

Hyder Elementary School District

30-Month Followup of Performance Audit Report 23-201

The January 2023 Hyder Elementary School District performance audit found that the District lacked internal controls and did not comply with requirements in multiple areas, putting public monies, sensitive computerized data, and student safety at risk. We made **32** recommendations to the District.

District's status in implementing 32 recommendations

Implementation status	Number of recommendations
<input checked="" type="checkbox"/> Implemented	17 recommendations
<input checked="" type="checkbox"/> Implemented in a different manner	1 recommendation
 In process	12 recommendations
 Not implemented	2 recommendations

We will conduct a 42-month followup with the District on the status of the recommendations that have not yet been implemented.¹

¹ In our prior initial followup report, we reported that in September 2021, the Arizona State Board of Education (State Board) found the District was in noncompliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR) and voted to direct the Superintendent of Public Instruction to withhold 3% of the District's State aid until our Office reported that the District is no longer in noncompliance with the USFR. In August 2023, the State Board voted to direct the Superintendent of Public Instruction to withhold an additional 3% of the District's State aid, for a total of 6%. On October 27, 2025, our Office sent a letter to the State Board notifying it that we had reviewed the District's fiscal year 2024 financial audit reports and USFR Compliance Questionnaire as well as the District's fiscal year 2025 records and procedures as of April 2025. Based on the review of the available information at that time, the District had made progress to correct internal control deficiencies and was no longer in noncompliance with the USFR.

Recommendations to the District

Finding 1: District has not complied with important purchasing requirements, resulting in unauthorized purchases and waste; put other public monies at an increased risk of fraud, waste, or abuse; and misreported spending

1. The District should establish written policies and procedures that provide effective internal controls over credit cards, expenditure processing, cash handling, and bank accounts. Specifically, to comply with USFR requirements, these written policies and procedures should require the District to:

a. Train staff members and require card user agreements acknowledging receipt and understanding of the District's policies and procedures for card use.

► Status: **Implemented at 30 months.**

In May 2025, the District established a formal policy that requires the District to establish effective internal controls over credit cards to reduce the risk of unapproved or fraudulent transactions. In accordance with its policy, the District has implemented procedures to train all employees annually on appropriate credit card use and require all training participants to sign credit card user agreements. In July 2025, the District provided credit card training to staff and required users to sign agreements acknowledging receipt and understanding of the District's policies and procedures for card use, including consequences for noncompliance. We reviewed the District's fiscal year 2026 credit card log as of October 2025 and found that all users who had signed out a credit card to make purchases attended the July 2025 training and signed agreements acknowledging receipt and understanding of the District's policies and procedures.

b. Review and reconcile all itemized receipts to card statements to ensure purchases are appropriately supported and for a District purpose, and if it identifies unauthorized purchases, it can take appropriate and timely action.

► Status: **Implementation in process.**

The District has developed a process for monthly reviewing and reconciling credit card purchase documentation to card statements. However, the process does not ensure that purchases are appropriately supported. Specifically, although the District reconciles itemized receipts to the card statements for goods purchased at physical stores, the District does not maintain adequate documentation of items received when purchased online. Therefore, the District employee responsible for reconciling itemized receipts to card statements does not always have the documentation necessary to do so.

We reviewed all 29 purchases totaling \$4,601 posted to the July 2025 statements for 2 of the District's 3 credit cards and found that receiving reports were missing or incomplete for 9 purchases. Additionally, we found that 3 of the 29 purchases exceeded the authorized purchase order amounts but lacked any indication that the purchase overage was identified during the District's monthly review process. As a result, the District continues to increase the risk of unauthorized purchases or of paying for goods and/or services it has not received. We will review the District's efforts to implement this recommendation at the 42-month followup.

- c. After determining that the card purchases are accurate and appropriate, pay its card balances in full each cycle to avoid unnecessary penalties and fees.

► Status: **Implemented at 30 months.**

The District developed a process for paying all card balances in full each month. We reviewed all District credit card statements for July and August 2025 and found the District paid all balances in full each cycle and did not incur penalties or late fees.

