



April 4, 2025

Sent via email:

Lindsey Perry

Arizona Auditor General

Office of the Auditor General

2910 N 44<sup>th</sup> Street

Phoenix, AZ 85018-7271

Dear Auditor General Perry:

The District is in receipt of the Confidential Findings and related Recommendations regarding Report 25-203. Thank you for the important and helpful information and feedback you have provided.

The administration and Governing Board will be working diligently to address the seven findings and implement the recommendations.

The District would like to share our appreciation to the audit team for their professionalism and patience while conducting the audit.

Pursuant to your request, please see the District's response to the Findings and Recommendations, as set forth below.

Sincerely,

Eric B. Holmes, Ed. D.  
Superintendent of Schools  
Sierra Vista Unified School District #68  
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**Finding 1:** District improperly paid administrators \$34,500 in bonuses and performance pay without required contracts or performance goals and has not required its former CFO, who now consults for the District, to provide detailed invoices to ensure payments are appropriate

District Response: The Auditor General's finding is not agreed to.

Response explanation: The District cannot agree with the overall wording of Finding 1. The District respectfully disagrees that the consultant did not provide the District with a detailed record of work performed. The consultant utilized the District's electronic time card system to track his hours and made entries that provided the District with notice of the time spent on tasks being performed. The District regrets identified errors made regarding the CFO's extra duty compensation and consulting contract. There was no intent by anyone concerned to violate law or the USFR in the handling of those matters. The District is ready, willing and able to make changes that will improve District operations and facilitate expected compliance with Arizona laws and related USFR provisions. As noted below, the District is in agreement with the Auditor General's recommendations relating to Finding 1.

**Recommendation 1:** Ensure that any modification to contracted employees' employment terms, such as pay or duty changes, are made through appropriate contract amendments or addendums, approved in advance of the work being performed, and maintained in employee personnel files in accordance with USFR requirements.

District Response: The audit recommendation will be implemented.

**Recommendation 2:** Require itemized invoices for financial services consulting work and documentation to support lodging reimbursements and review the supporting documentation to evaluate what work was performed and whether the hours charged are reasonable, and whether travel expenses are supported and accurate prior to approving payment.

District Response: The audit recommendation will be implemented.

**Recommendation 3:** Prior to renewing any business office consulting contracts, ensure that the terms, such as agreed-upon travel costs, are in the District's best financial interest and include provisions to enable the District to ensure services are provided as agreed prior to payment, as required by the USFR.

District Response: The audit recommendation will be implemented.

**Recommendation 4:** Establish policies and procedures to eliminate its practice of paying performance pay prior to the Board making a determination that performance goals have been met and the pay has been earned.

District Response: The audit recommendation will be implemented.

Response explanation: The District regrets the errors made regarding the Superintendent's performance pay and understands the concerns raised by the Auditor General regarding the related performance pay schedule. The Board and Superintendent did not act with ill intent and are appreciative of the feedback provided in Report 25-203.

**Recommendation to the Board 1:** Work with the Arizona Attorney General's Office to determine whether it had the legal authority to pay the additional compensation to its CFO and performance pay to its superintendent and, if not, determine its ability to recover the monies.

District Response: The audit recommendation will be implemented.

**Recommendation to the Board 2:** Follow requirements in A.R.S. §15-341(A)(39) by relying on the goals established in statute or establishing alternative performance pay goals, approving any alternative performance pay goals at a public meeting, and ensuring the superintendent meets the performance pay goals before approving performance payments.

District Response: The audit recommendation will be implemented.

**Finding 2:** District incorrectly compensated employees for sick leave and underpaid other employees for additional duties due to a lack of written procedures, staff training, and supervisory oversight.

District Response: The Auditor General's finding is agreed to.

Response explanation: The District discovered an error relating to sick leave accruals and proactively notified the Governing Board of the error when it was discovered. The District also informed the Auditor General, during the audit, of the District's solution. Because it was not possible to identify all hourly employees who may have been affected, the District developed a formula whereby it added sick leave to every employee still employed by the District. In every case, the District assumed that the employees worked their full schedule for the time period in question and made adjustments to their compensation.

**Recommendation 7:** Recalculate and correct sick leave accruals for hourly employees since the beginning of fiscal year 2023, and based on these results, determine whether to recalculate and correct sick leave accruals for prior years.

District Response: The audit recommendation will be implemented.

