

The April 2021 Mohave Valley Elementary School District performance audit found that the District subsidized its food service program with over \$167,000 that it could have spent on instruction, overpaid some employees, did not ensure all cash collected was deposited, and did not adequately protect its computerized data. We made 12 recommendations to the District, and its status in implementing the recommendations is as follows:

Status of 12 recommendations

Implemented	9
In process	3

Additionally, we have reviewed and are reporting on an issue that the District self-reported to our Office in November 2021 (see Additional deficiencies identified in followup section on page 4). Specifically, the District reported that it had been fully paying family medical and dental premiums for certain District employees, a benefit not provided to all employees, even though that benefit was not an explicit term in the employees' contracts or compensation agreements. Further, there was no evidence that this practice was approved by the District's Governing Board. We are making 4 additional recommendations to the District regarding these deficiencies and will conduct a 36-month followup with the District on the status of these recommendations and the 3 recommendations from the April 2021 performance audit that have not yet been implemented.

Finding 1: District subsidized its food service program in fiscal years 2017 through 2019 with over \$167,000 that it could have spent on instruction

1. The District should analyze whether participation in the standard National School Lunch Program (NSLP) or one of its other special provisions rather than participating in the Community Eligibility Program (CEP) would be more financially beneficial to the District, and take action accordingly to help ensure that its food service program revenues cover the costs of the program.

Implementation in process—The District analyzed its participation in the NSLP and projected that the District will financially benefit by participating in the standard NSLP rather than the CEP. Specifically, since the CEP requires that districts provide meals to all students free of charge, districts must cover the cost of providing meals to students beyond any per-meal federal reimbursements they receive for participating in the CEP. For students who did not qualify for free or reduced-price meals, the per-meal federal reimbursement was 77 cents in fiscal year 2023, which is much less than the District spent to provide these student meals. Therefore, based on the percentage of its students who do not qualify for free or reduced-price meals, the District determined it would benefit by participating in the NSLP rather than the CEP.

In April 2022, the District's Governing Board approved the District's food service program opting into the standard NSLP for fiscal year 2023. We will review the District's fiscal year 2023 food service revenue and expenses at our 36-month followup to assess whether the District's food service program revenues are covering the costs of the program.

Finding 2: District overpaid some employees, did not ensure all cash collected was deposited, and misclassified expenditures

2. The District should pay its employees the accurate amount each pay period based on their pay rate and hours worked.

Implemented at 6 months—In fiscal year 2022, the District strengthened its payroll process by requiring another business office employee to review for each pay period the payroll journal against employees' contracts and time sheets, pay rates, hours worked, and deductions, verifying that all employees are accurately paid. Our review of payroll and personnel documentation for a sample of 15 District employees in fiscal year 2022 found that all 15 employees were accurately paid.

3. The District should strengthen its payroll process by having a second person review payroll information, such as pay rates and salary amounts entered into the payroll system, and review all payroll amounts and supporting documentation each pay period to ensure that all employees are paid accurately.

Implemented at 6 months—In fiscal year 2022, the District began having a second business office employee review payroll information such as pay rates and salary amounts entered into the payroll system. This second employee also reviews all payroll amounts for each pay period to ensure that employees are accurately paid. Our review of 1 pay period in November 2021 found that the District documented that a second employee reviewed payroll amounts and supporting documentation to ensure they were accurate. Additionally, our review of a sample of 15 employees' pay for fiscal year 2022 found that the District accurately paid these employees based on their pay rates and hours worked.

4. The District should provide training on the *Uniform System of Financial Records for Arizona School Districts* (USFR) cash-handling requirements to all employees involved in cash collection, deposit, and review.

Implemented at 18 months—The District developed training on USFR cash-handling requirements in March 2022. In August 2022, the District trained administrators, administrative assistants, and teachers involved in the cash-handling process on USFR cash-handling requirements. District officials reported that they plan to provide this training at the beginning of each school year to all employees with cash-handling responsibilities.

5. The District should have an employee(s) review supporting documentation for all cash collected to ensure that pre-numbered receipts are issued; all documents, such as detailed cash collection reports and validated bank deposit receipts, are retained; and the District collected and deposited all monies it should have.

