

Blue Elementary School District

District educates a small number of students in a remote community and has taken steps to control its costs, but lacked procedures for certain business office activities, resulting in it being underfunded by over \$31,000 and inaccurately reporting its fiscal year 2023 spending; and did not have a formal agreement with Greenlee County School Superintendent's Office (GCSSO) to provide business office services, increasing the risk of disruptions to District operations

Performance Audit

June 2024
Report 24-207

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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June 14, 2024

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Governing Board
Blue Elementary School District

Mr. Bryan Boling, Superintendent
Blue Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Blue Elementary School District*, conducted pursuant to Arizona Revised Statutes §41-1279.03. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, the District agrees with all the findings and recommendations and plans to implement all the recommendations. My Office will follow up with the District in 6 months to assess its progress in implementing the recommendations. I express my appreciation to Superintendent Boling, and Greenlee County and District staff for their cooperation and assistance throughout the audit.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Blue Elementary School District

District educates a small number of students in a remote community and has taken steps to control its costs, but lacked procedures for certain business office activities, resulting in it being underfunded by over \$31,000 and inaccurately reporting its fiscal year 2023 spending; and did not have a formal agreement with Greenlee County School Superintendent's Office (GCSSO) to provide business office services, increasing the risk of disruptions to District operations

Audit purpose

To assess the District's efficiency and effectiveness in 4 operational areas—administration, plant operations and maintenance, food service, and transportation—and its compliance with certain State requirements.

Key findings

- District lacked policies and procedures to ensure it reported contracted miles and riders to ADE, resulting in the District not receiving more than \$31,000 in State aid for its contracted transportation operations.
- District lacked procedures to ensure GCSSO staff completed certain business office functions in accordance with State laws and the USFR, causing it to misreport \$44,000 in fiscal year 2023 operational spending.
- District did not have a formal, written agreement outlining the services GCSSO provides on the District's behalf, increasing the risk of disruptions to District operations should the GCSSO decide it is no longer willing or able to provide services.

Key recommendations

The District should:

- Create written policies and procedures for District accounting and finance-related responsibilities that include requirements for:
 - Annually reviewing ADE's most recent transportation guidance and accurately reporting to ADE all route miles traveled and riders transported for State funding purposes.
 - Reviewing the impact of reporting contracted miles and riders on its transportation State aid amount when preparing the District's annual budget and, when necessary, updating its tax levy calculations for transportation funding if a local levy for that purpose is not necessary.
 - Ensuring staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and at any time it is revised or updated and implement its guidance to accurately account for and report the District's spending throughout the year.
- Immediately work with ADE to correct its transportation funding reporting for the previous 3 fiscal years to account for its contracted miles and riders to ensure it receives the correct level of State aid funding.
- Enter into a formal, written agreement with GCSSO for the services it provides to the District that complies with A.R.S. §11-952 and clearly documents the agreement's duration and purpose and the roles, responsibilities, and expectations for both parties to the agreement.



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DISTRICT OVERVIEW

Blue Elementary School District—FY 2023



District type: Rural
County: Greenlee County
Grades: Kindergarten through 12¹
Students attending: 11
Number of schools: 1

Students who passed State assessments: Due to the District's small size, the Arizona Department of Education (ADE) did not present student achievement data to prevent identification of individual results.

School letter grade: Also, as a result of its small size, ADE did not assign a letter grade to the school.

¹ Despite being an elementary district, the District provides instruction to high school-aged students living within its boundaries due to the District's remote location. In fiscal year 2023, 7 of the District's 11 students were high school students.

