

# Snowflake Unified School District

Performance Audit

August 2016  
Report 16-207



A Report to the Arizona Legislature

Debra K. Davenport  
Auditor General





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**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

August 23, 2016

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board  
Snowflake Unified School District

Mr. Hollis Merrell, Superintendent  
Snowflake Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Snowflake Unified School District*, conducted pursuant to A.R.S. §41-1279.03. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the District agrees with all of the findings and recommendations.

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

Sincerely,

Debbie Davenport  
Auditor General



## Snowflake Unified School District

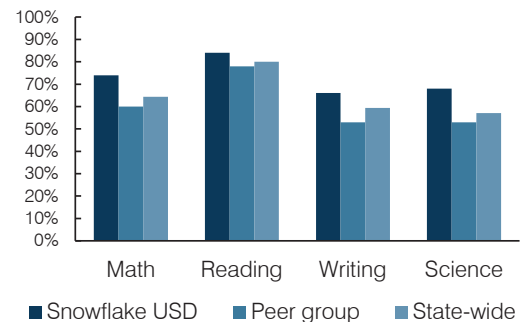
**CONCLUSION:** In fiscal year 2014, Snowflake Unified School District's student achievement was higher than the peer districts', and its operational efficiency varied by area, with some areas being efficient and other areas needing improvement. The District operated its administration with a much lower cost per pupil, and its plant operations were efficient with a much lower cost per square foot. However, its food service program's cost per meal was higher than the peer districts', which may have been the result of the District not sufficiently overseeing its vendor-operated food service program. The District's transportation program's efficiency could not be measured because of a lack of records supporting the number of miles driven and riders transported on its buses.

### Student achievement higher and operational efficiency varied by area

**Student achievement higher than peer districts'**—In fiscal year 2014, Snowflake USD's student AIMS scores were higher than peer districts' averages in the four tested areas. Further, under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of B. Twelve of the peer districts also received Bs, 2 received As, and 3 received Ds. Additionally, the District's 95 percent graduation rate was higher than the peer districts' 83 percent average and much higher than the State's 76 percent average.

**Operational efficiency varied by area**—In fiscal year 2014, Snowflake USD's operational efficiency varied by area. Compared to peer districts', Snowflake USD's administrative costs per pupil were much lower, and its plant operations were efficient with much lower costs per pupil and per square foot. However, its food service program was less efficient with a higher cost per meal, and its transportation program's efficiency could not be measured because of a lack of records supporting the number of miles driven and riders transported on its buses.

**Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2014**



**Comparison of per pupil expenditures by operational area Fiscal year 2014**

	Snowflake USD	Peer group average
Administration	\$626	\$ 789
Plant operations	736	1,009
Food service	235	386
Transportation	411	406

### Inadequate controls increased risk of errors and fraud

#### **Inadequate controls over bookstore sales and inventory—**

In fiscal years 2014 and 2015, the District lacked adequate procedures for recording sales and tracking inventory at the high school bookstore. Specifically, when processing a transaction, the bookstore did not provide each customer with a receipt, allowing for a transaction to be completed without being entered into the cash register. Additionally, transactions entered into the cash register could be easily voided with no explanation required, increasing the District's risk of theft because a transaction could be voided and the cash removed from the cash register. Further, the bookstore did not have a procedure to track its inventory, increasing the District's risk of inventory theft because the District was unable to reconcile sales to inventory sold to help determine if any losses occurred.

**Inadequate computer controls**—The District lacked adequate controls over its computer network and systems. We reviewed the District's fiscal year 2015 user access reports and identified five employees who had more access to the accounting system than they needed to perform their job duties. Additionally, the District's network and student

information system had user accounts that were linked to employees or contracted service providers who no longer worked for the District, and it maintained generic user accounts, which makes it difficult or impossible for the District to hold anyone accountable if inappropriate activity were conducted using these accounts. Further, the District did not have a written, up-to-date, and tested contingency plan to help ensure continued operations in the case of a system or equipment failure or interruption.

