

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, and its status in implementing the recommendations is as follows:

Status of 32 recommendations

Implemented	6
Implemented in a different manner	1
In process	24
Not implemented	1

In the January 2023 Hyder Elementary School District performance audit, we found that since fiscal year 2018, the District had not complied with the *Uniform System of Financial Records for Arizona School Districts* (USFR).¹ Many of the District's business and IT deficiencies that we noted in the performance audit were also cited by the District's independent auditors not only in the audit year, but in previous years as well. For example, in fiscal years 2018 through 2020, Hyder ESD was cited for having weak internal controls over cash handling and for not accurately classifying all its expenditures in accordance with the USFR Chart of Accounts for school districts. In our performance audit, we identified deficiencies in the District's internal controls and noncompliance with the USFR that resulted in unauthorized purchases and waste; other public monies being put at an increased risk of fraud, waste, or abuse; and misreported spending. In September 2021, the Arizona State Board of Education found the District was in noncompliance with the USFR and voted to direct the Superintendent of Public Instruction to withhold 3 percent of the District's State aid (equalization assistance) until our Office reports that the District is no longer in noncompliance with the USFR.

In July 2023, we sent a letter to the Arizona State Board of Education (State Board) notifying it that Hyder Elementary School District had asked us to perform a status review to determine if it is no longer in noncompliance with the USFR. In October 2023, we sent another letter to the State Board notifying it that based on assertions in the District's submitted corrective action plan and discussions with District management, we determined that the District had not made enough progress in correcting its deficiencies to warrant a review. Therefore, the District continues to be in noncompliance with the USFR. In June 2024, District officials stated that the District will have a new superintendent and business manager beginning in fiscal year 2025, which will likely delay implementing some recommendations until November 2024. Therefore, we will conduct a 30-month followup with the District on the status of the recommendations that have not yet been implemented.

¹ Our Office reviews all school district audit reports and USFR Compliance Questionnaires submitted by independent audit firms to determine whether districts have established and maintained effective internal control policies and procedures that comply with the USFR at a satisfactory level. In accordance with Arizona Revised Statutes §15-271, we notify districts that are in noncompliance with the USFR and give them 90 days to correct their deficiencies.

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.

Implementation in process—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. The District has begun developing written policies and procedures for internal controls over credit cards. Additionally, District officials stated that the District requires employees to sign card user agreements before using a District credit card. District officials indicated that the policies and procedures will be implemented and all personnel will complete training on the District's policies and procedures for card use by November 2024. We will review the District's efforts to implement this recommendation at the 30-month followup.

- 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.

Implementation in process—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. As discussed in recommendation 1a, the District has begun developing written policies and procedures for internal controls over credit cards that District officials reported will be implemented by November 2024. We will review the District's efforts to implement this recommendation at the 30-month followup.

- 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.

Implementation in process—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. As discussed in recommendation 1a, the District has begun developing written policies and procedures for internal controls over credit cards that District officials reported will be implemented by November 2024. We will review the District's efforts to implement this recommendation at the 30-month followup.

- 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.

Implementation in process—The District purchased a new safe in January 2024, and District officials reported restricting the new safe's combination to only those needing access. Additionally, the District has begun developing procedures related to restricting and monitoring access to the safe but has not yet included all the recommended items, such as maintaining a log of employees that access the safe, in these procedures. The District plans to finalize and implement procedures related to safe access by November 2024. We will review the District's efforts to implement this recommendation at the 30-month followup.

- e. Require secondary advanced approval before any purchase is made, including credit card purchases.

Implementation in process—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. As discussed in recommendation 1a, the District has begun developing written policies and procedures for internal controls over credit cards. Additionally, District officials reported that the District will update its written procedures by November 2024 to include the requirement of obtaining secondary approval in advance of any purchases being made. We will review the District's efforts to implement this recommendation at the 30-month followup.

- f. Require secondary approval for all vendor additions to the financial system. We will review the District's efforts to implement this recommendation at the 30-month followup.

Implementation in process—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. The District has not yet established written policies and procedures that require secondary approval for all vendor additions to the financial system. District officials reported that it will update District policies to include the requirement of secondary approval for all vendor additions by November 2024.

- g. Separate responsibilities for expenditure processing, including disallowing staff members to sign approval for other staff members.