Operational spending

Total operational spending
 \$167,431 (\$14,843 per student)

Instructional spending 73.3% (\$10,876 per student)	Noninstructional spending 26.7% (\$3,967 per student)
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Operational overview

Operational areas	Total spending ¹	Spending %
<p>Instruction—District spent most of its funds on instruction, primarily for a full-time teacher and an instructional aide</p> <p>The District spent \$122,679, or 73.3 percent, of its operational spending on instruction, primarily on salaries and benefits for the 1 full-time teacher, whose salary was approximately \$69,800. The District also employs 1 part-time instructional aide who assists the teacher in working with all kindergarten through 12th grade students in the District's single-room school.</p>	\$122,679	73.3%
<p>Plant operations—District maintained 1 single-room school and most spending was for internet services and insurance</p> <p>The District spent \$27,232, or 16.3 percent, of its operational spending on plant operations and maintenance, which was primarily for fiber internet services in the District's isolated, rural location (see Introduction, page 3). The District also employs a part-time custodian to clean and maintain its school and grounds.</p>	\$27,232	16.3%

Operational overview (continued)

Operational areas	Total spending ¹	Spending %
<p>Administration—Minimal District administrative staff as Greenlee County School Superintendent’s Office (GCSSO) provides most administrative services</p> <p>The District spent \$13,271, or 7.9 percent, of its operational spending on administration, primarily for a part-time administrative clerk who completed ADE-required reporting for the District. Additionally, the Greenlee County School Superintendent and their Chief Deputy perform all other District administrative functions, including processing payroll, preparing purchase orders and paying invoices, maintaining District accounting records, and preparing the District’s required financial reporting. Although our review did not identify concerns with the GCSSO’s separation of duties for performing District administrative functions, we identified areas for improvement. Specifically, the District lacked procedures to ensure GCSSO staff completed certain business office functions accurately including classifying operational expenditures (see Finding 1, page 5). Further, the District did not have a formal, written agreement outlining the services GCSSO provides on the District’s behalf, increasing the risk of disruptions to District operations (See Finding 2, page 8).</p>	\$13,271	7.9%
<p>Transportation—Neither District nor GCSSO staff reported miles and riders to ADE, resulting in inaccurate State funding</p> <p>The District does not provide student transportation services and does not own any vehicles. However, the District spent \$4,249, or 2.5 percent, of its total operational spending in fiscal year 2023 on transportation because the District contracts with parents to transport their students to and from school. The District’s spending in this operational area consisted of reimbursements to contracted drivers for mileage to and from school, and reimbursements to cover transporting students on fieldtrips. However, our review found that neither the District nor GCSSO staff reported these contracted miles and riders to ADE, which resulted in the District not receiving State aid for its transportation costs (see Finding 1, page 5).</p>	\$4,249	2.5%
<p>Instruction Support, Student Support, and Food Service—no spending in these areas due to District’s small size</p> <p>The District did not have any operational spending in fiscal year 2023 classified as instructional or student support. Additionally, because of its very small size, the District does not provide food services for its students, who instead bring their lunch to school. Therefore, the District did not spend any monies in these operational areas in fiscal year 2023.</p>	N/A	N/A

¹ Due to the District’s very small size and remote location, we did not compare the District’s spending to peer group averages. For very small districts such as Blue ESD, increasing or decreasing student enrollment by just 1 to 3 students or employing even 1 additional part-time position can dramatically impact the district’s per student spending in any given year and result in less meaningful peer group averages.