### Recommendations

The District should:

- Strengthen controls over bookstore sales and inventory.
- Implement proper controls over its computer systems and network.
- Create and test a formal IT contingency plan.

## Insufficient district oversight of vendor may have led to high food service costs

Snowflake USD's fiscal year 2014 cost per meal of \$3.05 was 11 percent higher than the peer districts' average, and the program was not self-supporting, with expenditures exceeding revenues by approximately \$6,500. These higher costs may have been a result of the District not sufficiently overseeing its food service program, which was operated by a vendor. The District did not thoroughly review vendor billings, did not enforce the guaranteed breakeven clause stated in the contract, and did not review the program's performance to ensure it was operating efficiently. Further, we identified some inefficiencies in the program that likely contributed to its higher costs, including low participation in the breakfast program and overproduction that resulted in waste.

### Recommendations

The District should:

- Thoroughly review its food service vendor invoices.
- Ensure it receives the guaranteed breakeven stated in its contract.
- Consider options for increasing its breakfast program participation and/or reducing the program's costs.
- Ensure that the vendor establishes additional food production controls to help reduce overproduction and waste.

## District did not adequately oversee its transportation program

Although the transportation vendor's invoices provided adequate detail for the District to review bus route charges, very limited detail was provided for bus maintenance services and fuel charges. The lack of detailed information made it impossible for the District to determine if it was charged correctly for these services, which totaled \$22,064 in fiscal year 2014. Additionally, the District did not ensure that the vendor maintained records supporting the route mileage and number of riders reported for state-funding purposes. Consequently, we were unable to determine whether the District was funded appropriately.

### Recommendations

The District should:

- Require its transportation vendor to provide adequate detail for all charges.
- Work with its vendor to ensure that adequate records are maintained to accurately calculate and report miles driven and students transported.



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# DISTRICT OVERVIEW

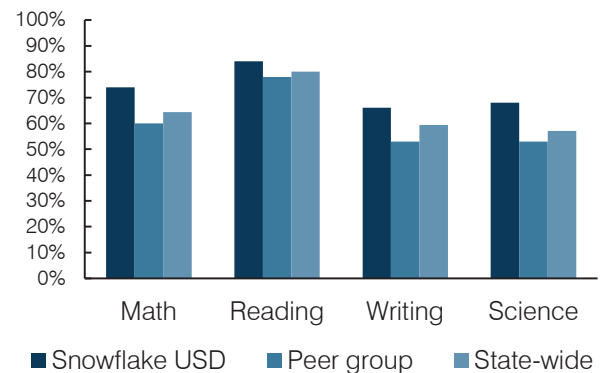
Snowflake Unified School District is a rural district located in the southern part of Navajo County. In fiscal year 2014, the District served 2,359 students in kindergarten through 12th grade at its six schools.

In fiscal year 2014, Snowflake USD's student achievement was higher than peer districts', and its cost-efficiency was mixed, with some costs higher and some lower than peer districts' averages.<sup>1</sup> Specifically, the District's administration and plant operations were efficient, but its food service program was less efficient with higher costs than peer districts, on average. Further, the District's transportation program's efficiency could not be measured because of insufficient records.

## Student achievement higher than peer districts'

In fiscal year 2014, 74 percent of the District's students met or exceeded state standards in math, 84 percent in reading, 66 percent in writing, and 68 percent in science. As shown in Figure 1, the District's scores in math, writing, and science were higher than peer districts' averages, and its reading scores were slightly higher. Under the Arizona Department of Education's A-F Letter Grade Accountability System, Snowflake USD received an overall letter grade of B for fiscal year 2014. Twelve of the peer districts also received Bs, 2 received As, and 3 received Ds. In addition, the District's 95 percent graduation rate in fiscal year 2014 was higher than the peer districts' 83 percent average and much higher than the State's 76 percent average.

**Figure 1**  
**Percentage of students who met or exceeded state standards (AIMS)**  
**Fiscal year 2014**  
(Unaudited)



Source: Auditor General staff analysis of fiscal year 2014 test results on Arizona's Instrument to Measure Standards (AIMS).

