

The June 2022 Bagdad Unified School District performance audit found that the District did not comply with State laws or USFR requirements, putting public monies and sensitive information at risk; and risked student safety by not complying with school bus driver random drug and alcohol testing requirements and not performing systematic bus preventative maintenance. We made 15 recommendations to the District, and its status in implementing the recommendations is as follows:

Status of 15 recommendations

Implemented	6
In process	4
Not yet applicable	2
Not implemented	3

We will conduct a 30-month followup with the District on the status of the recommendations that have not yet been implemented.

Finding 1: Contrary to State law, District failed to accept \$3.6 million during meetings open to public and entered into improper service proposals that superintendent drafted despite apparent substantial interest conflict

1. The District should ensure it complies with State laws governing open meetings, conflicts of interest, and intergovernmental agreements (IGAs). Specifically:
 - a. If the Governing Board (Board) accepts a contribution, including those from the mining company and any other gifts and donations, it should ensure the superintendent acknowledges the contribution's receipt, purpose, and value during meetings open to the public, regardless of a contributor's request to maintain privacy.

Implemented at 18 months—We reviewed Governing Board (Board) meeting minutes from May 2023 through March 2024 and found the District acknowledged in a public meeting the receipt, purpose, and value for each monetary contribution the Board accepted during this time frame.
 - b. District employees, including the superintendent, should ensure they follow the State conflict-of-interest law and District policy by following the practices they learned in the District-provided training (see recommendation 3), including describing their substantial interests on the District's conflict-of-interest form as required and refraining from participating in any decision, contract, sale, purchase, or service, such as drafting and revising a service proposal/agreement, for which they have a substantial interest.

Not implemented—Our review of a judgmentally selected sample of conflict-of-interest disclosure forms for 4 District employees found that the forms were complete and described any disclosed substantial interests. However, similar to during the audit, the District's superintendent continues to provide administrative services to a nearby school district through an intergovernmental agreement (IGA) and continued to participate in matters related to the IGA despite having disclosed it as a substantial interest on the conflict-of-interest disclosure forms he signed in August 2022 and August 2023. Specifically, in April 2023, the superintendent improperly participated by initiating communication with the District's legal counsel regarding extending the IGA for fiscal year 2024.

The District provided information indicating that because the IGA was between the 2 school districts and did not specify compensation to be paid directly to the superintendent, the IGA did not constitute a substantial interest for the superintendent. However, the superintendent's employment contract for fiscal year 2024 provides for him to receive an additional \$12,000 tied to performing the services specified in the IGA. Therefore, if the IGA had not been extended, he would not have been entitled to this additional compensation. Additionally, the superintendent disclosed the IGA as a substantial interest on his conflict-of-interest disclosure form and attested that he would refrain from participating in any manner in matters relating to the substantial interest. Further, District policy specifies that refraining from participating includes refraining from making recommendations, giving advice, or otherwise communicating with anyone involved in the decision-making process. This would include refraining from initiating discussions about extending the IGA for another year. Therefore, the superintendent may have again acted contrary to State conflict-of-interest laws and District policy by communicating with District legal counsel about extending the IGA in which he reported having a substantial interest. The superintendent reported to us during our followup that, after fiscal year 2024, another District employee would be responsible for communicating with the Board and the District's legal counsel regarding this IGA. We will assess the District's efforts to implement this recommendation at our 30-month followup.

- c. District employees should ensure District legal agreements with other school districts are written as IGAs specifying duration, purpose, manner of financing and budgeting, the permissible method(s) to be employed in terminating the agreement, and any other necessary and proper matters; and are reviewed by District attorneys for determination of whether the IGAs are in proper form and within the powers and authority granted under the laws of this State.

Implemented at 6 months

2. The District should, in consultation with legal counsel, strengthen existing policies and develop and implement written policies and procedures governing open meetings, conflicts of interest, and IGAs in conformance with State law. These policies and procedures should specifically require the Governing Board to accept contributions in a meeting open to the public; disallow District employees from participating in matters for which they have a substantial interest, including drafting and revising service proposals/agreements; and require agreements to comply with IGA statutory requirements.

Implemented at 18 months—The District developed internal procedures in November 2023 governing open meetings, conflicts of interest, and IGAs. The Board approved these procedures in its December 2023 meeting. These procedures specifically require the Board to accept contributions in a public meeting; disallow District employees from participating in matters for which they have a substantial interest; and require agreements to comply with statutory requirements.¹ The District consulted with its legal counsel to confirm its procedures were in accordance with State law.