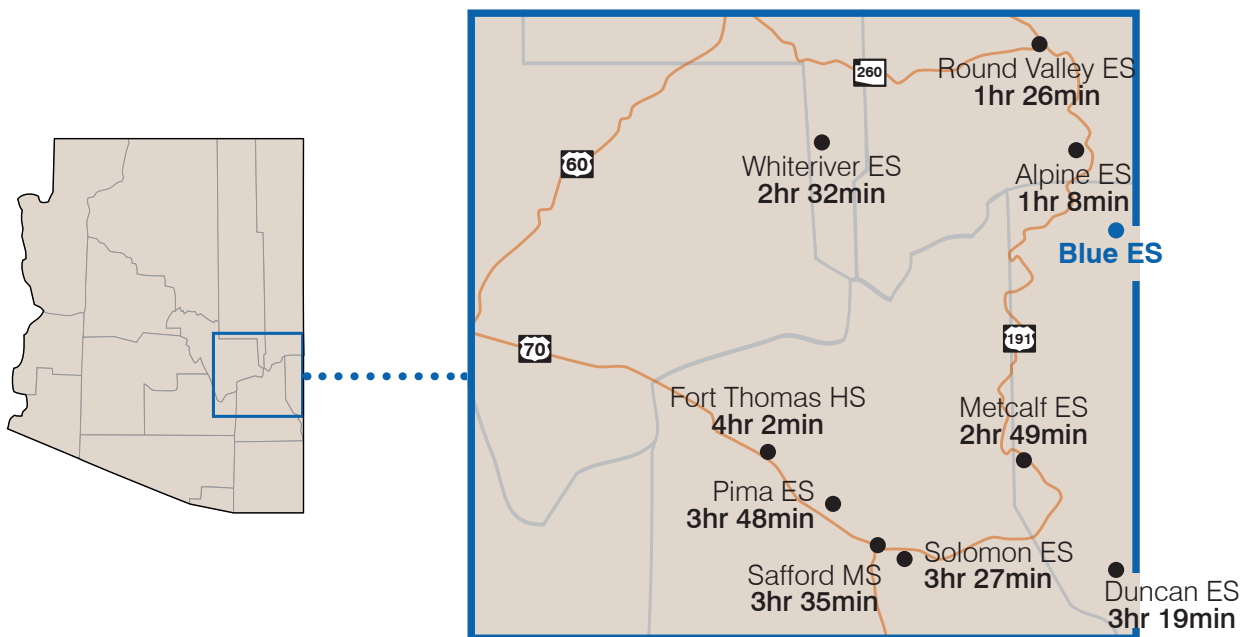


District educates a small number of students in a remote community and has taken steps to control its costs

District's remote location requires it to serve a small number of students who would otherwise lack reasonable access to public education

Blue Elementary School District serves the small community of Blue, which is located 275 miles east of Phoenix in a remote and rugged section of Greenlee County just a few miles from the New Mexico state line. The community has an estimated population of 53 residents.¹ The District's remote location limits the options for children living in Blue and the surrounding area to receive a public education, which is the primary reason the District operates. Between fiscal years 2013 and 2023, the number of students the District served ranged from a low of 8 to a high of 17. As shown in Figure 1, the nearest schools to Blue are mostly located in adjacent counties, and each is more than an hour's drive away, often over unpaved mountain roads.

Figure 1
Blue ESD is geographically isolated from the nearest adjacent district schools, and most drive times range from 1 hour to approximately 4 hours each way



Source: Auditor General staff analysis of drive times to adjacent school districts' closest school sites retrieved from Google Maps in December 2023. Drive times estimated using the most direct route available.

¹ U.S. Census Bureau. (2023). *Small Area Income and Poverty Estimates (SAIPE) School District Estimates for 2022*. Retrieved 12/20/23 from <https://www.census.gov/data/datasets/2022/demo/saipe/2022-school-districts.html>.

Aside from the District's school in Blue, there are limited options for students in the community to receive a public education. Specifically, if it were to close its school, the District could:

- **Consolidate operations and/or transport students to closest school district**—As shown in Figure 1, page 3, the closest school to Blue is about 25 miles away, and it takes more than 1 hour to travel there due to road conditions. If the District were to cease operations and send students to another district for classes, it would need to purchase a vehicle that could withstand frequent trips on the unpaved roads, and it would incur costs to properly maintain the vehicle. The District could also offer to pay parents to transport their children to a neighboring district instead of Blue, which likely would be more cost effective than the District paying the costs associated with transporting the students in a District-owned vehicle.

The District would also need to reach an agreement with the neighboring district to accept the students from Blue, which could involve consolidation. State statutes outline the steps that the 2 districts' governing boards would need to take to consolidate, including holding an election for voters to approve the consolidation request.² However, District officials stated that the District has strong support from the local community and stakeholders who are often involved in school events and volunteer to support District operations when possible, such as community members giving presentations about various career paths, or donating services, such as by providing minor building repairs. District officials indicated that because of these community ties, they did not believe voters would approve a consolidation measure.

