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August 27, 2020

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

The Honorable Rick Gray, Vice Chair
Joint Legislative Audit Committee

Dear Representative Kern and Senator Gray:

We recently completed a 6-month followup of Continental Elementary School District's implementation status for the 8 audit recommendations presented in the performance audit report released in November 2019. As the attached grid indicates, all 8 recommendations are in the process of being implemented.

We will continue to follow up at 6-month intervals with the District on the status of those recommendations that have not yet been fully implemented.

Sincerely,
Vicki Hanson, Director
Division of School Audits

cc: Governing Board
Ms. Roxana Rico, Superintendent
Continental Elementary School District

CONTINENTAL ELEMENTARY SCHOOL DISTRICT

Auditor General Performance Audit Report Issued November 2019 6-Month Follow-Up Report

Recommendation	Status/Additional Explanation
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FINDING 1: District lacked adequate accounting and computer controls, which increased risk of errors and fraud

<p>1. The District should ensure proper separation of responsibilities over its payroll process, including adequate supervisory review.</p>	<p>Implementation in process</p> <p>The District implemented additional internal controls over its payroll process. The business manager now reviews all changes the payroll clerk makes in the payroll system to employees' pay rates when employees are hired or when their pay rates change to ensure the pay rates match employees' employment terms. During payroll processing each pay period, the business manager now also compares the planned payments to each employee in the payroll system for the upcoming payday to the amount that each employee would be expected to earn that payday based on the employee's employment terms. However, the business manager's review is not yet adequate. We reviewed the District's supporting documentation for 2 pay periods in fiscal year 2020 and found that the business manager did not review planned payments to all employees during the 2 pay periods; therefore, the business manager could not verify the accuracy of payments to some employees paid during those pay periods. We will review this recommendation again during a future followup after the District has implemented additional controls to help ensure the accuracy and propriety of all its payroll expenditures.</p>
<p>2. The District should only pay its employees according to their contracted amounts.</p>	<p>Implementation in process</p> <p>As previously stated, the business manager now compares the District's planned payments to each employee for the upcoming payday to the amount that each employee would be expected to earn that payday based on the employee's employment terms. However, this recommendation is best reviewed after all fiscal year 2020 payroll transactions are finalized, which is not required until October 2020. We will review this recommendation at a future followup.</p>

Recommendation**Status/Additional Explanation**

3. The District should ensure that employees make purchases only after obtaining proper approval and pay vendors or reimburse employees only after verifying that purchases are appropriate, documenting that all purchases have been received, and ensuring that billings are accurate.

Implementation in process

District officials stated that all staff involved in making a purchase on the District's behalf are required to follow the District's purchasing procedures. The District's purchasing procedures are adequately designed so that if they were implemented with fidelity, the District's purchasing process would be adequate. However, as we reported in the performance audit report, District employees do not always follow the District's purchasing process. For this followup, we reviewed 10 fiscal year 2020 purchases and found that District employees continue to make purchases without following proper purchasing procedures as required by the *Uniform System of Financial Reporting for School Districts* (USFR). Specifically, 2 purchases lacked evidence of prior approval, and 5 purchases lacked evidence that the purchased goods or services were received before the District made final payment to the vendor. We will review this recommendation again during a future followup after the District has implemented additional controls over its purchasing process to help ensure that employees make purchases only after obtaining proper approval and pay vendors only after verifying that all purchases have been received and billings are accurate.

4. The District should strengthen its controls over cash handling by separating responsibilities over collecting, depositing, and reconciling cash among current employees; preparing and issuing numerically controlled receipts for all cash that it receives; and restrictively endorsing checks upon receipt.

Implementation in process

The District has improved its cash-handling controls by requiring that checks now be restrictively endorsed upon receipt. However, although the District is now also issuing receipts to donors when they make tax credit donations, the receipts are not numerically controlled as required by the USFR. This requirement helps ensure that all cash and other monies received are actually deposited. Additionally, the District has not yet assigned any current employee the responsibility to reconcile all cash collected to cash deposited. We will review this recommendation again during a future followup after the District has implemented additional controls over its cash handling to help ensure all monies received are deposited.

Recommendation**Status/Additional Explanation**

5. The District should ensure proper separation of responsibilities over credit card purchases and pay for credit card purchases only after verifying them against issued receipts.

Implementation in process

The District improved internal controls over its credit cards by separating responsibilities over credit card purchases between 2 employees. Unlike during the audit, the employee who is custodian of the credit cards is no longer also recording purchases in the accounting system, reconciling credit card purchase receipts to the credit card statements, and paying the credit card invoices without an independent review. However, although the District has improved its credit card procedures by having 2 employees involved in the process, the employees with credit card responsibilities did not always follow the District's credit card procedures. We reviewed a sample of 10 fiscal year 2020 credit card purchases and found that the District was unable to provide us the associated receipts for 2 purchases, though the USFR requires the District to collect and review receipts before paying the credit card invoice. Without supporting receipts, the District continues to risk paying for purchases that it did not make or being charged incorrect amounts for purchases. We will review this recommendation again during a future followup to ensure that the District is paying for credit card purchases only after verifying them against issued receipts.

6. The District should limit users' access in the accounting system to only those functions needed to perform their job duties, including removing the business office employee's administrator-level access and transferring it to someone outside the business office.

Implementation in process

The District has made some improvements in limiting users' access in its accounting system. Specifically, the District transferred administrator-level access from a business office employee to an employee outside of the business office who is not responsible for processing any accounting transactions. However, in June 2020, we reviewed all active users in the District's accounting system and found that the District had not yet limited accounting system access for the 2 business office employees we identified during the audit as having more access than they needed to perform their job duties. These 2 employees could still initiate and complete transactions without an independent review, exposing the District to an increased risk of errors and fraud, such as these users processing false invoices, changing employee pay rates, or adding and paying nonexistent vendors or employees without being detected. We will review this recommendation again during a future followup to determine whether the District has limited users' accounting system access to only those functions needed to perform their job duties.

Recommendation

Status/Additional Explanation

FINDING 2: District did not adequately oversee its transportation program, resulting in potential safety risks

7. The District should develop and implement bus preventative maintenance policies indicating services to perform and how often, as well as procedures to track and document that services are systematically performed to ensure student safety and to comply with the State’s Minimum Standards.

Implementation in process

The District developed new preventative maintenance policies that establish the maximum number of miles a bus can travel and amount of time that can pass before the bus receives preventative maintenance services. Additionally, the District developed new procedures and is now tracking and documenting when preventative maintenance services are performed on its buses to ensure that services are performed systematically and to comply with District policies and the State’s Minimum Standards. However, due to the State-wide closure of schools in fiscal year 2020 in response to the COVID-19 pandemic, the District’s buses have not traveled enough miles since the implementation of the new policy and procedures to need preventative maintenance services. We will review this recommendation again during a future followup after the District’s buses have traveled enough miles to need preventative maintenance services and determine whether the District is properly implementing its policies and procedures.

8. The District should develop and implement procedures to ensure that bus drivers meet certification requirements and document that requirements have been met to help ensure student safety and to comply with the State’s Minimum Standards.

Implementation in process

The District developed and implemented new procedures to help ensure that District bus drivers meet all certification requirements. However, the District’s new procedures are inadequate because they do not include tracking of all certification requirements. Specifically, the District was not tracking whether drivers met requirements pertaining to required refresher trainings and random drug and alcohol tests. We will review this recommendation again during a future followup after the District has incorporated all bus driver certification requirements into its tracking procedures.