revised its budgets in each of fiscal years 2017 through 2019. Further, analyzing budget performance may have prompted the District to contact the county school superintendent's office (CSSO) to explain why significant variations between budgeted and actual revenue amounts existed. Instead, the District received less property tax revenues than it needed to fund its budgeted expenditures, and the District's Maintenance and Operation Fund balance decreased from \$156,515 at the end of fiscal year 2017 to (-\$26,840) at the end of fiscal year 2020 and (-\$10,208) at the end of fiscal year 2021. The District's administrator reported that he relied on the former business manager to monitor revenues and deposits throughout the year, and the former business manager did not report any budget or funding shortfalls. The District agreed that implementing a process to analyze budget performance would have helped the District identify and correct its budgeting and funding errors sooner.

District did not monitor available cash balances prior to approving purchases or perform required monthly cash balance reconciliations, resulting in District making purchases it did not have sufficient cash to pay for in fiscal year 2021

The USFR requires school districts to verify that sufficient budget capacity exists prior to approving purchases for budget-controlled funds, such as the Maintenance and Operation Fund, and to verify that sufficient cash is available to make expenditures from other funds. Budget-controlled funds allow school districts to continue spending even when cash is not available in the fund by borrowing cash from other allowable funds or the County Treasurer.¹⁴ For accurate recordkeeping, the USFR further requires school districts to reconcile cash balance records by fund to the CSSO's records monthly. Additionally, although not required by the USFR, consistent with good business practices, districts should also verify that sufficient cash is available prior to approving purchases from budget-controlled funds to help ensure the district does not make purchases for which it does not have sufficient cash.

However, the District's administrator and former business manager did not reconcile the District's records of cash balances by fund monthly with the CSSO's records, as required, nor did they verify that sufficient cash was available prior to approving and making purchases. As a result, the District's administrator and former business manager were unaware of the District's lack of available cash and approved and made purchases that the District did not have sufficient cash to pay for at the start of fiscal year 2021. Specifically, on August 17, 2020, the CSSO emailed the District that it was unable to process \$12,389 in warrants, including \$9,362 in payroll payments, because the District's cash balance in its Maintenance and Operation Fund and other allowable funds totaled only \$9,025. Further, the District's outstanding warrants (that is, checks that had been processed and sent to payees but had not yet cleared) totaled \$53,150 at this time, which was \$44,125 more than the District's total cash balance of \$9,025. The District requested and received \$40,000 from the CSSO's small schools program to address a majority of the outstanding warrants, and paid installments for 2 large purchases, including \$15,000 of laptops and \$31,000 of instructional software. The District also attempted to obtain a line of credit with a bank to address its low cash balance, but was unable to do so because it did not meet the bank's lending requirements.

Although the District's administrator reported that he was aware of the USFR requirements to reconcile the District's cash balance records by fund monthly to CSSO's records, he further stated he relied on the former business manager to complete these reconciliations and the former business manager did not do so. District officials reported that after the District was contacted by the CSSO in August 2020, the District began performing the required monthly reconciliations. Additionally, the District's former business manager stated she did not review available cash balances prior to approving and making purchases because she was unaware of the District's lack of available cash. She agreed that reviewing available cash balances prior to approving purchases may have prevented the District from making purchases it could not pay for in fiscal year 2021.

¹⁴ A.R.S. §11-604.01 authorizes county treasurers to provide lines of credit to school districts. The Mohave County Treasurer does not provide lines of credit to Mohave County school districts but assists school districts with obtaining lines of credit from banks.