- **Have students attend school online**—The District could become an online school with students from Blue attending from home. However, although internet access is available in Blue, District officials stated that it is not always reliable due to Blue's rural location, particularly during storms. As a result, although costly for the District, the District invested in fiber internet service to ensure students have reliable internet access with appropriate speed for classroom use when they are at school. If the District were to become an online school, students may still require the fiber internet access available at the school site to complete coursework, and the District may still incur costs for staff to attend to the students and handle other District responsibilities such as maintaining the school building. Further, because the District serves elementary grades, students may need additional support for online education, such as supervision while completing coursework. Additionally, the students attending from home would not have the benefits of in-person activities and community-based support groups. For example, a local chapter of the Arizona State Cowbells, an organization of cattle women who promote beef ranching, operate a small public library in a historic log cabin just behind the District's property, which provides reading materials for District students.

District's staffing practices and County-provided services helped control costs

School district funding is primarily based on the number of students served, and very small districts, like Blue ESD, are not able to benefit from economies of scale like larger districts. Therefore, the District must ensure that it controls costs as much as possible. Due to the District's low enrollment, it has taken steps to ensure that its operations are as efficient as possible, including limiting its staff and obtaining business office support services, such as payroll and expenditure processing, from the Greenlee County School Superintendent's Office (GCSSO). In fiscal year 2023, the District employed 1 full-time teacher and 3 part-time staff including an instructional aide, a custodian, and an administrative clerk who was responsible for submitting required student reporting to ADE and overseeing the District's technology software and equipment. The District paid these 3 part-time employees a combined total of less than \$28,000 in salaries, which is likely less than the salary of 1 full-time position. Additionally, as stated in this report's Overview, pages 1 through 2, GCSSO provides all the District's business office functions at no cost to the District, resulting in the District not needing to employ staff to perform these functions.³ However, our review identified some areas for improvement related to the services that GCSSO provides to the District (See Finding 1, page 5).

² Arizona Revised Statutes (A.R.S.) §15-459.

³ A.R.S. §15-301 designates the office of the county school superintendent as a local education agency that is eligible to receive and spend local, State, and federal monies to provide programs and services to school districts.



District lacked procedures for certain business office activities, resulting in it being underfunded by over \$31,000 and inaccurately reporting its fiscal year 2023 spending

According to A.R.S. §15-341, school district governing boards are required to prescribe and enforce policies and procedures to govern schools. Similarly, the *Uniform System of Financial Records for Arizona School Districts* (USFR) indicates that school district governing boards are the primary governing bodies of Arizona public schools and are responsible for implementing policies and procedures prescribed by the USFR to protect public monies and safeguard District assets.⁴ Therefore, the District's governing board (Board) is responsible for overseeing the business office functions performed by GCSSO on the District's behalf. However, we reviewed various District business office activities and found that the Board had not adequately overseen GCSSO to ensure the functions it performed on the District's behalf were in accordance with State laws and the USFR, and the District lacked written policies and procedures directing GCSSO how to perform these functions. See the details below.

Issue 1: District lacked policies and procedures to ensure contracted miles and riders were reported to ADE, resulting in the District not receiving more than \$31,000 in State aid related to its contracted transportation operations

As discussed in the Introduction, pages 3 through 4, the District's remote location and surrounding unpaved mountain roads makes it impractical for the District to operate its own buses to transport students (see Photo 1, page 6). Instead, the District contracts with parents to transport students, calculating and reimbursing a daily rate and mileage each year according to the per mile rate set by Greenlee County's travel policies, which was \$0.445 per mile in fiscal year 2023.⁵

To pay its transportation costs, the District levies a property tax on area property owners and collected \$9,116 in property taxes in fiscal year 2024. In contrast, other Arizona school districts typically determine what State aid is available to them based on their transportation operations and evaluate if it is necessary to levy an

⁴ The Arizona Auditor General and ADE developed the USFR pursuant to 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.

