

The September 2019 Santa Cruz Elementary School District performance audit found that the District’s lack of oversight led to insufficient recordkeeping and increased risk of errors and fraud. We made 4 recommendations to the District, and its status in implementing the recommendations is as follows:

Status of 4 recommendations

Implemented in a different manner	1
Partially implemented	2
Not implemented	1

At the Joint Legislative Audit Committee’s (JLAC) request, we presented the September 2019 Santa Cruz Elementary School District performance audit and the 42-month follow-up report at JLAC’s September 13, 2023, meeting. In the previous 42-month follow-up report, we reported that the District had not implemented 3 of 4 audit recommendations from the September 2019 performance audit report. In response, Santa Cruz ESD reported to JLAC that the District was in the process of implementing each of the 3 recommendations it had not implemented. Since the 42-month follow-up report, the District has partially implemented 2 recommendations and has continued to not implement 1 recommendation.

Unless otherwise directed by JLAC, this report concludes our follow-up work on the District’s efforts to implement the recommendations from the September 2019 report.

Finding 1: Lack of District oversight led to insufficient recordkeeping and increased risk of errors and fraud

1. The District should maintain a copy of its food service vendor contract and related addendums; thoroughly review its invoices to ensure that amounts are billed in accordance with the contract’s terms; and keep appropriate production and inventory records to ensure that food purchasing, meal planning, and staffing levels are appropriate.

Partially implemented at 54 months—In fiscal year 2021, the District changed from outsourcing its food service program to a vendor on a cost-reimbursement basis—meaning it paid the vendor for all costs incurred—to outsourcing its program to another school district under a contract where Santa Cruz ESD pays a flat rate to the other school district for meals and labor. This arrangement remains in place for fiscal year 2024 and provides more incentive to the other school district to operate an efficient food service program to stay within the agreed-upon flat rates. Each month, the District’s Business Manager reviews the food service invoices and approves them for payment. However, our review of the District’s fiscal year 2024 food service contract and September 2023, January 2024, and February 2024 food service invoices found that the District did not ensure that it was billed appropriately and in accordance with contract terms because all 3 invoices we reviewed contained errors that District officials were unaware of until we brought them to their attention. Specifically, in 1 month we reviewed, the District was not charged for adult lunches and additional milks that were served; in another month, the District paid the appropriate amount; however, the invoice erroneously reported the number of meals the District had been charged even though the amount charged was for the correct number of meals; and in the last month we reviewed, the total cost of the number of student lunches served times the rate for student lunches was miscalculated. These errors resulted in the District not paying its food service vendor \$68 for meals and milk served within these months and increase the risk of regular billing errors going undetected. After we notified the District of these discrepancies,

the District began working with its food service vendor to address the discrepancies and revise the invoices accordingly.

2. The District should establish and implement a policy that states what school bus preventative maintenance work will be completed at what mileage and time frame, and document the preventative maintenance and repairs in a systematic and timely manner in accordance with the policy and the State's Minimum Standards.

Partially implemented at 54 months—In September 2023, the District's Governing Board approved an updated school bus preventative maintenance policy. The policy includes what school bus preventative maintenance work will be completed at what mileage and time intervals. Additionally, the District continues to use a checklist to document preventative maintenance performed on its school buses.¹ However, our review of preventative maintenance services performed by the District's school bus preventative maintenance vendor in fiscal year 2024 on 3 of the District's 4 school buses found that the District did not follow its policy on all 3 buses for when preventative maintenance would be performed. Specifically, the District's policy requires school buses to be serviced every 6 months or 10,000 miles, whichever comes first. Although the District's school buses drove fewer than 10,000 miles between preventative maintenance services, all 3 buses were serviced after 8 months rather than 6 months, contrary to the District's policy. District officials reported that they plan to establish systematic preventative maintenance reminders by July 2024 to ensure that preventative maintenance is performed in accordance with its preventative maintenance policy.

3. The District should limit users' access in the accounting system to only those functions needed to perform their job responsibilities.

Implemented in a different manner at 18 months—Instead of limiting the 2 business office employees' access in the accounting system, the District implemented a compensating control, which requires the Superintendent to review supporting documentation for all purchases and payroll prior to any payments being made.

4. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts to ensure it accurately reports its spending.

Not implemented—As reported in the previous 42-month followup, District officials reported that the District works with external financial auditors and consultants to ensure expenditures are accurately classified. Specifically, the consultants review the District's expenditure classifications on an as-needed basis. However, our review of the District's fiscal year 2024 year-to-date expenditures found that the District continued to incorrectly classify transactions similarly to the misclassifications we identified during the audit, which may result in the District inaccurately reporting its spending. Similar to its assertions when we have reported on this issue in the audit and in previous followups, District officials indicated that the District will review the classification errors we identified and will ensure it accurately classifies its spending. We have contacted the District's consultants to discuss the classification errors we identified, and we will provide guidance, as needed, on correcting them going forward.

¹ The District uses a vendor for all school bus preventative maintenance and repair work, and in July 2022, it began requiring vendors that provide preventative maintenance and repairs on District school buses to complete, sign, and return a detailed checklist to help the District ensure that preventative maintenance services are performed in accordance with the State's Minimum Standards. District officials reported that they are continuing to require the vendor to complete the checklists for the District's school bus preventative maintenance and further reported that a District employee is supposed to review the checklists before the District will process the vendor's invoices.