District administrator requested \$30,000 contribution from local mining company to address District's lack of cash in fiscal year 2021

To address the District's lack of available cash at the start of fiscal year 2021, the District's administrator (who was also the Bagdad USD superintendent), requested a \$30,000 contribution from Freeport, an international mining company with an active copper mine operation located in nearby Bagdad, Arizona. According to the District administrator's proposal, Freeport was to divert its ongoing contributions to nearby Bagdad USD one time by \$30,000 and instead provide these monies to the District. The proposal also indicated to Freeport that it was the District's "intent and commitment" to repay the \$30,000 to Bagdad USD. In September 2020, Freeport provided \$30,000 to the District and reduced the amount of 1 of its monthly contributions to Bagdad USD by the same amount. The District's administrator subsequently revised an administrative services proposal between the District and Bagdad USD, which was approved by both districts' governing boards in October 2020, to reflect that the District would repay the \$30,000 to Bagdad USD. However, the District's administrator should not have participated in revising the agreement because he had an apparent substantial interest as it may have entitled him to \$30,000 of additional compensation from Bagdad USD (See Finding 1 on page 3). The District administrator, who is also Bagdad USD's superintendent, stated that Bagdad USD Governing Board discussed the issue of repayment and decided that the District did not need to repay Bagdad USD the \$30,000. However, the board did not have this discussion or make this decision in a public meeting. Additionally, the administrative services agreement, approved by both districts' governing boards for the 2020-2021 school year, was revised to reflect the initial \$12,000 payment from the District to Bagdad USD, removing the additional \$30,000 that had previously been added for repayment of these monies.

District began working with CSSO to address cash deficit issue for fiscal year 2022

In addition to the Freeport contribution, the District sent a letter to the CSSO in July 2021 requesting approval to levy additional property taxes to address the District's cash deficit issue. The District's letter stated that the District had a cash deficit in its Maintenance and Operation Fund of \$210,000 as of July 2021 and requested approval to levy for an additional \$93,000 in both fiscal years 2022 and 2023.¹⁵ In July 2021, the Mohave County Board of Supervisors approved the additional \$93,000 levy for fiscal year 2022 and in June 2022 approved a \$90,044 levy for fiscal year 2023. During the July 2021 meeting, one County Board of Supervisors member stated that they appreciated the District trying to do things the most transparent way possible by seeking board approval and asked that the District ensure this situation does not happen again in future years.

¹⁵ A.R.S. §15-992(F)(10) allows school districts to, on the recommendation of the county school superintendent and on approval by the county board of supervisors, levy additional property taxes that equal any separately stated cash deficit from the prior fiscal year resulting from an anticipated or actual deviation in the property tax roll, including resolutions or judgements pursuant to Title 42, Ch. 16, Arts. 5 and 6.

Recommendations

7. The District should comply with USFR requirements and good business practices related to budgeting, revenue amounts, and purchasing to help ensure it has enough cash to meet its financial obligations by:
 - a. Implementing procedures to ensure that it accurately calculates the TSL and TRCL when preparing its annual budget.
 - b. Provide training to District staff responsible for calculating the TSL and TRCL about the procedures for accurately calculating TSL and TRCL when preparing the District's annual budget, including information on the date that property tax rates must be set and that any revisions impacting funding that are made after this date will not result in any changes to local property tax rates.
 - c. Performing monthly reconciliations of its cash balance records by fund to the CSSO's records.
 - d. Verifying that sufficient cash is available prior to approving and making purchases.
 - e. Developing and implementing adequate supervisory reviews to ensure its staff timely and accurately complete all USFR required budget analyses and cash reconciliations.
 - f. Continuing to work with the CSSO, as necessary, to levy additional property taxes to eliminate its cash deficit.
8. The District should, in consultation with legal counsel, determine if the District is responsible for repaying the \$30,000 to Bagdad USD and, if so, create a legal agreement between the District and Bagdad USD that includes a plan for repayment.