## Districts' costs varied by area with some improvements needed

As shown in Table 1 on page 2 and based on auditors' review of various performance measures, in fiscal year 2014, some of Snowflake USD's nonclassroom operations were efficient while other areas needed improvement.

Specifically, the District's administrative costs per pupil and plant operations costs per square foot were much lower than peer districts' averages, but its food service cost per meal was higher. The District's transportation program's efficiency could not be measured because of a lack of records supporting the number of miles driven and riders transported. Snowflake USD spent less per pupil than peer districts because it received less funding, primarily from federal sources in the form of federal Impact Aid and federal grants.

<sup>1</sup> Auditors developed three peer groups for comparative purposes. See page a-1 of this report's Appendix for further explanation of the peer groups.

**Much lower administrative costs—**

Snowflake USD’s \$626 administrative cost per pupil was much lower than the peer districts’ \$789 average. The District spent less on administration primarily because it employed fewer administrative staff and paid some administrators lower salaries than peer districts, on average. For example, the District did not have an assistant superintendent unlike some peer districts, and it also had fewer district-level and school-level support positions such as accounting clerks and clerical positions. Further, Snowflake USD paid its principals 14 percent less than peer districts, on average, and its assistant principals 10 percent less. However, the District needs to strengthen some of its administrative and computer controls (see Finding 1, page 3).

**Efficient plant operations—**Compared to peer districts’ averages, Snowflake USD’s fiscal year 2014 plant operations costs were 26 percent lower per square foot and 27 percent lower per student. The District was able to spend less on plant operations primarily because it incurred lower salary costs and lower purchased services costs, including maintenance and repairs and utilities. Specifically, the District spent 25 percent less per square foot than peer districts on plant operations salaries and benefits and 57 percent less per square foot on maintenance and repairs. Despite spending less per square foot on maintenance and repairs, auditors determined that the District had a preventative maintenance plan in place, and its facilities appeared to be adequately maintained.

**Higher food service costs—**In fiscal year 2014, the District’s food service costs were 11 percent higher per meal when compared with the peer districts’ average. These higher costs may have been a result of the District not sufficiently overseeing its food service program, which was operated by a vendor in fiscal year 2014 (see Finding 2, page 5).

**Transportation efficiency could not be determined due to insufficient records—**The District did not have adequate supporting records for the number of miles driven or number of students transported on its buses, which prevented auditors from calculating efficiency measures such as cost per mile, cost per rider, or bus capacity usage needed to evaluate the efficiency of the transportation program. Further, the District did not adequately review some vendor charges for its transportation program (see Finding 3, page 7).

**Table 1**  
**Comparison of per pupil expenditures by operational area**  
**Fiscal year 2014**  
(Unaudited)

Spending	Snowflake USD	Peer group average	State average
Total per pupil	\$6,427	\$7,573	\$7,578
Classroom dollars	3,611	3,914	4,073
Nonclassroom dollars			
Administration	626	789	757
Plant operations	736	1,009	923
Food service	235	386	405
Transportation	411	406	373
Student support	566	607	600
Instruction support	242	462	447

Source: Auditor General staff analysis of fiscal year 2014 Arizona Department of Education student membership data and district-reported accounting data.



## Inadequate controls increased risk of errors and fraud

In fiscal years 2014 and 2015, Snowflake USD lacked adequate controls over its bookstore sales and inventory and its computer network and systems. Although no improper items were detected in the transactions auditors reviewed, improvements are necessary to help prevent errors and fraud, protect sensitive information, and ensure continuity of operations in the case of a system or equipment failure or interruption.

### Inadequate controls over sales and inventory at bookstore

The District operates a high school bookstore that sells items such as physical education uniforms, school supplies and apparel, and snacks. In fiscal year 2014, bookstore sales totaled about \$25,000. However, the District lacked adequate procedures for recording sales and tracking inventory. Specifically, when processing a transaction, the bookstore did not provide each customer with a receipt, allowing for a transaction to be completed without being entered into the cash register. Additionally, transactions entered into the cash register could be easily voided with no explanation required. Unexplained voids increase the District's risk of theft because a transaction could be voided and the cash removed from the cash register. In addition, the bookstore did not have a procedure to track its inventory. This increases the District's risk of inventory theft because the District was unable to reconcile sales to inventory sold to help determine if any losses occurred. Because of the high risk associated with cash transactions, the District should strengthen its controls over sales and inventory at its bookstore.