**Recommendation 8:** Develop written procedures to ensure employees are granted at least the statutorily required minimum number of sick leave hours, including procedures to verify that personal leave is credited to employees accurately and in accordance with District policy.

District Response: The audit recommendation will be implemented.

**Recommendation 9:** Verify that employees are no longer improperly assigned probationary status in the District's accounting system, and recalculate and correct all incorrectly compensated sick leave for current employees affected by the improper probationary designation between fiscal years 2018 and 2023.

District Response: The audit recommendation will be implemented.

**Recommendation 10:** Develop and implement policies and procedures in accordance with USFR requirements that include a thorough supervisory review to verify the accuracy and documented support of employee pay.

District Response: The audit recommendation will be implemented.

**Recommendation 11:** Identify and correct all underpayments for employees who were scheduled for on-call hours after January 1, 2023, and develop written procedures for ensuring on-call payments are made in accordance with District policy.

District Response: The audit recommendation will be implemented.

**Recommendation 12:** Train payroll staff at least annually, as well as whenever new payroll policies and procedures are introduced, to help ensure payments are correctly and consistently processed in accordance with State law, the USFR, and District policies.

District Response: The audit recommendation will be implemented.

**Finding 3:** District did not provide required information to ASRS about certain retiree incentives and improperly calculated ASRS withholding for some employees, which may result in improperly inflated retirement benefits and unfunded liabilities.

District Response: The Auditor General's finding is agreed to.

**Recommendation 13:** Work with the ASRS to identify and correct any excess contributions that should not have been included as compensation for the calculation of ASRS benefits identify and correct any excess contributions that should not have been included as compensation for the calculation of ASRS benefits.

District Response: The audit recommendation will be implemented.

**Recommendation 14:** Work with the ASRS to report required information about past termination incentive program participants and determine if its termination incentive program created any unfunded liabilities to the ASRS and, if so, resolve them.

District Response: The audit recommendation will be implemented.

**Recommendation 15** Develop and implement written procedures that address termination incentive program reporting requirements and the types of compensation that should be included in ASRS withholding calculations and remittances to ensure compliance with State laws and ASRS requirements.

District Response: The audit recommendation will be implemented.

**Recommendation 16:** Train payroll staff at least annually, as well as whenever new payroll policies and procedures are introduced, to help ensure ASRS withholding is correctly and consistently processed in accordance with District policies and ASRS requirements.

District Response: The audit recommendation will be implemented.

**Finding 4:** District sometimes did not follow cash handling and purchasing requirements, placing District monies at risk of loss, theft, misuse, and fraud

District Response: The Auditor General's finding is agreed to.

**Recommendation 17:** Develop and implement written procedures for cash-handling to ensure compliance with USFR requirements, which should include requiring a secondary review cash collections and regularly accounting for all sequential, prenumbered receipts.

District Response: The audit recommendation will be implemented.

**Recommendation 18:** Periodically train employees responsible for cash collection and deposits on how to comply with USFR cash-handling requirements and its newly developed cash-handling policies and procedures.

District Response: The audit recommendation will be implemented.

**Recommendation 19:** Deposit all cash at least weekly, or daily when amounts are significant.

District Response: The audit recommendation will be implemented.

**Recommendation 20:** Develop and implement written procedures for purchasing in accordance with USFR requirements, which should include ensuring that all purchases are reviewed and approved in advance by authorized District officials and all goods or services are received and billings are accurate prior to payments being made.

District Response: The audit recommendation will be implemented.

**Recommendation 21:** Routinely train appropriate staff on its newly developed purchasing procedures to reduce the risk of unapproved purchases or inappropriate payments.

District Response: The audit recommendation will be implemented.

**Recommendation 22:** Analyze purchasing card spending and use those results to identify any cards that could potentially be eliminated or any authorized users who no longer require purchasing card access to perform their job responsibilities. Take immediate actions to minimize the number of cards and users in accordance with the USFR.

District Response: The audit recommendation will be implemented.

**Recommendation 23:** Develop and implement written guidance regarding which District employees or job positions require being authorized purchasing card users to perform their job duties.

District Response: The audit recommendation will be implemented.

**Recommendation 24:** Develop and implement a process for periodically reconciling the District's records of authorized users and assigned purchasing cards to the physical cards to

ensure no cards are lost or stolen, and take appropriate action if missing cards are identified.

