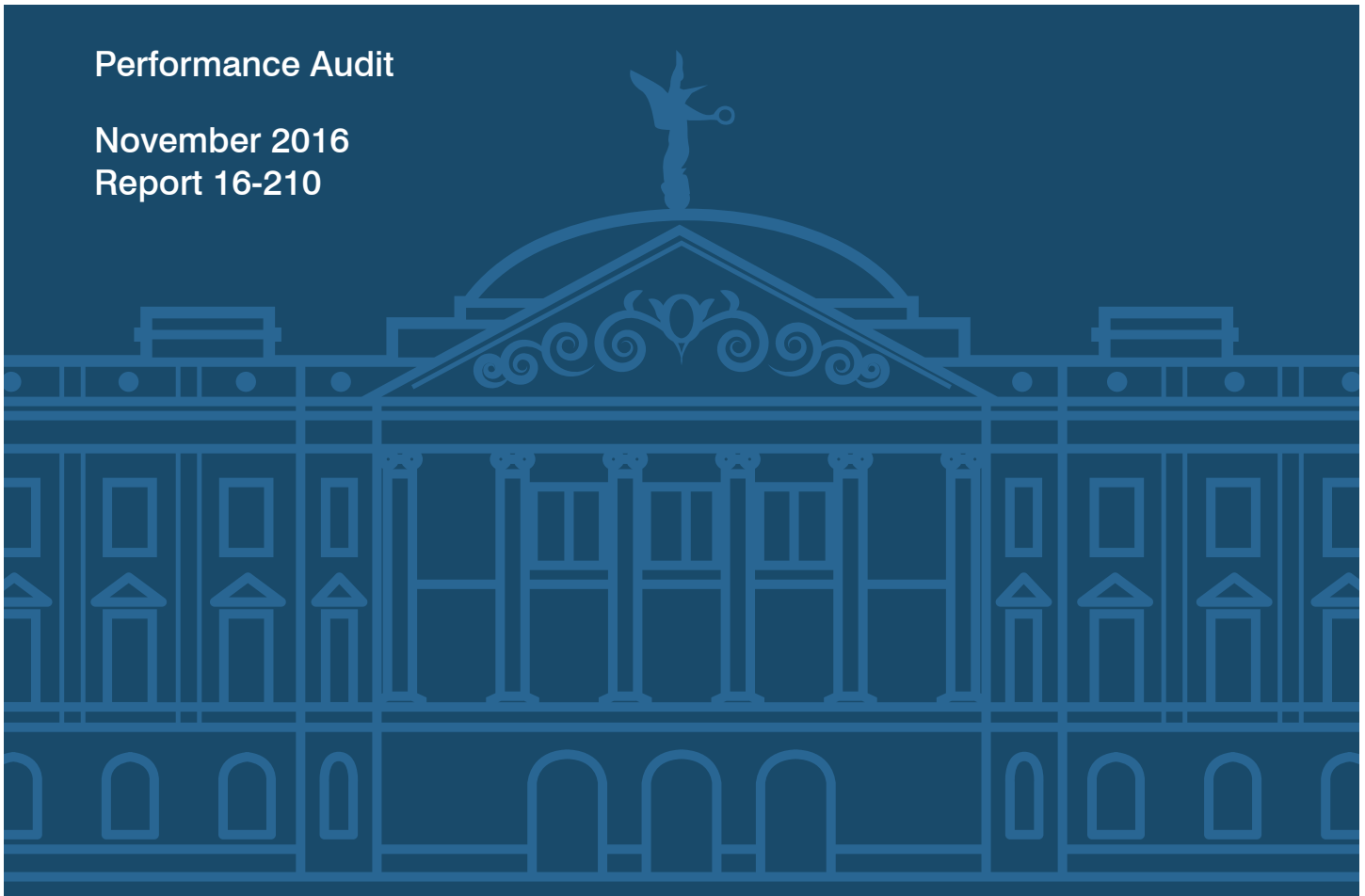


# Skull Valley Elementary School District

Performance Audit

November 2016

Report 16-210



A Report to the Arizona Legislature

Debra K. Davenport  
Auditor General





The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

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**STATE OF ARIZONA**  
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**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

November 7, 2016

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board  
Skull Valley Elementary School District

Ms. Vicki Hilliker, Principal  
Skull Valley Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Skull Valley Elementary 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 most 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