Implemented at 12 months—Our review of 2 months' cash collections and deposits at 2 District schools in fiscal year 2022 found that employees documented and reviewed student activities and auxiliary operations cash collections. School club sponsors and other employees issued prenumbered receipts when collecting cash from students or parents and provided the cash and receipts to administrative employees responsible for receiving cash at each school. The administrative employee who received the cash confirmed that the club sponsor or other employee provided the correct amount of cash and then deposited the cash at the bank. Another employee reconciled all bank deposits to prenumbered receipts ensuring all cash for which a receipt was issued was deposited.

6. The District should implement procedures to ensure that all cash is deposited at least weekly as required by the USFR.

Implemented at 12 months—The District implemented new policies and procedures requiring cash to be deposited at least weekly. Our review of 2 months' cash receipts and bank deposit documentation from fiscal year 2022 found that the District deposited cash collections within 7 days of receipt, in accordance with its policy and USFR requirements.

7. The District should ensure staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and upon notification of changes, and implement its guidance to accurately account for and present the District's spending.

Implemented at 6 months—The District reported that the business manager and accounting staff annually review the Uniform Chart of Accounts for school districts to identify any classifications that need to be revised. Additionally, the District stated that these employees review all changes made to the Uniform Chart of Accounts

for school districts when notified of updates and update their expenditure classifications accordingly. Our review of a sample of payroll and accounts payable expenditures from July through October 2021 found that the District correctly classified the transactions we reviewed based on USFR guidance and our classification recommendations made during the audit.

Finding 3: District did not adequately protect its computerized data, which increased risk of unauthorized access to sensitive information, errors, fraud, and data loss

8. The District should better protect its sensitive computerized data from unauthorized access, errors, fraud, and data loss by:
- a. Reviewing industry password standards at least annually and implementing and enforcing strong network password requirements consistent with credible industry standards.
Implemented at 18 months—The District's IT technician reported that he now reviews credible industry standards between the fall and spring semesters each year to ensure that he is aware of any changes to credible industry standards that impact password requirements. Our November 2021 and September 2022 reviews of the District's network found that the District's network password requirements were consistent with credible industry standards.
 - b. Reviewing and reducing the number of users with administrator-level access to its network.
Implemented at 6 months
 - c. Limiting users' access in the accounting system to only those accounting system functions needed to perform their job duties, including transferring administrator-level access to someone outside of the business office.
Implementation in process—Our review of the District's July 2023 accounting system user access reports for all 11 District employee users found the District reduced the number of users with more access than is necessary to perform their job duties from 3 users during the audit to 2 users. Although the District reduced access for these 2 users, both users continue to have more access than necessary to perform their job duties. Additionally, the District transferred administrator-level access to an employee outside of the business office.
 - d. Immediately removing all unnecessary user accounts currently in its network and implementing additional procedures to regularly review users' network access and disable it when it is no longer needed and regularly review accounts to identify those that are no longer needed and promptly remove them.
Implemented at 18 months—Our review of the District's November 2021 network users found that the District removed all unnecessary user accounts identified during the initial audit. Additionally, the District developed and implemented new procedures in August 2022 to review all user accounts and access levels in its network to identify and remove accounts that are no longer needed and ensure all active accounts are associated with current District employees. The District performed the first review for fiscal year 2023 in August 2022, and our review of September 2022 network users did not identify any unnecessary user accounts. The District reported that it conducts a monthly review of its user accounts and removes any unnecessary accounts identified.
 - e. Reviewing its information technology (IT) contingency plan to ensure it is complete, testing it at least annually to identify and remedy any deficiencies, and documenting the results of the tests.
Implementation in process—The District revised its IT contingency plan. However, despite improvements, it continues to lack critical components including key aspects of asset restoration and identifying which employees will perform key activities during an IT disaster. The District stated that it is still in the process of completing its IT contingency plan and will test and document results when it is completed and approved.