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 8 recommendations to the District

The District should:

1. Ensure it complies with State laws governing open, public meetings by:
 - a. In consultation with legal counsel, strengthening its policy and establishing a written procedure to require:
 - i. The Board to accept any contributions, gifts, and donations, including those from the mining company, during public meetings (see Finding 1, pages 3 through 4, for more information).
 - ii. The administrator to acknowledge the contribution's receipt, purpose, and value during public meetings, regardless of a contributor's request to maintain privacy (see Finding 1, pages 3 through 4, for more information).
 - b. Including in its employee training information regarding the importance of complying with the State's open meeting laws (see Finding 1, pages 3 through 4, for more information).
2. Ensure it complies with State laws governing conflicts of interest by:
 - a. In consultation with legal counsel, strengthening existing policies and developing and implementing written policies and procedures governing conflicts of interest in conformance with State laws. These policies and procedures should specifically require District employees to fill out disclosure forms, disallow District employees from participating in matters for which they have a substantial interest, and when the District's administrator has a conflict, require the administrator to disclose the conflict to the Governing Board in a public meeting (see Finding 1, pages 5 through 6, for more information).
 - b. Ensuring District employees, including the administrator, follow the State conflict-of-interest laws and District policy by following the practices they learned in the District-provided training (see recommendation 2c), including describing their substantial interests on a conflict-of-interest disclosure form as required and refraining from participating in any decision, contract, sale, purchase, or service for which they have a substantial interest (see Finding 1, pages 5 through 6, for more information).
 - c. Developing and providing periodic training to its employees on its conflict-of-interest requirements, process, and disclosure forms and how they relate to the District's and employee's unique programs, functions, or responsibilities (see Finding 1, pages 5 through 6, for more information).
3. Ensure it complies with State laws governing IGAs by:
 - a. In consultation with legal counsel, developing and implementing written policies and procedures governing IGAs in conformance with State law. These policies and procedures should specifically require agreements to comply with IGA statutory requirements (see Finding 1, page 7, for more information).

- b. Ensuring 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 disposing of property, and any other necessary and proper matters; and are reviewed by District attorneys to determine whether the IGAs are in proper form and within the powers and authority granted under State law (see Finding 1, page 7, for more information).
 - c. Including in its employee training information regarding the importance of complying with State laws related to IGAs (see Finding 1, page 7, for more information).
- 4. Help ensure its employees comply with USFR requirements by establishing a written cash-receipting process including policies and procedures requiring recording and logging of cash received in person and through the mail, including separating responsibilities between cash-handling and recordkeeping functions (see Finding 2, pages 8 through 9, for more information).
- 5. Help ensure its employees comply with USFR requirements by discontinuing using bank account debit cards as a payment method and instead implementing purchasing or credit cards (see Finding 2, pages 8 through 9, for more information).
- 6. Help ensure its employees comply with USFR requirements by developing and requiring training for the responsible employees about USFR requirements, including requirements for cash receipting and credit cards (see Finding 2, pages 8 through 9, for more information).
- 7. Comply with USFR requirements and good business practices related to budgeting, revenue amounts, and purchasing to help ensure it has enough cash to meet its financial obligations by:
 - a. Implementing procedures to ensure that it accurately calculates the TSL and TRCL when preparing its annual budget (see Finding 3, pages 10 through 13, for more information).
 - b. Provide training to District staff responsible for calculating the TSL and TRCL about the procedures for accurately calculating TSL and TRCL when preparing the District's annual budget, including information on the date that property tax rates must be set and that any revisions impacting funding that are made after this date will not result in any changes to local property tax rates (see Finding 3, pages 10 through 13, for more information).
 - c. Performing monthly reconciliations of its cash balance records by fund to the CSSO's records (see Finding 3, pages 10 through 13, for more information).
 - d. Verifying that sufficient cash is available prior to approving and making purchases (see Finding 3, pages 10 through 13, for more information).
 - e. Developing and implementing adequate supervisory reviews to ensure its staff timely and accurately complete all USFR required budget analyses and cash reconciliations (see Finding 3, pages 10 through 13, for more information).
 - f. Continuing to work with the CSSO, as necessary, to levy additional property taxes to eliminate its cash deficit (see Finding 3, pages 10 through 13, for more information).
- 8. In consultation with legal counsel, determine if the District is responsible for repaying the \$30,000 to Bagdad USD and, if so, create a legal agreement between the District and Bagdad USD that includes a plan for repayment (see Finding 3, pages 10 through 13, for more information).