3. Develop and provide periodic training on conflict-of-interest requirements, process, and disclosure forms to its employees on how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

Implementation in process—As we reported in the previous initial followup, the District provides training on its conflict-of-interest policy as part of its annual District-wide training employees take at the beginning of each school year. The training includes information about conflict-of-interest requirements for employees, such as the need to complete a conflict-of-interest form to disclose substantial interests and refrain from participating in any manner in matters related to disclosed interests. According to the training, improper participation includes making recommendations, giving advice, or communicating in any manner with anyone involved in the decision-making process. The training additionally reviews the District's conflict-of-interest process, such as when and how to submit a conflict-of-interest disclosure form. The District reported that it requires staff to complete and submit the forms during the in-service training and follows up with any employees who did not attend the training to require them to complete a conflict-of-interest form. We reviewed 4 judgmentally selected conflict-of-interest

¹ A.R.S. §11-952, et seq.

disclosure forms for employees present at the training and forms for 5 employees who were absent from the training or whose District employment began after the annual training and found that the District is following its conflict-of-interest process. However, as discussed in recommendation 1b, despite attending the District's conflict-of-interest training and completing a conflict-of-interest disclosure form, the superintendent continued to participate in matters related to a disclosed substantial interest. We will assess the District's efforts to implement this recommendation at our 30-month followup.

4. Include in its employee training information regarding the importance of complying with State laws related to open meetings and IGAs.

Not implemented—As reported in our previous 6-month followup, District officials reported that they planned to add information regarding the importance of complying with open meeting and IGA laws in its employee training for business office employees beginning in August 2023. District officials reported in January 2024 that they had provided this training to employees whose job duties required knowledge of open meeting law compliance and IGAs using its corrective action plan procedures as a guide. However, the District did not document when the training occurred or which employees received training, and the corrective action plan District officials indicated was a guide for the training did not include information about the importance of complying with State laws related to open meetings and IGAs. We will assess the District's efforts to implement this recommendation at our 30-month followup.

Finding 2: Despite USFR requirements, District did not safeguard donations, allowed users too much accounting system and network access, did not have an IT contingency plan, and misclassified expenditures

5. The District should separate custodial and recordkeeping functions among employees for items donated to the District and ensure that no one employee can receive and record donated items without an independent review.

Not yet applicable—As reported in our previous 6-month followup, District officials stated they discontinued the practice of accepting and distributing gifts to students in April 2021. The District's superintendent informed the Board and all District staff in March 2023 that the District would continue to not accept items donated to the District for students until the District reviews and modifies its policies and procedures related to these donations. District officials reported that the District had not updated its policy and has continued to not accept items donated to the District for students. District officials reported they plan to revise policy to permanently disallow the acceptance of donations intended to be distributed to students by May 2024. We will assess the District's efforts to implement this recommendation, such as updates made to the District's policies and procedures related to donations accepted on behalf of students, at our 30-month followup.

6. The District should ensure staff follow District procedures to collect signatures of students accepting donated items to provide evidence that donated items were used for their intended purpose.

Not yet applicable—As reported in recommendation 5, District officials stated they discontinued the practice of accepting and distributing gifts to students in April 2021. Additionally, District officials reported in January 2024 that the District has continued to not accept donations on students' behalf. We will assess the District's efforts to implement this recommendation, such as updates made to the District's policies and procedures related to donations accepted on students' behalf, at our 30-month followup.

7. The District should review accounting system users' access levels and limit users' access in the accounting system to only those functions needed to perform their job duties and ensure that no one employee can initiate and complete a process without an independent review and approval.

Implementation in process—Our January 2024 review of all 9 users in the District's accounting system found that 1 user continued to have enough access to initiate and complete payroll transactions for both payments and deductions without an independent review and approval within the accounting system. District officials reported this user is the only employee at the District who is trained on the payroll process, and instead of reducing access

for this user, the District superintendent conducts a monthly review of change logs from the District's accounting system to identify anomalies such as fake employees being created. We reviewed the January 2024 change log from the District's accounting system and did not identify any improper transactions, such as employees making unapproved changes to their pay rate or creating fake employees. However, the superintendent reported that he does not document his monthly review and further reported the District does not have a documented process requiring these change log reviews to be performed and documented. Therefore, we were unable to confirm that the monthly reviews had occurred or whether the District's procedures are sufficient to prevent errors and fraud resulting from excessive accounting system access. We will assess the District's efforts to implement this recommendation at our 30-month followup.

8. The District should remove all unnecessary user accounts in its network and implement a review process to ensure that terminated employees' access is immediately removed.