- d. Restrict access to cards, cash, and unused checks by changing the safe combination, restricting the combination to only those needing access, and logging all staff members accessing the safe.

► Status: **Implemented at 30 months.**

The District purchased a new safe that is secured with a keylock rather than a combination in January 2024. The District has restricted access to its safe and has implemented a process requiring all authorized employees who access the safe to log the date and the purpose for accessing the safe. The process also requires the safe keyholder to sign the log as verification that the employee's access was authorized and appropriate. We reviewed the District's safe access logs for July and August 2025 and found that the logs had been completed and signed off in accordance with the District's process. Further, the District had appropriately secured its credit cards, cash, and District check stock in the safe.

- e. Require secondary advanced approval before any purchase is made, including credit card purchases.

► Status: **Implemented at 30 months.**

In July 2024, the District established written policies and procedures requiring secondary advance approval prior to making any purchases, including credit card purchases. We judgmentally selected and reviewed 15 of 55 credit card purchases from the July and August 2025 credit card statements, and 12 of 525 accounts payable expenditures from July through September 2025, and found that 2 District office employees approved all 15 credit card purchases and all 12 accounts payable purchases before they were made, in accordance with District policy.

- f. Require secondary approval for all vendor additions to the financial system.

- Status: **Implementation in process.**

No District employees can add vendors in the accounting system, and instead, the District asks the County to add new vendors when necessary. However, the District lacks a process for ensuring new vendors have been authorized by 2 District employees prior to requesting the County add them. Accordingly, the District continues to increase the risk that vendors may be added without proper authorization. We will review the District's efforts to implement this recommendation at the 42-month followup.

- g. Separate responsibilities for expenditure processing, including disallowing staff members to sign approval for other staff members.

- Status: **Implemented at 30 months.**

In July 2023 and as part of its efforts to separate expenditure processing responsibilities, the District updated part of its purchasing process from a manual, paper-based process to an electronic process utilizing the accounting system for the creation and approval of purchase orders. In July 2024, the District established written policies and procedures for separating responsibilities for requesting and approving purchases, and the District followed its policies for the 27 purchases we reviewed. Additionally, although the District's policies do not specifically prohibit staff members from signing approvals for other staff members, we found that all 27 purchases we reviewed were approved by 2 staff members and did not find evidence that staff had signed approvals on behalf of other staff members.

- h. Deposit all cash at least weekly, or daily when significant.

- Status: **Implementation in process.**

In July 2024, the District established and implemented written policies and procedures requiring all cash to be deposited within 5 business days of collection. However, we reviewed all 5 cash deposits the District made in August 2025 totaling \$1,095 and found that the District did not deposit 3 receipts totaling \$75 within 5 business days, as required by its policy. The District deposited these 3 receipts between 8 and 9 days after collection. We will review the District's efforts to implement this recommendation at the 42-month followup.

- i. Reconcile issued cash receipts to cash deposits and recorded revenues to confirm all cash was deposited and to identify improperly recorded receipts.

- Status: **Implemented at 30 months.**

The District has developed a process to reconcile cash receipts to cash deposits. Specifically, District officials reported an employee who does not have cash-handling responsibilities reviews all bank accounts monthly and reconciles each

deposit to cash receipts or cash-collection forms. Our review of all 5 cash deposits made into the District's 4 bank accounts in August 2025 found that all 5 deposits were appropriately and accurately reconciled.

j. Review and reconcile bank accounts, at least monthly, comparing bank statements, canceled checks, and validated deposit slips to district records, such as itemized receipts, invoices, and check requests, to resolve any discrepancies and identify unauthorized disbursements.

► Status: **Implemented at 30 months.**

The District has developed written procedures for performing bank account reconciliations, which include reviewing and verifying any canceled checks. We reviewed all 7 disbursements made from the District's 4 bank accounts in August 2025 and found that all 7 were appropriately supported with a check request, invoice, receipt, or similar documentation showing the disbursements were authorized.