Implementation in process—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. In July 2023, the District updated its purchasing process from a manual, paper-based process to an electronic process utilizing the accounting system for the creation and approval of purchase requisitions and purchase orders. District officials indicated that they had begun developing policies and procedures for expenditure processing that would address all recommended items and that these policies and procedures would be implemented by November 2024. We will review the District's efforts to implement this recommendation at the 30-month followup.

- h. Deposit all cash at least weekly, or daily when significant.

Implementation in process—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. The District has begun developing written policies and procedures for internal controls over cash handling. District officials indicated that the policies and procedures will be implemented by November 2024. We will review the District's efforts to implement this recommendation at the 30-month followup.

- i. Reconcile issued cash receipts to cash deposits and recorded revenues to confirm all cash was deposited and to identify improperly recorded receipts.

Implementation in process—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. As discussed in recommendation 1h, the District has begun developing policies and procedures for internal controls over cash handling that District officials reported will be implemented by November 2024. We will review the District's efforts to implement this recommendation at the 30-month followup.

- 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.

Implementation in process—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. The District has begun developing policies and procedures for internal controls over bank accounts. District officials reported that its policies and procedures for internal controls over bank accounts will be implemented by November 2024. We will review the District's efforts to implement this recommendation at the 30-month followup.

- 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.

Implementation in process—As discussed in recommendations 1a through 1j, the District has begun developing written policies and procedures related to District credit cards, expenditure processing, cash handling, and bank accounts. District officials plan to train all staff members with responsibilities related to District credit cards, expenditure processing, cash handling, and bank accounts by November 2024, after the written policies and procedures in these internal control areas have been finalized and implemented. We will review the District's efforts to implement this recommendation at the 30-month followup.

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.

Not implemented—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. The District could not provide documentation to support that employees responsible for classifying expenditures review the Uniform Chart of Accounts for school districts for changes at least annually or had implemented the Uniform Chart of Accounts' guidance to accurately account for and report the District's spending throughout the year. Our review of fiscal year 2023 expenditures found that the District continued to incorrectly classify expenditures similar to what we identified during the audit. We will review the District's efforts to implement this recommendation at the 30-month followup.

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.

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.

Implemented at 6 months—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. 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.

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 or 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.

Implementation in process—This recommendation was identified as a deficiency contributing to the District’s noncompliance with the USFR. According to District officials, the District has begun developing payroll policies and procedures to ensure proper separation of responsibilities; review, approval, and documentation of time sheets; and appropriate tracking of employee leave accrual, usage, and balances. District officials reported that the updated policies and procedures in accordance with USFR requirements will be implemented by November 2024. We will review the District’s efforts to implement this recommendation at the 30-month followup.

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.

Implementation in process—As explained in recommendation 7, the District has not yet formalized its payroll policies and procedures and is currently developing updated, formal, written payroll policies and procedures consistent with USFR requirements. District officials reported that all staff with payroll-related responsibilities will be trained on the District updated payroll policies and procedures after the updated policies and procedures have been implemented. We will review the District’s efforts to implement this recommendation at the 30-month followup.

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.

Implementation in process—The District updated its pretrip operations checklist to include the items DPS Minimum Standards requires to be inspected and began requiring all drivers to complete the checklists daily in August 2023. Drivers document each daily pretrip operations check on a form that is provided to the District office weekly, and the form includes the checks the drivers completed each day of the District’s Monday through Thursday school week. However, we reviewed the completed weekly pretrip operations checklists from August 2023 for the 4 District school buses that were used to transport students and identified errors and inconsistencies with 12 of 16, or 75 percent, of the weekly checklists. For example, issues we identified included school bus drivers recording inaccurate dates of inspection or checking off items as having been inspected that were not installed or present on the vehicle. The District required all school bus drivers to complete additional training on conducting and documenting pretrip operation checks in February 2024. We will review the District’s efforts to implement this recommendation at the 30-month followup.

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.

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.

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.

Implementation in process—The District has assigned the responsibility of tracking school bus driver certifications to 1 employee and developed a process to annually review DPS Minimum Standards and State/federal requirements related to school bus driver certifications. The District maintains a log documenting details of each review, including standards or requirements the employee reviewed and the date of review, and each entry is signed off by both the employee who performed the review and a District administrator. Although the District documented the review of multiple standards and State/federal requirements during calendar years 2022 and 2023, the District had not documented a review of DPS Minimum Standards since August 2022. In February 2024, District officials updated the log to include specific documents that are required to be reviewed annually, including DPS Minimum Standards and State/federal requirements, and District officials reported the responsible employee will review all required items by August 2024. We will review the District's efforts to implement this recommendation at the 30-month followup.