⁵ ADE's transportation guidelines indicate that school districts may contract with parents of students attending the school district for up to 15 miles in each direction if road conditions and terrain make driving a school bus slow or hazardous. Auditor and District officials' experiences indicate that the unpaved mountain roads surrounding the District meet this criterion, allowing the District to contract with parents for up to 15 miles in each direction.

additional property tax up to a maximum amount specified in State law.^{6,7} However, the District lacked policies and procedures to require District or GCSSO staff to submit transportation reports to ADE necessary for it to receive additional State aid funding it was entitled to receive related to its transportation contracts with parents.⁸ Staff indicated that they had not submitted transportation reports to ADE because the District did not operate its own buses and staff were unaware that the District could report contracted transportation mileage and ridership to ADE and receive State aid funding for these services. We found that if the District had submitted these transportation reports, it would have received an estimated \$31,452 in State aid related to its contracted student transportation for fiscal year 2024. The District may also be able to work with ADE to submit corrected transportation reports for up to 3 prior fiscal years, and any State aid monies the District receives could be used to pay for transportation costs or other District priorities. Additionally, if the District were to begin receiving State aid related to its transportation contracts, it may be able to lower its property tax levy to reduce the burden on local property taxpayers.

Photo 1 **Road conditions make driving slow and hazardous**

Portion of the unpaved mountain road leading to District's single-room school.



Portion of the flood-prone road leading to District's single-room school.



Source: Photos of the roads to and from the District's single-room school taken by Auditor General staff in August 2023.

Issue 2: District lacked policies and procedures to ensure District complied with accounting and reporting requirements, causing it to misreport \$44,000, or 26 percent, of its fiscal year 2023 operational spending

As previously stated, State law and the USFR indicate that school district governing boards are the primary governing bodies of Arizona public schools and are responsible for implementing policies and procedures prescribed by the USFR, including controls that comply with USFR accounting requirements. The USFR requires school districts to follow the expenditure classification guidance included in the Uniform Chart of Accounts for school districts to ensure accurate financial reporting and comparability among Arizona school districts and nationally.

⁶ A.R.S. §15-971 specifies the formula for determining each district's State aid funding amounts. Not all districts are eligible for State aid funding.

⁷ A.R.S. §15-946 specifies the formula for determining each district's transportation revenue control limit (TRCL). The TRCL is the maximum amount each district can receive each year in combined State aid and property tax revenues generated from its transportation operations.

⁸ According to ADE's transportation guidelines, ADE officials, and A.R.S. §15-923, daily route miles include contracted miles and require route mileage and eligible students to be reported to ADE.

In fiscal year 2023, however, we found that the Board had not implemented policies and procedures for the District's accounting practices and oversight. As a result, the GCSSO, which performs business office functions on the District's behalf, miscoded over \$44,000, or 26 percent, of the District's \$167,431 fiscal year 2023 operational spending. Specifically, the District's expenditures were not accurately classified in the correct operational categories, such as instruction, administration, plant operations, and student support services. As a result, the District's *Annual Financial Report* and supporting accounting data did not accurately present the District's spending in these operational categories to the public and decision makers who may rely on the report and data to know how the District spent its public monies in these areas. When we corrected these classification errors, the District's instructional spending as a percentage of total operational spending decreased from 76.3 percent to 73.3 percent—a decrease of 3 percentage points, with the largest amount shifting to spending on administration. The dollar amounts used for analysis and presented in this report reflect the necessary adjustments to correct the classification errors we identified. When we brought this issue to the District's attention, the Board indicated that although they have had written policies and procedures in the past for the District's accounting practices through the Arizona School Board Association, the cost to the District for the organization's policy services became too expensive to maintain. During the audit, the Board began working with the GCSSO to create written policies and procedures for the District's accounting practices.

Recommendations

The District should:

1. Create written policies and procedures for District accounting and finance-related responsibilities that include requirements for:
 - a. Annually reviewing ADE's most recent transportation guidance, and accurately reporting to ADE all route miles traveled and riders transported, including those that are contracted, for State funding purposes.
 - b. Reviewing the impact of reporting contracted miles and riders on its transportation State aid amount when preparing the District's annual budget and, when necessary, updating its tax levy calculations for transportation funding if a local levy for that purpose is not necessary.
 - c. Ensuring staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and at any time it is revised or updated and implement its guidance to accurately account for and report the District's spending throughout the year.
2. Immediately work with ADE to correct its transportation funding reporting for the previous 3 fiscal years to account for its contracted miles and riders to ensure it receives the correct level of State aid funding.

District response: As outlined in its [response](#), the District agrees with the finding and recommendations and will implement the recommendations.



