

Owens-Whitney Elementary School District

24-Month Followup of Performance Audit Report 23-206

The October 2023 Owens-Whitney Elementary School District performance audit found that the District did not comply with State laws and *Uniform System of Financial Records for Arizona School Districts* (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.¹ We made **19** recommendations to the District.

District's status in implementing 19 recommendations

| Implementation status | Number of recommendations |
|---|---------------------------|
|  Implemented | 15 recommendations |
|  Partially implemented | 3 recommendations |
|  Not implemented | 1 recommendation |

Unless otherwise directed by the Joint Legislative Audit Committee, this report concludes our followup work on the District's efforts to implement the recommendations from the October 2023 report.

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

Recommendations to the District

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 Intergovernmental Agreements (IGAs)

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 Governing Board (Board) to accept any contributions, gifts, and donations, including those from the mining company, during public meetings.

► Status: **Implemented at 24 months.**

The Board approved a new policy at its November 2025 meeting that requires the Board to accept contributions, gifts, and donations 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.

► Status: **Implemented at 24 months.**

As mentioned in recommendation 1a(i), the Board approved a new policy at its November 2025 meeting. The District also implemented procedures addressing how contributions, gifts, and donations are accepted that require the District's administrator to obtain the information necessary to acknowledge the contribution's receipt, purpose, and value.

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

► Status: **Implemented at 24 months.**

The District's legal counsel provided training for the Board and certain staff members regarding the importance of complying with the State's open meeting laws during the Board's August 2025 meeting.

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.

► Status: **Implemented at 24 months.**

The Board approved a new policy at its November 2025 meeting that requires District employees to complete annual conflict-of-interest disclosure forms, prohibits them from participating in matters in which they have a substantial interest, and requires the District's administrator to publicly identify during Board meetings any matters in which the administrator has a substantial interest.

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.

► Status: **Implemented at 24 months.**

We reviewed fiscal year 2026 conflict-of-interest disclosure forms for all 7 of the District's employees, including the administrator, and found that all 7 employees had correctly completed and submitted their forms. Based on the fiscal year 2026 forms, we did not identify instances in which an employee would have needed to refrain from participating in matters related to their substantial interests.

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.

► Status: **Implemented at 24 months.**

The District has included annual conflict-of-interest training information in its administrative rules and regulations and it provides staff training on its administrative rules and regulations at its annual staff in-service. We reviewed the District's conflict-of-interest training information and found that it addresses each of the components within the 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.

► Status: **Implemented at 24 months.**

The District developed and implemented policies and procedures governing IGAs that require IGAs 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.

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

Our review of the District's only IGA with another school district in fiscal year 2024 found it specified the duration, purpose, manner of financing and budgeting, the permissible methods to be employed in terminating the agreement and disposing of property, and other matters, such as provisions regarding liability and requirements for record inspection and retention. Additionally, District attorneys reviewed the IGA to ensure it was 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.

► Status: **Implemented at 24 months.**

The District has included requirements for complying with State laws related to IGAs in its administrative rules and regulations, and it provides staff training on its administrative rules and regulations at its annual staff in-service. The District also has more detailed procedures for ensuring IGAs follow State laws, and the District refers staff who are responsible for IGAs to the District's IGA implementation procedures, as applicable.

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

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.²

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

► Status: **Partially implemented at 24 months.**

The District implemented a new cash-receipting procedure in fall 2024 that requires issuing receipts for all cash payments and separating cash-handling responsibilities among multiple people. However, our review of 1 month of fiscal year 2025 cash deposits found the District did not document a secondary count of the incoming cash nor which staff person prepared the deposit. Without this documentation, the District was unable to demonstrate that it followed its procedure nor that the cash-handling and recordkeeping functions were adequately separated.

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.

► Status: **Implemented at 24 months.**

As of December 2025, the District had secured a credit card to use for purchases and had cancelled the account associated with debit cards.

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.

► Status: **Not implemented.**

Although the District has implemented changes to its cash-receipting process and credit card usage, the District has not developed and implemented required training for employees responsible for cash handling and credit cards. The District's administrator indicated he does not believe formal training would be effective for the District given its small size and instead relies on providing informal guidance to staff. However, by not developing and implementing training on these USFR requirements, the District cannot ensure employees clearly understand and comply with the requirements, especially in the event of staff turnover.

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

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 transportation support level (TSL) and transportation revenue control limit (TRCL) when preparing its annual budget.

► Status: **Implemented at 24 months.**

The District has contracted out many of its financial responsibilities to a consultant, including calculating the TSL and TRCL during its annual budgeting process. We reviewed the District's fiscal year 2025 reporting of miles and riders used to calculate the District's TSL and TRCL and found it to be reasonably accurate for funding purposes.

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.

► Status: **Partially implemented at 24 months.**

As mentioned in recommendation 7a, the District has contracted with a consultant to assist in preparing its annual budget. Additionally, the District's administrator is involved in preparing the annual budget and has informally trained other employees on several aspects of the budgeting process. However, the District has not developed nor implemented formal training on the procedures for accurately calculating TSL and TRCL when preparing the District's annual budget because, according to the District's administrator, guidance from outside the District, such as the USFR, is sufficient.

c. Performing monthly reconciliations of its cash balance records by fund to the county school superintendent's office (CSSO) records.

► Status: **Implemented at 24 months.**

The District's consultant prepares monthly reconciliations of the District's cash balance records to the CSSO records. This reconciliation includes comparing the beginning and ending cash balances by fund and the District's monthly revenues and cash expenditures. We reviewed the District's monthly reconciliations for January through March 2025 and found the District's monthly reconciliations accurately reflected the District's cash balances.

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

► Status: **Implemented at 24 months.**

According to District officials, the District's administrator reviews cash fund balance reports regularly and before making purchases to ensure the District has sufficient cash available to make the purchase. Additionally, the District's administrator provides monthly reports to the Board on the District's cash balances. We reviewed the District's monthly cash balance reports prepared for the Board for February through May 2025 and found the Board agendas for meetings during this timeframe included the cash balance reports for the Board's review and discussion. District

officials also indicated that the District's contractor will contact the District if they identify a fund balance concern prior to processing a voucher, and as a final check, the County will not process a voucher if sufficient cash is not available in the associated fund.

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

► Status: **Partially implemented at 24 months.**

As mentioned in recommendations 7a through 7c, the District has developed a process where its consultant assists with preparing the District's budgets and monthly cash reconciliations. According to District officials, the District's administrator is the only staff member involved in overseeing the process. However, the District's administrator reported that while he works with the consultant and reviews the consultant's work, he does not document his review because there are rarely issues with the reconciliation and any issues are usually related to incorrect coding, which he works with the consultant to correct. Without documentation of the review, however, the District is unable to demonstrate that it is adequately overseeing its contractor to ensure all USFR-required budget analyses and monthly cash reconciliations are completed accurately and timely.

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

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

As discussed in our October 2023 audit report, the Mohave County Board of Supervisors approved additional property tax levies in fiscal years 2022 and 2023 to address the District's cash deficit issue in the amounts of \$93,000 and \$90,044, respectively. During the initial followup, we confirmed with the CSSO that the District's cash deficit has been resolved.

- 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.

► Status: **Implemented at 24 months.**

The District consulted with legal counsel in May 2025 and determined it was not responsible for repaying to Bagdad USD the \$30,000 contribution made to Owens-Whitney ESD by the local mining company.