Not implemented—As reported in our previous 6-month followup, the District updated its employee termination checklist to include removing network access. However, our January 2024 review of all active users in the District's network found 1 account associated with a terminated contracted employee. The former employee's account was still active in the system despite the District's termination checklist indicating network access had been removed and District officials reporting that they believed the user's network access had been removed. When we brought this account to the District's attention, the District disabled the account and indicated that they did not believe the account presented a high risk because the employee had never logged into the system, which we confirmed during our review, and because the account had limited access to the network. However, the user's network account remaining active, despite staff using the District's updated termination checklist, increased the risk of unauthorized access to the District's sensitive information and IT systems and indicates that the District may not be following its process for removing access or that its process needs to be updated. We will assess the District's efforts to implement this recommendation at our 30-month followup.

9. The District should develop and implement an IT contingency plan that meets USFR requirements and test the plan at least annually to identify and remedy any deficiencies and document the test results.

Implementation in process—The District has developed and implemented an IT contingency plan that identifies all critical systems; contains procedures for restoring its critical systems and the order in which they should be restored; outlines who is responsible for which activities in the event of a disaster; contains contingencies for continued business operations in the event of a disaster; and is reviewed and updated annually. The plan was reviewed and approved by the appropriate staff in March 2024. District officials reported the District would test its updated IT contingency plan by September 2024. We will assess the District's efforts to implement this recommendation at our 30-month followup.

10. The District should ensure staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and any time it is revised or updated and implement its guidance to accurately account for and report the District's spending.

Implemented at 6 months—In August 2022, the District provided relevant employees with updated copies of the fiscal year 2023 Uniform Chart of Accounts, reviewed changes to the Uniform Chart of Accounts as a group, and added or deactivated codes as needed to accurately account for the District's spending. Our review of the District's fiscal year-to-date 2023 expenditures found that the District had substantially corrected the coding errors identified during the audit.

Finding 3: District did not comply with school bus driver random drug and alcohol testing and did not perform systematic bus maintenance, putting student safety at risk

11. The District should develop and implement a random drug and alcohol testing policy in accordance with the State's Minimum Standards and conduct and document random drug and alcohol testing in accordance with its policy and the State's Minimum Standards.

Implemented at 18 months—As reported in our previous 6-month followup, the District partnered with a nearby

school district to pool its school bus drivers for random drug and alcohol testing services in January 2023. Additionally, in March 2023, the District developed a random drug and alcohol testing policy in accordance with the State's Minimum Standards that its Board approved in April 2023. Our review of random drug and alcohol tests conducted in calendar year 2023 found that the District randomly drug tested at least 50 percent of its school bus drivers and alcohol tested at least 10 percent of its school bus drivers as required by the State's Minimum Standards.

12. The District should research school bus manufacturer preventative maintenance schedules and recommendations to develop and implement a documented school bus preventative maintenance policy that states what preventative maintenance will be completed at what mileage and time frame and ensure mechanics perform and document school bus preventative maintenance systematically and on schedule in accordance with the District's policy and the State's Minimum Standards.

Implemented at 18 months—The District reviewed preventative maintenance schedules the engine manufacturer recommended for the District's school buses and developed a preventative maintenance policy for its yellow school buses that states what preventative maintenance will be completed at what mileage and time frame. The Board approved this policy in its April 2023 meeting. Additionally, the mechanic who services the District's school buses uses a preventative maintenance checklist that lists what parts need to be checked and serviced when performing preventative maintenance. In February 2024 we reviewed the District's preventative maintenance service documentation for its 5 school buses and found that the District had performed required preventative maintenance services according to its preventative maintenance policy.

13. The District should research white activity bus manufacturer preventative maintenance schedules and recommendations to develop and implement a documented white activity bus preventative maintenance policy that states what preventative maintenance will be completed at what mileage and time frame and ensure mechanics perform and document white activity bus preventative maintenance systematically and on schedule in accordance with the District's policy.

Implementation in process—The District reviewed preventative maintenance intervals recommended for the District's white activity buses' engine types and developed a preventative maintenance policy that provides for preventative maintenance services to be performed every 7,500 miles. The Board approved this policy in its April 2023 meeting. Additionally, the mechanic who services the District's white activity buses uses a preventative maintenance checklist that lists what parts need to be checked and serviced when performing preventative maintenance. Although District officials reported white activity buses receive preventative maintenance services at least once a year, the District's preventative maintenance policy for its white activity buses did not include a time interval for preventative maintenance services. Further, in February 2024, we reviewed the District's documentation of its preventative maintenance services for 2 white activity buses and found that 1 bus exceeded the District policy's mileage threshold by approximately 2,800 miles. After we brought this to the District's attention during our review, the District developed an updated preventative maintenance policy in March 2024 that calls for preventative maintenance services to be performed every 7,500 miles or annually regardless of miles driven. We will assess the District's efforts to implement this recommendation at our 30-month followup.