Objectives, scope, and methodology

We have conducted a performance audit of Owens-Whitney 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 2020 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 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 5 of the 7 individuals who received payments in fiscal year 2020 through the District's payroll system and supporting documentation for 15 of the 358 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—To compare the District’s operational efficiency in administration, plant operations and maintenance, and food service, we developed a peer group based on district size and location (see Table 1). We used these factors because they are associated with districts’ cost measures in these areas. For very small districts such as Owens-Whitney ESD, 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 student 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.

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 |
|---|---------------------------|--|-----------------------------------|
| Administration, plant operations and maintenance, and food service (fiscal year 2020) | District size Location | Fewer than 200 students Towns and rural areas | 56 |

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.

The District’s fiscal year 2022 student passage rates on State assessments as reported by ADE were unavailable due to the District’s very small size. Therefore, we were not able to compare the District’s student achievement to peer districts’. However, we reported the District’s fiscal year 2019 ADE-assigned letter grade.

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

- **Interviews**—We interviewed various District employees in the operational areas 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, the Bagdad USD Governing Board President, and Mohave County School Superintendent’s Office staff.
- **Report reviews**—We reviewed various summary reports of District-reported data including its *Annual Financial Report*, budget and funding calculation reports provided by ADE, District-wide building reports provided by the Arizona Department of Administration’s School Facilities Oversight Board, and reports required for the federal school lunch program. Additionally, we reviewed the District’s property tax assessment and collection reports and fund balance reports provided by Mohave County.
- **Documentation reviews**—We reviewed various sets of District documentation including conflict-of-interest policies, cash deposit and debit card documentation for fiscal year 2020, and budget worksheets. Additionally, we reviewed the District’s administrative services agreement with Bagdad USD, administrative IGAs, and governing board meeting minutes. We also reviewed the District administrator’s employment contract with Bagdad USD and payments made to the District administrator by Bagdad USD.
- **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.

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, administrator, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE



OWENS-WHITNEY ELEMENTARY SCHOOL DISTRICT #6

14109 East Chicken Springs Road, PO Box 38
Wikeup, AZ 85360 Phone: (928) 765-2311

Governing Board:
Frank Dazzo, President
April Drane, Member
David Kilby, Member

Oct. 5, 2023

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

Dear Ms. Perry,

Owens Elementary School District 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 many of 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,

A handwritten signature in black ink, appearing to read "Bryan Bullington". The signature is fluid and cursive.

Bryan Bullington
Superintendent

Finding 1: Contrary to State laws, District failed to accept \$30,000 contribution during public meeting, 2 employees improperly participated in possible substantial interests, and District entered into service proposals rather than required IGAs.

Recommendation 1: The District should ensure it complies with State laws governing open, public meetings by:

- a. In consultation with legal counsel, strengthening its policy and establishing a written procedure to require:
 - i. The Board to accept any contributions, gifts, and donations, including those from the mining company, during public meetings.

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

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

- ii. The administrator to acknowledge the contribution's receipt, purpose, and value during public meetings, regardless of a contributor's request to maintain privacy.

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

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

- b. Including in its employee training information regarding the importance of complying with the State's open meeting laws.

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

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

Recommendation 2: The District should ensure it complies with State laws governing conflicts of interest by:

- a. In consultation with legal counsel, strengthening existing policies and developing and implementing written policies and procedures governing conflicts of interest in conformance with State laws. These policies and procedures should specifically require District employees to fill out disclosure forms, disallow District employees from participating in matters for which they have a substantial interest, and when the District's administrator has a conflict, require the administrator to disclose the conflict to the Governing Board in a public meeting.

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

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

- b. Ensuring District employees, including the administrator, follow the State conflict-of-interest laws and District policy by following the practices they learned in the District-provided training (see recommendation 2c), including describing their substantial interests on a conflict-of-interest disclosure form as required and refraining from participating in any decision, contract, sale, purchase, or service for which they have a substantial interest.