Additional deficiencies identified in followup: For over 30 years prior to May 2021, District inappropriately fully paid family insurance premiums for administrators and certain classified employees even though benefit was not explicitly included in contracts and not approved by Governing Board as required, making it difficult to determine payments' public purpose

District paid family insurance premiums for certain employees although provision was not included in contracts/agreements nor approved by Governing Board

Based on interviews, it appears that for over 30 years prior to May 2021, the District fully paid family health and dental insurance premiums (family insurance premium benefit) for administrators and some classified employees.¹ During this time frame, all other full-time employees enrolled in family insurance were required to pay a portion of their family insurance premiums. District officials we interviewed in September 2022 could not provide documentation showing (1) precisely when this practice began, (2) District payment of the family insurance premiums was stated in employee contracts and agreements, and (3) District payment of these family insurance premiums had been approved by the District's Governing Board (Board). However, 1 current employee and 2 former employees told us they knew this practice was in place as early as 1989 and that they had received the family insurance premium benefit beginning in 1996, 2003, and 2017.² These are the earliest instances mentioned to us. All 3 former and current employees began receiving the family insurance premium benefit during a former superintendent's tenure, and subsequent superintendents continued this practice.

Current Board members were not aware District was fully paying family insurance premiums for certain employees

State law authorizes school district governing boards to employ and fix the salaries and benefits of employees necessary for the succeeding year, and District policy requires the Board to review fringe benefits each year during the budget process.³ Although we found the Board had met annually since at least fiscal year 2018 to review and approve benefit packages for District employees, we spoke with the 4 current Board members, whose years of service on the Board ranges from 5 years to over 20 years, who stated they were not aware that the District was fully paying for family insurance premiums for certain employees prior to 2020.⁴ They also stated that they had not voted to approve the full payment of premiums for those employees. One current Board member told us he was upset when initially learning about the practice but may have considered approving the District paying for a portion of family insurance premiums, if presented with the option.

Our review of the Board's meeting minutes and related benefits package information that was provided to the Board members from August 2016 to May 2021 (when the practice ended) confirmed that the Board had not approved this specific benefit in its annual benefit package approvals for those 5 years. Our review also found that the insurance plan documents the Board approved during this time frame never mentioned that the District was fully paying premiums for family insurance benefits for certain employees. Finally, our review of Board minutes found that a former superintendent and Board member discussed the District's payment of family insurance premiums for administrators in March and April 2020, respectively, but we identified no other mentions of this practice or specific approval of this practice.

¹ According to District officials, administrators consisted of certified employees such as the superintendent, the school principals, and the director of special services, while classified employees consisted of other noncertified employees such as the business manager, the director of transportation, and the food service director.

² One of the former employees we spoke with was the superintendent until 2020. Another employee we spoke to reported that their spouse, who was also employed by the District, had received the family insurance premium benefit beginning in 1998.

³ Arizona Revised Statutes (A.R.S.) §15-502(A).

⁴ The Governing Board has 5 seats, but as of this report date, the Governing Board has 1 open seat. Three of the 4 current Governing Board members have been serving since at least January 2017.

Current superintendent became aware of family insurance premium benefit practice and worked with Board to end it in May 2021

The District's current superintendent as of September 2023 stated that he first became aware of the District's practice of fully paying for family insurance premiums when, prior to the start of his contract in June 2020, the outgoing superintendent told him that the District would fully pay the premiums for his family insurance coverage. Further, he reported that shortly after he began his duties, he learned that the District was paying for these benefits for other administrators. Specifically, he was told by a Board member that a District administrator receiving the family insurance premium benefit expressed concern to the Board member that the new superintendent might not continue providing the family insurance premium benefit. Finally, the superintendent reported that a few months later, he learned that certain classified employees were also receiving the family insurance premium benefit.

Upon learning the scope of the District's fully paying family insurance premiums for certain employees, the current superintendent worked with the Board to hire a certified public accounting firm to perform an accounting review of these issues. The review evaluated District documentation such as employee benefit election forms, Board-approved benefit plans, and employee contracts and compensation agreements and concluded that the District may have violated Arizona Constitution's gift clause by providing a benefit not included in the employees' contracts or compensation agreements and not approved by the Board.⁵ The District ended the practice of fully paying family insurance premiums for certain employees in May 2021 and notified our Office of this historical practice in November 2021.

From July 2019 to May 2021, the District paid \$154,515 and \$66,929 to fully pay 9 administrators' and 3 classified employees' family insurance premiums, respectively, as shown in Table 1.⁶ The total \$221,444 is the additional insurance premium amount that these 12 employees otherwise would have had to pay, like other District employees had the District not paid their family insurance premiums. Based on our review of payroll data, we confirmed that the District stopped these payments in May 2021.