2. The District should provide routine training on USFR requirements and District policies and procedures to staff members responsible for credit cards, expenditure processing, cash handling, and overseeing District bank accounts.

► Status: **Implementation in process.**

The District indicated that it provides training to all pertinent staff by providing training during an in-service day at the beginning of each school year. In July and August 2025, the District provided training to all staff members responsible for credit cards, expenditure processing, and cash handling. However, the District did not provide training to staff members responsible for overseeing bank accounts, which is important for ensuring staff understand the District's policies and their oversight responsibilities. We will review the District's efforts to implement this recommendation at the 42-month followup.

3. The District should ensure employees responsible for classifying expenditures review the Uniform Chart of Accounts for school districts for changes at least annually, and implement its guidance to accurately account for and report the District's spending throughout the year.

► Status: **Implementation in process.**

The District provided documentation demonstrating that employees responsible for classifying expenditures received training related to the USFR Chart of Accounts in fiscal year 2025 but continued to lack a process for ensuring these employees review the USFR Chart of Accounts annually. Additionally, our review of the District's fiscal year 2025 expenditures found that it continued to incorrectly classify expenditures similar to what we identified during the initial audit. We will review the District's efforts to implement this recommendation at the 42-month followup.

Finding 2: District operated nonprofit 4-H club and bank account without legal authority to provide agricultural program for 20 years and commingled District and 4-H club monies in bank account, exposing public monies to increased risk of fraud, waste, or abuse

4. The District should discontinue operating the nonprofit club and related financial activities.

► Status: **Implemented at 6 months.**

District officials indicated that the District discontinued operation of the nonprofit club, and meeting minutes from the Governing Board's (Board) May 2023 meeting show the Board approved a motion to close the related bank account. Our October 2023 review of District bank accounts found that the District closed the bank account in May 2023, as directed by the Board.

5. The District should ensure District public monies are deposited into authorized bank accounts.

► Status: **Implemented at 6 months.**

As discussed in recommendation 4, the District closed the bank account related to the discontinued nonprofit club. Our October 2023 review of the District's bank accounts found that all accounts were authorized bank accounts.

6. The District should analyze all club account expenditures to ensure all District public monies improperly spent on unauthorized activities and nonprofit purposes, not related to District programs, are reimbursed to the District.

► Status: **Implemented in a different manner at 6 months.**

As discussed in recommendation 4, the District discontinued the nonprofit club's operation and closed the bank account related to the discontinued nonprofit club in May 2023. District officials provided bank statements and deposit slips showing that before closing the bank account, the nonprofit club wrote a check to the District for the remaining 4-H club bank account balance in May 2023 to give the remaining bank account balance to the school district. According to District officials, it consulted with parents of the club participants before determining that the remaining 4-H club bank account balance should go to the other school clubs, and those parents agreed with the District's decision. On May 9, 2023, the District's Board approved a motion to close the 4-H account and move any monies to the District's student activity account.

Finding 3: District did not comply with important payroll requirements, putting public monies at an increased risk of errors and inappropriate payments being made

7. The District should develop and implement formal, written payroll policies and procedures in accordance with the USFR; including proper separation of responsibilities throughout the payroll and leave-tracking processes; appropriate review, approval, and documentation of time sheets and personnel action forms; and appropriate tracking of employee leave accrual, usage, and balances.

► Status: **Implementation in process.**

The District developed written payroll procedures in July 2024, initiated an electronic timekeeping system for hourly employees, and began tracking leave usage and balances through its accounting system, but additional efforts are needed to address the issues identified in the audit. Specifically, the District's new procedures do not include steps for reviewing, approving, and documenting additional duties and related payments, and we identified several instances where additional duties and pay lacked proper approvals.

Specifically, we judgmentally selected and reviewed all salary and other payments the District made to 5 of 35 employees in fiscal year 2025 and determined that each had received payments for work that was not approved in advance, as required by the USFR. All 5 employees we reviewed received stipend payments from the District for additional work such as athletic coaching or technology support. However, the Board did not approve the additional duties or the associated stipends, which totaled \$12,500, until after the work was completed, contrary to USFR requirements.