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

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

- c. Developing and providing periodic training to its employees on its conflict-of-interest requirements, process, and disclosure forms and how they relate to the District's and employee's unique programs, functions, or responsibilities.

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

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

Recommendation 3: The District should ensure it complies with State laws governing IGAs by:

- a. In consultation with legal counsel, developing and implementing written policies and procedures governing IGAs in conformance with State law. These policies and procedures should specifically require agreements to comply with IGA statutory requirements.

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

Response explanation: The District agrees with the recommendation and has implemented employee training information regarding compliance with Intergovernmental Agreements.

- b. Ensuring 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 disposing of property, and any other necessary and proper matters; and are reviewed by District attorneys to

determine whether the IGAs are in proper form and within the powers and authority granted under State law.

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

Response explanation: 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.

- c. Including in its employee training information regarding the importance of complying with State laws related to IGAs.

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

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

Finding 2: District did not have established process over cash receipts and used debit cards contrary to USFR prohibition, increasing risk of fraud, waste, and abuse.

Recommendation 4: The District can help ensure its employees comply with USFR requirements by, establishing a written cash-receipting process including policies and procedures requiring recording and logging of cash received in person and through the mail, including separating responsibilities between cash-handling and recordkeeping functions.

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

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

Recommendation 5: The District can help ensure its employees comply with USFR requirements by, discontinuing using bank account debit cards as a payment method and instead implementing purchasing or credit cards.

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

Response explanation: The District agrees with the recommendation and is working with our financial institution to secure purchasing or credit cards and discontinue the use of debit cards.

Recommendation 6: The District can help ensure its employees comply with USFR requirements by, developing and requiring training for the responsible employees about USFR requirements, including requirements for cash receipting and credit cards.

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

Finding 3: District's budgeting, revenue monitoring, and purchasing processes did not comply with USFR requirements, resulting in \$233,000 of underfunding, a negative fund balance, and purchases the District could not pay for in fiscal year 2021.

Recommendation 7: The District should comply with USFR requirements and good business practices related to budgeting, revenue amounts, and purchasing to help ensure it has enough cash to meet its financial obligations by:

- a. Implementing procedures to ensure that it accurately calculates the TSL and TRCL when preparing its annual budget.

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

Response explanation: The District agrees with the recommendation and took corrective action by entering into a purchased professional and consultant services agreement related to business services and financial management in June of 2021.

- b. Provide training to District staff responsible for calculating the TSL and TRCL about the procedures for accurately calculating TSL and TRCL when preparing the District's annual budget, including information on the date that property tax rates must be set and that any revisions impacting funding that are made after this date will not result in any changes to local property tax rates.

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

Response explanation: The District agrees with the recommendation and took corrective action by entering into a purchased professional and consultant services agreement related to business services and financial management in June of 2021.

- c. Performing monthly reconciliations of its cash balance records by fund to the CSSO's records.

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

Response explanation: The District agrees with the recommendation and took corrective action by entering into a purchased professional and consultant services agreement related to business services and financial management in June of 2021.

- d. Verifying that sufficient cash is available prior to approving and making purchases.

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

Response explanation: The District agrees with the recommendation and took corrective action by entering into a purchased professional and consultant services agreement related to business services and financial management in June of 2021.

- e. Developing and implementing adequate supervisory reviews to ensure its staff timely and accurately complete all USFR required budget analyses and cash reconciliations.

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

Response explanation: The District agrees with the recommendation and took corrective action by entering into a purchased professional and consultant services agreement related to business services and financial management in June of 2021.

- f. Continuing to work with the CSSO, as necessary, to levy additional property taxes to eliminate its cash deficit.

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

Response explanation: The District agrees with the recommendation and took corrective action by entering into a purchased professional and consultant services agreement related to business services and financial management in June of 2021.

Recommendation 8: The District should, in consultation with legal counsel, determine if the District is responsible for repaying the \$30,000 to Bagdad USD and, if so, create a legal agreement between the District and Bagdad USD that includes a plan for repayment.

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