District Response: The audit recommendation will be implemented.

**Finding 5:** District did not provide required information to ASRS about certain retiree incentives and improperly calculated ASRS withholding for some employees, which may result in improperly inflated retirement benefits and unfunded liabilities.

District Response: The Auditor General's finding is agreed to.

**Recommendation 25:** Develop and/or update and implement conflict-of-interest policies and procedures to require all Board members to complete a conflict-of-interest disclosure form at the start of their terms and annually thereafter, or when circumstances change, including fully describing any substantial interest or attesting that no conflicts exist.

District Response: The audit recommendation will be implemented.

**Recommendation 26:** Enforce its existing conflict-of-interest policies for employees by requiring them to annually submit conflict-of-interest disclosure forms describing any substantial interests they or their relatives may have in the District's decisions or attesting that no conflicts exist.

District Response: The audit recommendation will be implemented.

**Recommendation 27:** Maintain all substantial interest disclosures, including disclosure forms and meeting minutes, in a special disclosure file available for public inspection.

District Response: The audit recommendation will be implemented.

**Recommendation 28:** Require periodic training on its conflict-of-interest requirements, process, and disclosure forms to its Board members and employees that includes information about the importance of complying with the State's conflict-of-interest laws and District policy.

District Response: The audit recommendation will be implemented.

**Finding 6:** District's excessive access to its sensitive computerized data and other IT deficiencies increased the risk of unauthorized access to sensitive information, data loss, errors, and fraud

District Response: The Auditor General's finding is agreed to.

**Recommendation 29:** Limit employees' access to the accounting system to only those accounting system functions needed to perform their job duties, including transferring administrator-level access to someone outside the business office.

District Response: The audit recommendation will be implemented.

**Recommendation 30:** Limit administrator-level access to its network to only those individuals with a business need for administrator-level access and require these employees to use a separate nonadministrator account for day-to-day activities.

District Response: The audit recommendation will be implemented.

**Recommendation 31:** Develop policies to address IT system access relative to employee job duties and establish a formal process to periodically review network account access and make necessary updates if the reviews identify accounts with more access than necessary.

District Response: The audit recommendation will be implemented.

**Recommendation 32:** Develop and implement a formal process to ensure that network, accounting system, and student information system accounts are promptly disabled or removed when no longer needed to reduce the risk of unauthorized access.

District Response: The audit recommendation will be implemented.

**Recommendation 33:** Implement and enforce strong authentication controls, such as strong passwords and MFA, or compensating controls for any systems that are not capable of implementing MFA, that align with credible industry standards to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.

District Response: The audit recommendation will be implemented.

**Recommendation 34:** Develop and implement a formal process to review the District's authentication controls against industry standards at least annually.

District Response: The audit recommendation will be implemented.

**Recommendation 35:** Develop an IT contingency plan that meets USFR requirements and credible industry standards; test its plan at least annually to identify and remedy any deficiencies, which should include testing the District's ability to restore electronic data files for critical systems from backups; and document the test results.

District Response: The audit recommendation will be implemented.

**Finding 7:** District did not meet some transportation Minimum Standards requirements, inaccurately reported information to ADE, and failed to fully secure its fuel supplies, increasing risks to student safety and potential for theft and misuse

District Response: The Auditor General's finding is agreed to.

**Recommendation 36:** Develop and implement written policies and procedures for overseeing its transportation contract to ensure that DPS Minimum Standards for drivers and preventative maintenance are met and transportation reports are accurate.

District Response: The audit recommendation will be implemented.

**Recommendation 37:** Establish procedures for ensuring transportation yard gates are locked overnight.

District Response: The audit recommendation will be implemented.

**Recommendation 38:** Take steps to ensure fuel usage is tracked to reduce the risk of misuse and theft, including ensuring all fuelings are identified by user in the fueling reporting system or otherwise logged, and requiring mileage information to be input into its fueling system or recorded before fueling.

District Response: The audit recommendation will be implemented.

Response explanation: The fuel system deficiencies have been addressed with the purchase of a new fuel system that controls which vehicles are allowed to receive fuel and automatically logs mileage and maintenance items to the software.

**Recommendation 39:** Develop and implement a policy and procedure for regularly reviewing fueling reports for appropriateness and reasonableness and investigate any irregularities identified to help ensure appropriate fuel use.

District Response: The audit recommendation will be implemented.