Additionally, we found that 3 of the 5 employees we reviewed were also paid an hourly rate separate from their contracted work salaries for providing school bus driving and custodial services. For employees who also acted as school bus drivers, the business manager approved a handwritten form separate from their employment contracts stating the hourly school bus driver pay rate. However, contrary to the USFR, there is no evidence that the District presented school bus driver or custodial duties and hourly pay rates to the Board for its consideration and approval. As a result, the District continues to improperly pay employees and increase the risk that its payments to employees are unauthorized or inaccurate. We will review the District's efforts to implement this recommendation at the 42-month followup.

8. The District should train staff responsible for handling payroll on the District's payroll policies and procedures and monitor that they follow them to help ensure they are meeting USFR and District requirements.

► Status: **Implementation in process.**

Although the 2 District employees responsible for handling payroll completed training on the District's written procedures in July 2025, as explained in recommendation 7, we found that the District's written procedures do not align with some USFR requirements,

and the District continued to have deficiencies related to some payments to employees we reviewed. We will review the District's efforts to implement this recommendation at the 42-month followup.

Finding 4: Almost all school buses failed 2020 and 2021 inspections, and District did not comply with school bus driver annual and random drug testing requirements, risking student safety and increasing the District's liability, and District was unable to support miles and riders claimed for State funding

9. The District should train and require its school bus drivers to conduct pretrip operations checks daily to accurately assess school bus safety before transporting students in accordance with DPS Minimum Standards.

► Status: **Implemented at 30 months.**

The District required all fiscal year 2026 school bus drivers to complete training related to conducting pretrip operations checks in July 2025. We reviewed all August 2025 pretrip operations checklists completed for 2 of 3 District school buses used to transport students and found that drivers had completed the checklists for all days the school buses transported students.

10. The District should review its pretrip operations checklist and revise it as necessary to include all items required to be inspected per DPS Minimum Standards.

► Status: **Implemented at 6 months.**

The District updated its pretrip operations checklist in August 2023. Our October 2023 review of the updated pretrip operations checklist found that the District's updated checklist included the items DPS Minimum Standards required to be inspected.

11. The District should develop and implement procedures to ensure that all school bus drivers receive and pass annual drug tests, that it randomly drug tests the required number of school bus drivers, and that it documents and maintains all testing results in accordance with DPS Minimum Standards and State/federal requirements.

► Status: **Implemented at 6 months.**

The District has developed informal procedures to ensure that all school bus drivers receive and pass annual drug tests and that it randomly drug tests the required number of school bus drivers each year. Our September 2023 review of school bus driver annual drug tests found that all 4 District school bus drivers in fiscal year 2024 had passed current annual drug tests. Additionally, our January 2024 review of school bus driver random drug tests found that the District had tested the required number of school bus drivers in calendar year 2023. Further, the District maintained all testing results in accordance with DPS Minimum Standards and State/federal requirements.

12. The District should require any individuals involved in or responsible for tracking school bus driver certifications to annually review DPS Minimum Standards as well as State/federal requirements.

► Status: **Not implemented.**

Although District officials reported that the employee responsible for tracking school bus driver certifications attends periodic student transportation-related trainings, the District continues to lack a process for ensuring relevant staff complete an annual review of DPS Minimum Standards and State/federal requirements. We will review the District's efforts to implement this recommendation at the 42-month followup.

13. The District should annually review ADE's most recent transportation guidance, maintain all documentation related to miles driven and riders transported, and accurately calculate and report to ADE the number of route miles traveled and riders transported for State funding purposes.

► Status: **Implemented at 30 months.**

We reviewed information related to miles driven and riders transported during 1 week in November 2024 and found that the District accurately calculated miles driven and riders transported and maintained documentation supporting these figures. We also reviewed the District's transportation reporting to ADE for fiscal year 2025 and found that it was accurate for transportation funding purposes.