### Inadequate computer controls

Snowflake USD lacked adequate controls over its computer network and systems. Although no improper transactions were detected, these poor controls exposed the District to an increased risk of errors and fraud, misuse of sensitive information, and data loss.

**Broad access to accounting system**—Auditors reviewed the District's fiscal year 2015 user access report for 10 of the 32 employees with access to the accounting system and identified 5 employees who had more access to the accounting system than they needed to perform their job duties, including 3 employees who had full access to the system, giving them the ability to perform all accounting system functions. No improper transactions were detected in the 30 payroll and 30 accounts payable transactions for fiscal year 2014 that auditors reviewed. However, granting employees system access beyond what is required to fulfill their job duties, especially full system access, exposes the District to a greater risk of errors, fraud, and misuse of sensitive information, such as processing false invoices or adding and paying nonexistent vendors or employees. The District should review and further restrict its employees' access to the accounting system to ensure no single employee has the ability to initiate and complete a transaction without independent review and approval.

**Inadequate procedures for removing access to critical systems**—The District lacked a timely process for ensuring that only current employees had access to critical systems. Auditors reviewed the District's fiscal year 2015 user access reports and found 11 network user accounts and one student information system user account that were linked to employees or contracted service providers who no longer worked for the District, including some employees who had not worked for the District for over a year. To reduce the risk of unauthorized access, the District should implement procedures to ensure the prompt removal of network and system access

when a user is no longer employed by the District.

**Generic network accounts**—Auditors reviewed the District's fiscal year 2015 network user access report and found 20 unnecessary, active generic accounts. Having generic accounts creates additional risk because they are not assigned to specific individuals, which makes it difficult or impossible for the District to hold anyone accountable if inappropriate activity were conducted using these accounts. The District should eliminate unnecessary generic accounts and minimize the number of generic accounts it maintains and establish proper controls over them, such as disabling them when not being used.

**Lack of contingency plan and backup testing**—In fiscal years 2014 and 2015, the District did not have a written, up-to-date, and tested contingency plan even though it maintained critical student and accounting information on its network and systems. A written and properly designed contingency plan would help ensure continued operations in the case of a system or equipment failure or interruption. The plan should include detailed information on how to restore systems in such an event. As part of a contingency plan, the District should also perform documented tests of its ability to restore electronic data files from data backups, which are important to ensure continuous accessibility to sensitive and critical data.

## Recommendations

1. The District should strengthen its controls over sales and inventory at its bookstore to reduce its risk of errors and fraud.
2. The District should review employees' access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction without independent review and approval and that employees have only the access necessary to meet their job responsibilities.
3. The District should develop and implement a formal process to ensure that terminated employees have their IT systems and network access promptly removed.
4. The District should eliminate unnecessary generic accounts in its network and properly control any remaining generic accounts.
5. The District should create a formal IT contingency plan and test it periodically to identify and remedy any deficiencies.



### Insufficient district oversight of vendor may have led to high food service costs

Snowflake USD's fiscal year 2014 cost per meal of \$3.05 was 11 percent higher than the peer district average of \$2.76 per meal, and the program was not self-supporting, with expenditures exceeding revenues by approximately \$6,500. These higher costs may have been a result of the District not sufficiently overseeing its food service program, which was operated by a vendor in fiscal year 2014. The District did not thoroughly review vendor billings, did not enforce the breakeven clause stated in the contract, and did not review the program's performance to ensure it was operating efficiently. Further, auditors identified some inefficiencies in the program that likely contributed to its higher costs.