Table 1
District paid \$221,444 to fully pay family insurance premium benefit for certain employees July 2018 through May 2021

Fiscal year	Administrators' family insurance premiums	Classified employees' family insurance premiums
2019	\$56,972	\$24,885
2020	56,107	22,582
2021	41,436	19,462
Subtotal	\$154,515	\$66,929
Total additional payments \$221,444		

Source: Auditor General staff analysis of District-provided payroll reports and benefit-election forms.

Former superintendents may have administered these payments without Board approval to improve employee retention, but lack of detailed employment contracts and compensation agreements make it difficult to determine payments' public purpose

The District reported that these payments appear to have started in an effort to retain District staff. As this practice reportedly had been in place for over 30 years, it was unclear how former superintendents continued administering these payments without Board approval. The evidence we obtained suggests that it could have been due to a lack of detailed information in both the District's employment contracts and compensation agreements and in the annual benefits packages that the former superintendents presented to the Board for approval. Specifically, neither the

⁵ Art. IX, Sec. 7, of the Arizona Constitution, commonly referred to as the "gift clause," requires that a governmental entity use public monies for only public purposes and that the public benefit that is received is not far exceeded by the consideration being paid by the public.

⁶ The 3 classified employees were director- and manager-level employees

District's employee contracts for the administrators nor the compensation agreements for the classified employees contained express terms stating that the District would be fully paying for certain employees' family insurance premium benefits. As a result, both during the Board's annual approval process and in the employment contracts and compensation agreements, the current Board members never became aware of nor approved fully paid family insurance premiums for certain employees. Thus, the Board's ability to make informed decisions and the public's ability to access information related to how much these benefits cost and the use of public monies was limited, which contravenes the purpose of State public records laws.⁷

Further, it is difficult to determine the public purpose of fully paying certain employees' family insurance premiums. As previously discussed, the Arizona Constitution's gift clause requires that a governmental entity use public monies for only public purposes and that the public benefit that is received is not far exceeded by the consideration being paid by the public.⁸ Under Arizona Attorney General Opinion I79-121, when fringe benefits are not expressly included in an employee's contract or adopted by the school district's governing board prior to the time the employee entered the contract, there must be an inquiry into whether the gift clause has been violated. The employees' contracts and compensation agreements did not state that the employees would be provided fully paid family insurance premium benefits. Thus, the public purpose of the District's payment of family insurance premiums is not clear. The District spent \$221,444 to fully pay for certain employees' family insurance premiums in fiscal years 2019 through 2021. We recommend that the District analyze these payments to determine the amount of public monies it may have improperly gifted and work with its legal counsel to determine what legal action is necessary to address the District's violation of the gift clause, including action related to the former District superintendents who administered these payments without Board approval. Additionally, the District should report its potential gift clause violations to the Arizona Attorney General's Office, including the amount of monies it may have improperly gifted.

Recommendations to address additional deficiencies identified in followup

The District should address the additional deficiencies we identified during our followup related to fully paying the family insurance premium benefit for certain employees. Specifically, the District should:

9. Determine the amount of public monies it may have gifted in violation of the Arizona Constitution's gift clause as a result of fully paying certain employees' family insurance premiums and seek legal counsel to determine what legal action is necessary to address the District's violation of the gift clause, including action related to the former District superintendents who administered this benefit without Board approval.
10. Report its potential gift clause violations to the Arizona Attorney General's Office, including the amount of monies it may have improperly gifted.
11. Specify the benefits that an employee is entitled to receive in employment contracts or in Board-adopted policies that are incorporated into employment contracts.
12. Present detailed information to the Board regarding all salaries and benefits to be provided to employees when the Board approves annual compensation packages in a public meeting, including all insurance premium amounts paid for by the District.

⁷ Arizona Attorney General. (2018). *Arizona Agency Handbook* indicates that State public records laws seek to increase public access to government information and to make government agencies accountable to the public. Retrieved on January 18, 2022, from <https://www.azag.gov/outreach/publications/agency-handbook>.

⁸ See also *Wistuber v. Paradise Valley Unified School Dist.*, 141 Ariz. 346, 348-349, 687 P.2d 354, 356-357(1984) requiring that districts "disburse funds only for a public purpose," and stating that even if there is a public benefit, "the Constitution may still be violated if the value to be received by the public is far exceeded by the consideration being paid by the public."