As part of its transportation reporting to ADE, the District included miles for white fleet vehicles it used to transport students on daily routes. We reviewed ADE's most recent transportation funding guidance on its website and found that it appeared to indicate that districts using white fleet vehicles to transport students on daily routes may report those miles for transportation funding purposes. This guidance also appears to be consistent with statute.² However, ADE has provided us with conflicting guidance in the past and therefore, we sought clarification from ADE during this followup about whether these miles should be reported for transportation funding purposes. ADE officials indicated to us that the District's white fleet miles associated with transporting students on daily routes should not be reported but did not provide a clear rationale supporting this determination. However, the guidance ADE provided to us during this followup appears to be contrary to statute and inconsistent with the guidance it has made publicly available to school districts.

Because the District maintained accurate records and appeared to report its fiscal year 2025 transportation information to ADE in accordance with statutory requirements, it has implemented this recommendation.

² Arizona Revised Statutes (A.R.S.) §15-922(c), specifies that for reporting daily route mileage and rider information to ADE for State funding purposes, "school bus" or "bus" means a school bus as defined in A.R.S. §28-101, except that the passenger capacity standards prescribed in that section do not apply. A.R.S. §28-101, defines a school bus as a motor vehicle that is designed for carrying more than 10 passengers that is either (1) owned by any public or governmental agency or other institution and operated for the transportation of children to or from home or school on a regularly scheduled basis; or (2) privately owned and operated for compensation for the same purposes. Because the passenger capacity standards in A.R.S. §28-101 do not apply for transportation funding reporting as specified in A.R.S. §15-922(c), any motor vehicle owned by a governmental agency that is used to transport children to and from home or school on a regular scheduled basis appears to be statutorily eligible for transportation funding reporting.

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

14. The District should limit employees' access in the accounting system to only those accounting system functions needed to perform their job duties.

► Status: **Implemented at 12 months.**

Our December 2023 review of all 6 District employees with access in the District's accounting system in October 2023 found that the District had reviewed all system users' access and had limited access for 1 of the 2 positions identified during the audit as having more access than necessary to perform their job duties. However, 1 employee had more access than necessary and could initiate and complete purchasing transactions without an independent review and approval. In January 2024, the District adjusted this employee's access to only those accounting system functions needed to perform their job duties.

15. The District should develop and implement a process to assign new employees appropriate access in the accounting system, a process to change employees' access if their assigned duties change, and a process to periodically review employees' accounting system access to help ensure employees have only the access necessary to accomplish their job duties.

► Status: **Implemented at 30 months.**

In July 2024, the District developed written procedures and a process to appropriately assign new employees' access in the accounting system, change employees' access if their assigned duties change, and annually review employees' accounting system access. Our review of all 5 District employees with access to the District's accounting system in August 2025 found that the access levels were appropriately limited and in accordance with the employees' job duties.

16. The District should review industry password standards at least annually and implement and enforce strong network password requirements, such as length, characteristics, and prohibitions against reuse, to decrease the risk of unauthorized persons gaining access to its network and disrupting operations.

► Status: **Implementation in process.**

Our September 2025 review of the District's network password requirements found that they were not consistent with credible industry standards. District officials stated the District will develop a process for annually reviewing credible industry password standards and update the District's network password requirements accordingly. We will review the District's efforts to implement this recommendation at the 42-month followup.

17. The District should require all employees to participate in a security awareness training if they have not done so in the past year.

► Status: **Implemented at 30 months.**

The District held security awareness training for employees in fiscal year 2026, and our review of the training roster found that all employees completed the training.

18. The District should establish and implement a District policy to conduct security awareness training at least annually, and require that employees attend.

► Status: **Implementation in process.**

Although the District has developed a written policy requiring employees to complete security awareness training, the policy does not specify that the training must be completed annually. District officials indicated they have begun developing a process to ensure all employees complete security training annually. We will review the District's efforts to implement this recommendation at the 42-month followup.

19. The District should develop and implement an IT contingency plan that meets USFR requirements and credible industry standards and test the plan at least annually to identify and remedy any deficiencies and document the test results.