#### District did not adequately review vendor charges or enforce contract's guaranteed breakeven provision

In fiscal year 2014, the District's food service program was operated by a vendor under a contract that was initially entered into in fiscal year 2010. Under the contract, the vendor provided program management, staffing, food purchasing, and other services for the District's six schools on a cost-reimbursement basis. That is, the vendor incurred costs for labor and supplies and billed the District for those costs, plus an additional administrative fee. In fiscal year 2014, the District paid approximately \$326,000 to the vendor to operate the program. Although Snowflake USD received monthly invoices from the vendor, it did not thoroughly review them to ensure it was being billed correctly. District staff compared total costs month to month for reasonableness, but did not fully review the details of the vendor's billings to help ensure all charges were appropriate. Further, although the District's contract with the vendor guaranteed that the program would break even, the program's costs exceeded its revenues by approximately \$6,500. However, the District was not aware of the program's loss and, therefore, had not attempted to recover the loss from the vendor. The District should enforce the terms of its contract, including ensuring it receives the guaranteed breakeven for fiscal year 2014.

#### Inefficiencies likely contributed to higher costs

With a cost-reimbursement type of contract, it is important for districts to closely monitor operations to ensure they are as efficient as possible and that related costs are in accordance with contract terms. However, several inefficiencies were noted that likely contributed to the program's higher costs, including low participation in the breakfast program, overproduction of meals that resulted in food waste, and not planning meals to ensure the use of federal food commodities. In order to lower costs, Snowflake USD should work with its vendor to evaluate, and consider making changes to, several practices in its food service program.

**Low breakfast participation**—The District operated a breakfast program at each of its schools, offering either a hot or cold entrée along with a variety of cereals, fruit, and milk. While conducting observations of the food service program on two separate days, auditors noted that few students participated in the breakfast program. For example, at the District's approximately 650-student high school, just 10 students obtained breakfast on one day and 14 students the second day. In reviewing fiscal year 2014 records for all district schools, only 9 percent of the District's students participated in the breakfast program, on average. Preparing meals for such a small number of students likely contributed to the District's high cost per meal. The District should consider options

such as increasing awareness of the breakfast program to increase participation or reducing meal preparation costs by eliminating hot breakfast items, which take additional staff time to prepare.

**Overproduction resulted in waste**—Auditors observed the District's food service operations on two days in fiscal year 2015 and noted a large amount of food left over after all students had been served. For example, on one day observed, approximately one-third of the lunches prepared at the high school and one-third of the hot breakfasts prepared at an elementary school were left over and thrown away. Food service employees stated that production procedures were similar in fiscal year 2014. Therefore, it appears likely that overproduction of meals also occurred in fiscal year 2014 and may have contributed to the District's higher costs in that year.

**Costs could be lowered through use of commodities**—The District could reduce costs by planning meals to use more of its United States Department of Agriculture (USDA) food commodities. Districts participating in the National School Lunch Program can obtain USDA food commodities by paying only a small shipping charge. Although the District has been obtaining its entire allocation of commodities, auditors found that the District had a large amount of commodities on hand and that the receiving dates on these commodities dated back as far as 7 years. Further, many of the commodities appeared to be items that could easily be worked into the program's meal planning such as frozen turkey, diced tomatoes, green beans, and whole wheat pasta. Therefore, the District should ensure that the vendor maximizes cost savings by planning menus to use all available USDA commodities and should ensure the vendor uses commodities in a timely manner to reduce possible food waste.

## **Recommendations**

1. The District should thoroughly review its food service vendor invoices to ensure that amounts billed are accurate and in accordance with the terms of its contract.
2. The District should enforce the terms of its food service management contract, including ensuring it receives the guaranteed breakeven for fiscal year 2014 and at the end of each contract year, if applicable.
3. The District should consider options for increasing its breakfast program participation and/or reducing the program's costs.
4. The District should ensure that the vendor establishes additional food production controls to help reduce overproduction and waste.
5. The District should ensure that the vendor maximizes cost savings by planning menus to maximize usage of USDA commodities.