District did not have a formal agreement with GCSSO to provide business office services, increasing the risk of disrupted District operations

District should ensure continued business operations by establishing a formal agreement with the GCSSO

As discussed in the Introduction, pages 3 through 4, the District relies on GCSSO staff to provide business office services to the District, such as payroll and expenditure processing. This type of relationship is common between small school districts and Arizona counties. Although arrangements vary by each county school superintendent's office, many districts and county school superintendents' offices use written agreements such as Intergovernmental Agreements (IGAs) to outline the responsibilities of both parties.⁹ For Blue ESD, the Greenlee County School Superintendent also serves as the District's superintendent, and GCSSO staff act in other business office roles to support the District's continued business operations. For example, GCSSO processes the District's payroll, prepares purchase orders and pays invoices, maintains District accounting records, and prepares the District's *Annual Financial Report* and budget forms.¹⁰ District officials and GCSSO staff indicated that for at least the past 15 years, the District has not had a formal written agreement with GCSSO for providing these services, nor does the District pay GCSSO for these services. However, without a written agreement between the District and GCSSO that specifies the services GCSSO performs on the District's behalf, as well as the agreement's duration and purpose, the District is at an increased risk of disrupted business operations if GCSSO should decide it is no longer willing or able to provide the District services. For example, according to GCSSO staff, prior to 2018, GCSSO carried the District's full-time teacher on the Greenlee County employee health insurance plan, and the District paid GCSSO for the cost of the teacher's health insurance premiums. However, in 2018, the Greenlee County Board of Supervisors voted to no longer carry the teacher on the Greenlee County's health insurance plan, leaving the District to make alternative arrangements to ensure its 1 teacher retained health insurance coverage. Recommended practices indicate that establishing a written contract between the District and GCSSO would help ensure continuity of District operations and enable the District to ensure it receives the services it expects to from GCSSO for a specified duration.¹¹

⁹ A.R.S. §11-952 states that 2 or more public agencies may contract for services and may enter into agreements with one another, defining the criteria for IGAs, including duration, purpose, manner of financing and budgeting, the permissible method(s) to be employed in terminating the agreement and any other necessary and proper matters. It also requires IGAs to be reviewed by the entities' attorneys for determination if the IGAs are in proper form and within the powers and authority granted under the laws of this State.

¹⁰ A.R.S. §15-302 outlines a variety of services that the county school superintendent's office may provide to school districts within that county, including fiscal responsibilities.

¹¹ The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (GAO-14-704G [5.05]) states that management, in this case the District, may contract with service organizations, such as GCSSO, to perform roles in the organization and should communicate objectives, standards of conduct, roles, responsibilities, and expectations.

Recommendation

If the District continues to rely on GCSSO to perform business office functions on its behalf, the District should:

3. Enter into a formal, written agreement with GCSSO for the services it provides to the District that complies with A.R.S. §11-952 and clearly documents the agreement's duration and purpose and the roles, responsibilities, and expectations for both parties to the agreement.

District response: As outlined in its [response](#), the District agrees with the finding and recommendation and will implement the recommendation.



SUMMARY OF RECOMMENDATIONS

Auditor General makes 3 recommendations to the District

The District should:

1. Create written policies and procedures for District accounting and finance-related responsibilities that include requirements for:
 - a. Annually reviewing ADE's most recent transportation guidance, and accurately reporting to ADE all route miles traveled and riders transported, including those that are contracted, for State funding purposes (see Finding 1, pages 5 through 7, for more information).
 - b. Reviewing the impact of reporting contracted miles and riders on its transportation State aid amount when preparing the District's annual budget and, when necessary, updating its tax levy calculations for transportation funding if a local levy for that purpose is not necessary (see Finding 1, pages 5 through 7, for more information).
 - c. Ensuring staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and at any time it is revised or updated and implement its guidance to accurately account for and report the District's spending throughout the year (see Finding 1, pages 5 through 7, for more information).
2. Immediately work with ADE to correct its transportation funding reporting for the previous 3 fiscal years to account for its contracted miles and riders to ensure it receives the correct level of State aid funding (see Finding 1, pages 5 through 7, for more information).
3. Enter into a formal, written agreement with GCSSO for the services it provides to the District that complies with A.R.S. §11-952 and clearly documents the agreement's duration and purpose and the roles, responsibilities, and expectations for both parties to the agreement (see Finding 2, pages 8 through 9, for more information).