► Status: **Not implemented.**

The District updated its IT contingency plan in January 2025, but the updated plan lacks key components required by the USFR and/or recommended by credible industry standards. Specifically, the plan lacks any indication it had been reviewed and approved by appropriate staff, guidelines for District officials to properly classify or escalate emergencies, and detailed procedures for restoring critical systems and equipment. Further, while District officials reported periodic testing of the plan when power outages occur, they lacked sufficient documentation related to these plan tests, and the District's testing procedures would likely not ensure the District identifies and remedies any substantial plan deficiencies. We will review the District's efforts to implement this recommendation at the 42-month followup.

Finding 6: District could not demonstrate that it charged a reasonable fee to offset its costs for facility use and undercharged 2 employees for housing, likely resulting in lost revenue

20. The District should develop a Governing Board-approved use fee schedule that charges a reasonable fee in accordance with State statute.

► Status: **Implementation in process.**

As reported in our previous followup, District officials analyzed average daily and monthly utility costs for a gym and cafeteria to develop a facility rental fee schedule for fiscal year 2024 to be used when renting its facilities for local community/individual usage. However, the District did not provide evidence of a similar analysis for the other

rooms available to rent, such as classrooms. The District's Board approved the updated fee schedule in July 2023 and approved the same rental fee schedule for fiscal years 2025 and 2026. Because the District has not provided documentation to support the fees it charges for some spaces it rents to the public, it could not demonstrate that it is charging a reasonable fee in accordance with State statute. District officials reported they will complete a cost analysis of all available rental facilities to ensure the District charges a reasonable rental fee and will present the updated fee schedule to the Board for approval by May 2026. We will review the District's efforts to implement this recommendation at the 42-month followup.

21. The District should implement procedures to review that the approved use fee is charged when applicable and employees are charged according to Governing Board-approved housing rental rates.

► Status: **Implementation in process.**

The District has developed written procedures requiring a District administrator to review facility requests and verify that the District charged the approved use fee. However, the District's fee schedule charges different rates depending upon the renter's classification, but the District does not document this classification on the rental form. Therefore, we were unable to determine if the District collected the approved use fee for 1 of 3 fiscal year 2025 rentals. District officials indicated that the District updated its fiscal year 2026 rental forms to include the renter classification.

Additionally, the District has developed an informal process for reviewing amounts collected through payroll for housing rentals to ensure that employees are charged in accordance with Board-approved rental rates. However, our review of rents collected from all 6 housing tenants for fiscal year 2025 found that the District did not charge the Board-approved rates to 3 tenants. District officials reported making exceptions to the Board-approved rent amounts for these 3 tenants for reasons such as temporary displacement during renovations and repairs, but did not provide sufficient documentation showing the Board had approved the exceptions. In total, our review found approximately \$1,100 in lost rental revenue that the District could have used to offset the costs associated with maintaining its rental units. We will review the District's efforts to implement this recommendation at the 42-month followup.

22. The District should train District employees on State requirements and District policies and procedures for facility rentals.

► Status: **Implementation in process.**

District officials indicated that the District has not provided formal training on applicable State requirements and District facility rental policies and procedures to the 2 District employees responsible for facility rentals. However, these 2 employees were aware of the District's policies and procedures as well as the Board-approved use fee schedule when we spoke with them during this followup. Additionally, District officials reported

updating the fiscal year 2026 facilities rental form to include the renter's classification and notifying both employees responsible for facility rentals of this update. We will review the District's efforts to implement this recommendation at the 42-month followup.

23. The District should recoup the \$670 in housing rental payments due to it and review fiscal years 2021 and 2022 housing rental payments to ensure it accurately billed employees and rectify any errors.

► Status: **Implemented at 12 months.**

The District recouped the \$670 in housing rental payments through payroll deductions between December 2022 and May 2023. Additionally, in March 2024, the District reviewed all fiscal years 2021 and 2022 housing rental payments and determined it had accurately billed employees during this period. The District's analysis showed that the housing rental payments it collected in fiscal years 2021 and 2022 matched the Board-approved rates for each employee for both fiscal years and all employees were billed for the time they occupied the District's rental housing.