### District did not adequately oversee its transportation program

In fiscal year 2014, Snowflake USD contracted with a vendor to operate its transportation program, but the District failed to adequately oversee the program. The District did not perform adequate reviews of vendor billings to ensure it was charged in accordance with its contract, and it did not ensure that the vendor maintained records supporting the route mileage and number of riders reported for state funding purposes.

### District did not adequately review some vendor charges

Although the transportation vendor's invoices provided adequate detail for the District to review bus route charges, very limited detail was provided for bus maintenance services and fuel charges. The lack of detailed information made it impossible for the District to determine if it was charged correctly for these services, which totaled \$22,064 in fiscal year 2014. The District should work with the vendor to ensure monthly billings contain adequate detail to allow the District to review charges.

### Student transportation mileage and riders not supported

For state transportation funding, school districts are required to report to the Arizona Department of Education the actual miles driven to transport students to and from school and the number of eligible students transported. For fiscal year 2014, many of the detailed daily records completed by the vendor's drivers were missing key data such as identifying the route that was driven, the number of miles driven, or the number of riders transported and, in some cases, the daily records were missing altogether. Further, auditors identified many inconsistencies in the daily records that were available, such as variations in the mileage reported on different days for the same bus route. Additionally, the District did not maintain documentation summarizing the detailed daily logs to support the total number of miles and riders it reported for state funding purposes in fiscal year 2014. As a result, auditors were not able to determine whether the mileage and riders were accurately reported and consequently were unable to determine whether the District was funded appropriately. Tracking accurate mileage and rider counts would also assist the District in calculating performance measures such as cost per mile, cost per rider, or bus capacity usage and comparing such measures to peer districts'.

#### Recommendations

1. The District should require its transportation vendor to provide detailed billings so that it can carefully review vendor invoices to ensure that amounts billed for bus maintenance and fuel charges are accurate and in accordance with the terms of its agreement.
2. The District should work with its vendor to ensure that adequate records are prepared and maintained to accurately calculate and report miles driven and students transported for state funding purposes.







## Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of the Snowflake Unified School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation because of their effect on classroom dollars, as previously reported in the Office of the Auditor General's annual report, *Arizona School District Spending (Classroom Dollars report)*. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2014, was considered.<sup>2</sup> Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how it accounted for dollars spent in the classroom.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2014 summary accounting data for all districts and Snowflake USD's fiscal year 2014 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To compare districts' academic indicators, auditors developed a student achievement peer group using poverty as the primary factor because poverty has been shown to be associated with student achievement. Auditors also used secondary factors such as district type and location to further refine these groups. Snowflake USD's student achievement peer group includes Snowflake USD and the 17 other unified school districts that also served student populations with poverty rates between 20 and 27 percent in towns and rural areas. Auditors compared Snowflake USD's graduation rate and its student AIMS scores to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Snowflake USD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8 and 10 for math, reading, and writing, and grade levels 3 through 12 for science. Generally, auditors considered Snowflake USD's student AIMS scores and graduation rate to be similar if they were within 5 percentage points of peer averages, slightly higher/lower if they were within 6 to 10 percentage points of peer averages, higher/lower if they were within 11 to 15 percentage points of peer averages, and much higher/lower if they were more than 15 percentage points higher/lower than peer averages. In determining the District's overall student achievement level, auditors considered the differences in AIMS scores between Snowflake USD and its peers, as well as the District's graduation rate and Arizona Department of Education-assigned letter grade.<sup>3</sup>

To analyze Snowflake USD's operational efficiency in administration, plant operations, and food service, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes Snowflake USD and 22 other unified and union high school districts that also served between 2,000 and 7,999 students and were located in towns and rural areas. To analyze Snowflake USD's operational efficiency in transportation, auditors selected a group of peer districts based on their similarities in miles per rider and location. This transportation peer group includes Snowflake USD and 17 other school districts that also traveled between 210 and 259 miles per rider and were located in towns and rural areas. Auditors compared Snowflake USD's costs to its peer group averages. Generally, auditors considered Snowflake USD's costs to be

<sup>2</sup> Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with repaying debt, capital outlay (such as purchasing land, buildings, and equipment), and programs such as adult education and community service that are outside the scope of preschool through grade 12 education.