Objectives, scope, and methodology

We have conducted a performance audit of Blue Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness primarily in fiscal year 2023, unless otherwise noted, in the 4 operational areas bulleted below because of their effect on instructional spending, as previously reported in our annual report, *Arizona School District Spending Analysis*. Further, because the District serves few students, we reviewed other education options available to Blue residents. This audit was limited to reviewing instructional and noninstructional operational spending (see textbox). Instructional spending includes salaries and benefits for teachers, teachers' aides, and substitute teachers; instructional supplies and aids such as paper, pencils, textbooks, workbooks, and instructional software; instructional activities such as field trips, athletics, and co-curricular activities, such as choir or band; and tuition paid to out-of-State and private institutions. Noninstructional spending reviewed for this audit includes the following operational categories:

Operational spending

Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with acquiring capital assets (such as purchasing or leasing land, buildings, and equipment), interest, and programs such as adult education and community service that are outside the scope of preschool through grade 12 education.

- **Administration**—Salaries and benefits for superintendents, principals, business managers, and clerical and other staff who perform accounting, payroll, purchasing, warehousing, printing, human resource activities, and administrative technology services; and other spending related to these services and the governing board.
- **Plant operations and maintenance**—Salaries, benefits, and other spending related to equipment repair, building maintenance, custodial services, groundskeeping, and security; and spending for heating, cooling, lighting, internet, and property insurance.
- **Food service**—Salaries, benefits, food supplies, and other spending related to preparing, transporting, and serving meals and snacks.
- **Transportation**—Salaries, benefits, and other spending related to maintaining school buses and transporting students to and from school and school activities.

Financial accounting data and internal controls—We evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2023 payroll and accounts payable transactions in the District's detailed accounting data for proper account classification and reasonableness, and adjusted transactions as necessary before reviewing and reporting spending. Additionally, we reviewed detailed payroll and personnel records for the 4 individuals who received payments in fiscal year 2023 through the District's payroll system. We also reviewed supporting documentation for 27 of 124 fiscal year 2023 accounts payable transactions. We also evaluated other internal controls that we considered significant to the audit objectives. This work included reviewing the District's policies and procedures and, where applicable, testing compliance with these policies and procedures; reviewing controls over the District's relevant computer systems; and reviewing controls over reporting various information used for this audit. We reported our conclusions on

applicable internal controls in Finding 1 (see pages 5 through 7).

Student achievement and operational costs—ADE did not report the District's percentage of students passing State assessments because the population of test takers was small enough that providing the information could identify individual student results. Due to the District's very small size and remote location, we did not compare the District's spending to peer group averages. For very small districts, such as Blue ESD, increasing or decreasing student enrollment by just 1 or 2 students or employing even 1 additional part-time position can dramatically impact the district's per student spending in any given year. As a result, and as noted in our annual report, *Arizona School District Spending Analysis*, very small districts' spending patterns are highly variable and result in less meaningful group averages. Therefore, because the District serves so few students, we reported spending in totals and as a percentage of operational spending rather than per student or using other operational efficiency measures, as we typically do in our school district performance audit reports, and we gave less weight to various costs while giving more weight to our observations made at the District.

Efficiency and effectiveness—In addition to the considerations previously discussed, we also considered other information that impacts spending and operational efficiency and effectiveness as described below:

- **Interviews and observations**—We interviewed various District and GCSSO employees in the operational areas we reviewed about their duties. To further evaluate District operations, we observed various day-to-day activities in the operational areas we reviewed. This included a facility tour of the District's single-room schoolhouse and grounds.
- **Report and documentation reviews**—We reviewed various summary reports of District-reported data including its fiscal year 2023 *Annual Financial Report*, fiscal year 2024 annual equalization report, and District-wide building reports provided by the Arizona Department of Administration's School Facilities Oversight Board. We also reviewed various sets of District documentation including fiscal year 2023 conflict-of-interest disclosure forms, employee contracts, governing board meeting minutes, and accounts payable documents including reimbursement documentation for contracted miles and college courses.
- **Analysis**—We reviewed and evaluated fiscal year 2023 total spending, instructional spending, and noninstructional spending, including spending on administration, plant operations and maintenance, and transportation. Additionally, we reviewed the District's transportation contracts, fiscal year 2023 miles and riders, and transportation reimbursement documentation. We also used the District's fiscal year 2024 annual equalization report to estimate the State aid funding the District may have been entitled to but did not receive due to its lack of reporting its contracted miles and riders.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to the District's governing board members, superintendent, and Greenlee County staff for their cooperation and assistance throughout the audit.

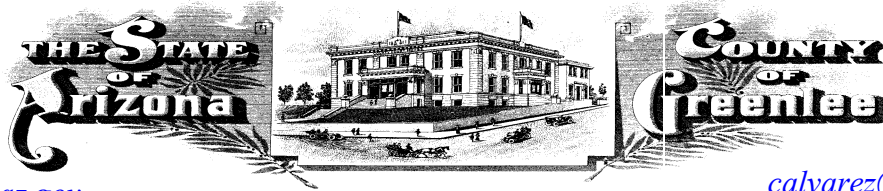
DISTRICT RESPONSE

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Superintendent

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Greenlee County School Superintendent
c/o Blue Elementary School District #22
PO Box 1595
Clifton, Arizona 85533

May 31, 2024

Lindsey Perry
Office of the Auditor General
2910 N. 44th St, Suite 410
Phoenix, Az 85018

Dear Ms. Perry,

Blue Elementary School District #22 has received and reviewed the FY 2023 Performance Audit Report. Upon review of this report, the district agrees with all findings and recommendations.

The district is in the process of implementing the recommendations provided and will work to improve the processes and procedures moving forward.

We would like to express our appreciation to the audit team for their professionalism and courtesy throughout this process. Given our School's unique situation and size, they provided us with valuable information and were a pleasure to work with.

If you have any questions, please feel free to contact our office at any time.

Sincerely,

A handwritten signature in black ink that reads 'Bryan Boling'. The signature is written in a cursive, flowing style.

Bryan Boling,
Superintendent

Finding 1: District lacked procedures for certain business office activities, resulting in it being underfunded by over \$31,000 and inaccurately reporting its spending in fiscal year 2023.

Recommendation 1: The district should create written policies and procedures for District accounting and finance-related responsibilities that include requirements for:

- a. Annually reviewing ADE's most recent transportation guidance, and accurately reporting to ADE all route miles traveled and riders transported, including those that are contracted, for State funding purposes.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The District will ensure that this will be included in its District Policies and Procedures.

- b. Reviewing the impact of reporting contracted miles and riders on its transportation State aid amount when preparing the district's annual budget and, when necessary, updating its tax levy calculations for transportation funding if a local levy for that purpose is not necessary.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The District will ensure that this will be included in its District Policies and Procedures.

- c. Ensuring staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and at any time it is revised or updated and implement its guidance to accurately account for and report the districts spending throughout the year.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The District will ensure that this will be included in its District Policies and Procedures.

Recommendation 2: The district should immediately work with ADE to correct its transportation funding reporting for the previous 3 fiscal years to account for its contracted miles and riders to ensure it receives the correct level of State aid funding.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The District has reached out to the Arizona Department of Education School finance for assistance in correcting the transportation funding and direction as to how to receive the reimbursement each year moving forward.

Finding 2: District did not have a formal agreement with GCSSO to provide business office services, increasing the risk of disrupted District operations.

Recommendation 3: If the District continues to rely on GCSSO to perform business office functions on its behalf, the district should enter into a formal, written agreement with GCSSO for the services it provides to the district that complies with A.R.S. §11-952 and clearly documents the agreement's duration and purpose and the roles, responsibilities, and expectations for both parties to the agreement.

District Response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Greenlee County School Superintendent will be in contact with the Greenlee County Attorney to have an IGA drafted and presented to the district.