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.

Implementation in process—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. The District developed a new process for tracking miles driven and riders transported for reporting purposes in July 2023. The process requires school bus drivers to complete daily mileage and rider logs, which they submit each week to the District office. District office staff enter the miles and ridership data into a spreadsheet where it is maintained until it is required to be reported to ADE. However, our review of mileage and rider logs and the corresponding spreadsheet the District office maintained from October 2023 found that route mileage was likely overreported for 1 of the District's 4 school buses because it included activity miles as route miles, and rider counts were missing for 1 of 4 school buses in the spreadsheet. Therefore, the District continues to increase the risk that it inaccurately reports required transportation information to ADE. Additionally, the District indicated that it will complete and document a review of ADE's transportation guidance by August 2024 and will conduct this review annually going forward. We will review the District's efforts to implement this recommendation at the 30-month followup.

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.

Implemented at 12 months—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. 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 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.

Implementation in process—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. The District has begun developing and implementing a process for assigning new employees accounting system access and adjusting access levels for users whose job duties change. District

officials stated they will also develop and implement a process to periodically review employees' accounting system access levels to ensure they are appropriate and necessary by August 2024. We will review the District's efforts to implement this recommendation at the 30-month followup.

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.

Implementation in process—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. Our October 2023 review of the District's network password requirements found that they were not aligned with credible industry standards. District officials stated the District will develop a process for annually reviewing industry password standards by August 2024. We will review the District's efforts to implement this recommendation at the 30-month followup.

17. The District should require all employees to participate in a security awareness training if they have not done so in the past year.

Implementation in process—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. District officials reported that employees are trained on cybersecurity topics during staff meetings held throughout the school year and that they will require all District personnel to participate in a security awareness training by August 2024. We will review the District's efforts to implement this recommendation at the 30-month followup.

18. The District should establish and implement a District policy to conduct security awareness training at least annually, and require that employees attend.

Implementation in process—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. District officials indicated that they will establish a policy requiring all District personnel to annually attend cybersecurity training and will have all District personnel participate in a security awareness training by August 2024. We will review the District's efforts to implement this recommendation at the 30-month followup.

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.

Implementation in process—This recommendation was identified as a deficiency contributing to the District's noncompliance with the USFR. The District formalized an IT contingency plan in February 2023. However, the plan is missing 1 key component because it does not rank the criticality of systems and the order in which critical systems should be restored, contrary to USFR requirements and credible industry standards. Additionally, the District has not tested the plan since it was developed and formalized. District officials stated they will update the District's IT contingency plan to include the criticality ranking of systems and will test the plan by August 2024. We will review the District's efforts to implement this recommendation at the 30-month followup.

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.

Implementation in process—District officials analyzed average daily and monthly utility costs for a gym and cafeteria, including walk-in refrigerators and other appliances, to develop a facility rental fee schedule for fiscal year 2024 to be used when renting its facilities for local community/individual usage. In July 2023, the District’s Board approved the updated fee schedule. However, the District did not provide evidence of a similar analysis for the other rooms available to rent, such as classrooms. We will review the District’s efforts to implement this recommendation at the 30-month followup.

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.

Implementation in process—According to District officials, the District has developed procedures to review that it charges the approved use fee when facilities are rented. We reviewed documentation for the 1 community usage District facilities rental in December 2023 and found that the District accepted a check from the renter for more than the approved use fee. According to District officials, the check amount was written in error, and the District office identified the overpayment in January 2024. The District provided documentation showing it provided a refund for the overpayment to the renter in February 2024. Additionally, District officials reported that teacherage payment rates are negotiated and input into the payroll systems at the beginning of each fiscal year, and payments are automatically deducted from employees’ paychecks. We will review this recommendation at the 30-month followup, when a complete year of teacherage payments is available for review.

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

Implementation in process—As discussed in recommendation 20, the District’s Board has approved a reasonable use fee schedule for facility rentals for fiscal year 2024. The District has begun developing a process for ensuring that District employees understand and follow State requirements and District policies and procedures for facility rentals and reported that it would train applicable personnel by November 2024. We will review the District’s efforts to implement this recommendation at the 30-month followup.

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.

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.