<sup>3</sup> The Arizona Department of Education's A-F Letter Grade Accountability System assigns letter grades primarily based on academic growth and the number of students passing AIMS.

similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 10 percent of peer averages, higher/lower if they were within 11 to 15 percent of peer averages, and much higher/lower if they were more than 15 percent higher/lower than peer averages. However, in determining the overall efficiency of Snowflake USD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as years of service by staff, square footage per student, and meal participation rates, as well as auditor observations and any unique or unusual challenges the District had. Additionally:

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2014 administration costs and compared them to peer districts'.
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the system such as data sensitivity, backup, and recovery.
- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2014 food service revenues and expenditures, including labor and food costs; compared costs to peer districts'; reviewed the Arizona Department of Education's food service-monitoring reports; reviewed point-of-sale system reports; and observed food service operations. Auditors also reviewed documents related to the District's contract with a food service management company to operate its food service program, including the contract and vendor invoices.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus routing. Auditors also reviewed fiscal year 2014 transportation costs and reviewed documents related to the District's contract with a transportation vendor to operate its transportation program, including the contract and vendor invoices.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2014 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2014 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 368 individuals who received payments in fiscal year 2014 through the District's payroll system and reviewed supporting documentation for 30 of the 4,943 fiscal year 2014 accounts payable transactions. No improper transactions were identified. Auditors also evaluated other internal controls that they considered significant to the audit objectives and reviewed fiscal year 2014 spending and prior years' spending trends across operational areas.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2014 expenditures to determine whether they were appropriate and if the District properly accounted for them. No issues of noncompliance were identified.

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

The Auditor General and her staff express their appreciation to the Snowflake Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

# DISTRICT RESPONSE



State of Arizona  
Office of the Auditor General  
2910 N. 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Re: Fiscal Year 2014 Performance Audit

Dear Ms. Davenport,

The Snowflake Unified School District respectfully submits our response to the Performance Audit conducted by the Auditor General's office for fiscal year 2014. We agree with the findings and recommendations. Our responses are attached.

The report provides us with recommendations that will help us to improve our district operations. We have already started to implement some of the recommended changes. We are also pleased that the report highlights many areas where the district performs well. This helps to validate our efforts to provide a quality educational experience for our students as well as our commitment to fiscal responsibility. The report shows that we have high student achievement, low administrative costs, and efficient plant operations.

We would like to thank you for the positive interactions we had with your staff throughout this process. They were professional, courteous, responsive, and provided us with valuable feedback and insight. The collaborative nature of the process between our employees and the Auditor General's office is appreciated.

Please do not hesitate to contact us with any questions or comments regarding our response.

Sincerely,

Hollis J. Merrell  
Superintendent

**Finding 1:** Inadequate controls increased risk of errors and fraud

District Response: Although there were no improper items detected in the auditor's review, we agree that there are areas of weakness that increase the risk of fraudulent activity. Efforts will be made to work with High School Administration regarding the Book Store.

**Recommendation 1:** The District should strengthen its controls over sales and inventory at its bookstore to reduce its risk of errors and fraud.

District Response: In accordance with this finding the district will be evaluating the feasibility of operating a book store and the implementation of new point of sale software and equipment. The purpose of the point of sale (POS) software will be to address weaknesses noted in the existing POS system and inventory control.

**Recommendation 2:** The District should review employees' access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction without independent review and approval and that employees have only the access necessary to meet their job responsibilities.

District Response: The District agrees with the evaluation of the user controls in the accounting system. Evaluations of job responsibilities have begun and changes have been made to individual profiles within the financial software. The district will identify employees that need to have critical access and to make appropriate changes to user access.

**Recommendation 3:** The District should develop and implement a formal process to ensure that terminated employees have their IT systems and network access promptly removed.

District Response: The District's IT Department now disables accounts as soon as the information is provided regarding the termination of an employee.

**Recommendation 4:** The District should eliminate unnecessary generic accounts in its network and properly control any remaining generic accounts.

District Response: The District is working to minimize the use of generic accounts. All accounts require logging in and are closely monitored.

