ARIZONA Auditor General
Making a Positive Difference

Hyder Elementary School District

42-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
☑ Implemented	30 recommendations
☑ Implemented in a different manner	1 recommendation
☒ **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 January 2023 report.

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: **Implemented at 42 months.**

  The District developed written procedures for conducting monthly reviews and reconciliations of credit card purchase documentation to card statements in December 2025. We judgmentally selected and reviewed 12 of 14 purchases totaling $1,519 from 2 fiscal year 2026 credit card statements and found the District reconciled evidence of receipt—including packing slips, receipts, and invoices—to credit card statements for all 12 purchases. Although 2 of the purchases we reviewed were unauthorized because they were not for a District purpose, the District identified these 2 purchases during its review process and required the District employee who made the 2 unauthorized purchases to pay for them. The remaining 10 purchases were appropriately supported and for a District purpose, and none of these 10 purchases exceeded the authorized purchase order amounts.

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 advanced 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: **Implemented at 42 months.**

  As reported in our prior 30-month followup, no District employee has the ability to add vendors in the accounting system, and instead, the District asks the County to add new vendors when necessary. In December 2025, the District developed and implemented written procedures to ensure that new vendors are authorized by 2 District employees prior to the District requesting the County add them to the accounting system. We reviewed all 4 new vendors the District added to its accounting system between December 2025 and June 2026 and found the District followed its updated procedures.

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: **Implemented at 42 months.**

  As reported in our prior 30-month followup, in July 2024, the District established written policies and procedures requiring all cash to be deposited within 5 business days of collection. We reviewed all 18 cash receipts totaling $2,300 the District deposited in August 2026 and found that the District generally deposited cash receipts in accordance with its procedures.[1]

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.

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[1] We identified 3 of 18 cash receipts the District did not deposit within 5 days of collection. However, these 3 cash receipts totaled less than $36, or less than 2% of the sample we reviewed, nearly all of which was deposited 9 days after collection. The District deposited 1 cash collection totaling less than $1 about 22 days after collection, which was reasonable given the insignificant amount. Therefore, we concluded the District has implemented this recommendation.

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 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: **Implemented at 42 months.**

  District officials indicated the District provides training to all pertinent staff at the beginning of each school year. In July and August 2026, the District provided training on the District's policies and procedures to all staff members responsible for credit cards, expenditure processing, cash handling, and overseeing District bank accounts. Our review of the District's training materials found that they appeared to sufficiently cover key USFR requirements and District policies and procedures relevant to the recommended areas.

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: **Implemented at 42 months.**

  The District provided training related to the USFR Chart of Accounts in fiscal years 2025 and 2026 to employees responsible for classifying expenditures. We judgmentally selected and reviewed 68 of the District's 1,411 fiscal year 2026 expenditures similar to those identified in the performance audit that the District had classified incorrectly and found that the District had substantially corrected its classification errors.

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: **Implemented at 42 months.**

  The District updated its written payroll procedures to include steps for reviewing, approving, and documenting additional duties and related payments for fiscal year 2027. We judgmentally selected and reviewed salary and other payments the District made to 3 of 43 employees in July and August 2026 and found the District approved the additional duties prior to making payments and paid all 3 employees in accordance with their respective employment contracts and/or personnel action forms. Similarly, we judgmentally selected and reviewed payments the District made to 3 nonsalaried employees for 2 pay periods in August 2026 and found the District documented prior approval for the additional duties and paid all 3 in accordance with their respective employment agreements.

  As reported in our prior 30-month followup, in July 2024, the District began tracking leave usage and balances through its accounting system. We judgmentally selected and reviewed the District's process for tracking paid leave for 4 of 43 District employees and found the District accurately tracked the leave usage, accrual, and balances for all 4 employees.

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: **Implemented at 42 months.**

  In July and August 2026, the District provided training on the District's payroll procedures to all 4 fiscal year 2027 District employees responsible for handling payroll.

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 required by DPS Minimum Standards 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: **Implemented at 42 months.**

  In fiscal year 2026, the District developed a transportation compliance checklist detailing all the transportation standards and requirements it requires the District's transportation director to review each January and June. The District provided documentation supporting that its transportation director completed and documented their review of all items on the checklist, including DPS Minimum Standards and State/federal requirements in June 2026.

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.

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[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: **Not implemented.**

  Our September 2026 review of the District's network password requirements found that, although the District updated some password requirements since the prior 30-month followup, the District's updated password requirements continued not to align with credible industry standards. As a result, the District continues to increase its risk that unauthorized individuals could access its network and disrupt operations.

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: **Implemented at 42 months.**

  In August 2026, the District updated its policy to specify that all employees who have access to the District's computers, networks, email, or other technology resources must complete security awareness training annually. The District provided in-person security awareness training in August 2026, which 29 of 30 District employees who have access to the District's computers, networks, email, or other technology resources attended. The 1 employee who did not attend the training is a part-time remote worker who had last completed security awareness training in November 2025. District officials reported that they are working to provide the employee with this year's training materials to fulfill the annual training requirement.

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: **Implemented at 42 months.**

  The District updated its IT contingency plan for fiscal year 2027, and the District's Board approved the updated plan in August 2026. We found that the District's IT contingency plan contains all key components required by the USFR and/or recommended by credible industry standards. Additionally, the District's updated plan includes a requirement to annually test the plan to identify and remedy deficiencies. However, due to the District having recently implemented its updated plan, it had not tested its plan at the time of our review. Annually testing the plan to identify and remedy any deficiencies will help the District ensure it is prepared to respond to system outages.

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: **Implemented at 42 months.**

  Since our prior 30-month followup, the District completed a cost analysis for all District facility types available for community use. The District's analysis considered fees nearby school districts charged for similar facility rentals and the District's estimated costs for community use, such as utilities costs. Our review of the District's analysis found that it considered relevant factors, and its cost estimates appeared reasonable. Upon completing its analysis, the District updated its facility-use fee schedule, which its Board approved in December 2025 for fiscal year 2026 rentals and again in June 2026 for fiscal year 2027 rentals.

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: **Implemented at 42 months.**

  The District has developed written procedures requiring a District administrator to review facility requests and verify that the District charged the approved use fee. The District's fiscal years 2026 and 2027 fee schedules charge different rates depending on the renter's classification, and the District updated its facility rental form in December 2025 to require documentation of this classification. The District did not rent any of its facilities between December 2025 and June 2026, and therefore, we were unable to determine whether the District followed its updated facility-use fee schedule. However, following its updated procedures should help ensure the District charges appropriate fees for use of its facilities.

  Additionally, the District has developed an informal process for reviewing amounts collected through payroll for housing rentals monthly to ensure that employees are charged in accordance with Board-approved rental rates. Our review of rents collected from all 6 housing tenants for fiscal year 2026 found that the District charged the Board-approved rates to all 6 tenants.

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

- Status: **Implemented at 42 months.**

  As reported in recommendations 20 and 21, the District updated its facility rental rates and form in December 2025. The District subsequently updated its written facility rental procedures to reflect its updated fees and form in February 2026. In July 2026, the District trained all 5 employees responsible for facility rental requests and/or approvals on the District's facility rental procedures.

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.