**Recommendation 5:** The District should create a formal IT contingency plan and test it periodically to identify and remedy any deficiencies.

District Response: The District is working on the details of a written contingency plan and working to implement backup testing. This plan will be developed and implemented.

**Finding 2:** Insufficient district oversight of vendor may have led to high food service costs

District Response: The District agrees with this finding and has and will implement recommendations to address this finding.

**Recommendation 1:** The District should thoroughly review its food service vendor invoices to ensure that amounts billed are accurate and in accordance with the terms of its contract.

District Response: The District agrees that more efficient oversight should be provided of the Food Service Management Company's contract. In fiscal year 14, there were changes made to the definition of administrative fees in food service management contracts. Costs that were previously identified in other areas of the profit and loss statements were reclassified as administrative costs. The Food Service Management Company and the District were aware of these changes. The District will implement a tracking system of food costs and the district purchases and more fully evaluate the invoice for these costs.

**Recommendation 2:** The District should enforce the terms of its food service management contract, including ensuring it receives the guaranteed breakeven for fiscal year 2014 and at the end of each contract year, if applicable.

District Response: The District agrees with the Auditor General's finding based on the interpretation of the contract and all food service costs being included. The district will track all 510 costs as they relate to food service and work with the Food Service Contractor to have those costs included in the annual approved budget.

**Recommendation 3:** The District should consider options for increasing its breakfast program participation and/or reducing the program's costs.

District Response: The District agrees with the audit finding regarding low participation in the breakfast program at the Snowflake High School. Immediately upon the exit interview by the audit staff the district began working with the Food Service Contractor, labor hours for high school breakfast have been reduced. We will continue to evaluate serving options for High School breakfast.

**Recommendation 4:** The District should ensure that the vendor establishes additional food production controls to help reduce overproduction and waste.

District Response: The District agrees with this finding and will work with the Food Service Management Company to implement monthly trainings to teach staff efficient cooking methods such as batch cooking.

**Recommendation 5:** The District should ensure that the vendor maximizes cost savings by planning menus to maximize usage of USDA commodities.

District Response: The District is aggressive in its use of Department of Defense commodity program, the use of its full allocation and is an active user of surplus commodities. Training will be provided prior to the start of school FY 17 of the importance of first in first out inventory. Internal audits will be conducted by the Food Service Director regularly.

**Finding 3:** District did not adequately oversee its transportation program

District Response: The District agrees with this finding.

**Recommendation 1:** The District should require its transportation vendor to provide detailed billings so that it can carefully review vendor invoices to ensure that amounts billed for bus maintenance and fuel charges are accurate and in accordance with the terms of its agreement.

District Response: The District concurs with this finding and has begun implementing changes to the billing procedures with the third party contractor. The purpose will be to include greater detail to support the charges reflected on the monthly invoice. The miles driven and the labors had appropriate support changes to the other areas of the billing has been requested.

**Recommendation 2:** The District should work with its vendor to ensure that adequate records are prepared and maintained to accurately calculate and report miles driven and students transported for state funding purposes.

District Response: The District is implementing additional measures to strengthen our records summarizing the reported miles and riders. The District has begun work with the third party contractor to create an action plan that will address the areas of record keeping. The contractor and the district have committed to the following plan of action: 1. Collect time and mileage cards every day. 2. Return cards with any discrepancies for correction. 3. Compare miles driven to the Web Fleet Assistance software program. 4. Maintain a spreadsheet on a daily basis of the mileage. 5. Utilize and update the 100th Day report as provided by the district. The district will commit to weekly internal audits and require mileage log reports to be submitted for review with the monthly billing. It is important to note that the district moved to a third party contractor in 1990 and has operated in this fashion for the last 26 years. With the recent cuts to the District Additional Assistance (DAA) the purchase of large capital items has been a tremendous burden. After reductions to the DAA what is left is nearly the cost of one bus. Evaluations of running this operation more efficiently is restrictive in options. The district will continue to evaluate the option of bringing this operation in house and how it can purchase 17 buses.