## Skull Valley Elementary School District

**CONCLUSION:** In fiscal year 2014, Skull Valley ESD's student test scores on Arizona's Instrument to Measure Standards (AIMS) were not compared to peer district averages because ten or fewer of the District's students took each section of the AIMS test. Although the District's noninstructional costs varied by area, with some costs higher and some costs lower than peer districts' averages, the District was reasonably efficient overall. The District's administrative cost per pupil was slightly lower than the peer districts' average primarily because it employed fewer administrative employees. However, the District needs to strengthen some of its accounting and computer controls. Skull Valley ESD's plant operations were reasonably efficient despite higher costs per square foot and per pupil. The District's costs were higher primarily because it had fewer square feet and students over which to spread more fixed-type costs, such as repair and maintenance of school buildings. In addition, the District's food service program was reasonably efficient despite a much higher cost per meal. The District's higher cost per meal was partly due to it serving 28 percent fewer meals per student than the peer districts, on average, and also because of higher salary and benefit costs resulting from the longevity of its only food service employee. Lastly, the District's transportation costs were mixed, with a much higher cost per mile but lower cost per rider than the peer districts' averages because the District transported its riders fewer miles, on average, than the peer districts. However, Skull Valley ESD was one of three districts that claimed the same route mileage for transportation funding after a law change prohibited this practice.

### Student achievement and operational efficiency

**Student achievement**—In fiscal year 2014, Skull Valley ESD's student AIMS test scores were not compared to peer district averages because ten or fewer of the District's students took each section of the AIMS test. Under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of B. Two of the seven peer districts that received letter grades also received Bs, two received As, two received Cs, and one received a D.

**Reasonably efficient operations overall**—Based on our review of various performance measures, Skull Valley ESD operated in a reasonably efficient manner overall in fiscal year 2014. The District's administrative cost per pupil was slightly lower than the peer districts' average primarily because it employed fewer administrative staff. The District's plant operations were reasonably efficient despite higher costs per square foot and per student. The District's costs were higher primarily because it had fewer square feet and students over which to spread more fixed-type costs, such as repair and maintenance of school buildings. In addition, although the District's food service program operated with a much higher cost per meal than the peer districts' average, the program was reasonably efficient. Lastly, the District's transportation costs were mixed, with a much higher cost per mile and lower cost per rider because the District transported its riders fewer miles, on average, than the peer districts.

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

	Skull Valley ESD	Peer group average
Administration	\$2,525	\$2,835
Plant operations	3,331	2,137
Food service	1,659	901
Transportation	1,103	1,072

### Some accounting and computer controls need strengthening

**Inadequate purchasing and cash-handling controls**—The District did not always require proper approval prior to purchases being made. We reviewed 30 fiscal year 2014 purchases and found that 19 purchases were made without prior approval. Further, the District did not have proper controls in place to ensure that all monies received were properly accounted for. More specifically, the District did not always issue receipts for cash collected, and cash collections were

not adequately safeguarded by storing them in a locking drawer or safe until they could be deposited. In addition, one district employee received and deposited food service cash and reconciled the food service bank account without an independent review.

**Weak password requirements**—In fiscal year 2014, the District did not have password requirements for its computer network and student information system. Specifically, the passwords lacked length and complexity requirements—that is, passwords could be short and did not need to contain numbers or symbols. Additionally, the passwords were set to never expire, and because of the District’s very small size, some employees shared network passwords with each other.

### Recommendations

The District should:

- Ensure that all purchases are properly approved before the purchases are made.
- Implement proper cash-handling controls by issuing receipts for all monies collected, properly safeguarding cash until it is deposited, and having a second employee reconcile or review cash deposits.
- Implement and enforce password requirements related to password length, complexity, and expiration, and only the user should know his/her password.

## Multiple districts claimed same route mileage for transportation funding after law change prohibited practice

As an elementary school district not located within a high school district and because the District did not have a middle school, Skull Valley ESD paid two neighboring districts to transport the middle and high school students living within Skull Valley ESD boundaries to and from a nearby unified school district. Skull Valley ESD and the other two elementary school districts each received transportation funding for the route miles associated with transporting Skull Valley ESD’s middle and high school riders. Although this practice was allowed by law in fiscal year 2014, beginning in fiscal year 2015, a statutory change prohibited more than one district from claiming the same miles for funding. Despite this change, since fiscal year 2014, Skull Valley ESD continued to receive funding associated with its middle and high school students even though at least one of the other elementary districts also received transportation funding for these miles. Because the other elementary school districts used existing bus routes and did not drive additional miles to transport Skull Valley ESD students, Skull Valley ESD should not have continued to report these miles for funding purposes.

### Recommendation

To ensure that no more than one school district reports the same transportation miles for funding purposes, the District should no longer report miles for funding purposes that other school districts drove to transport Skull Valley ESD middle and high school students.



# TABLE OF CONTENTS

<b>District Overview</b>	1
Student achievement	1
Operations were reasonably efficient overall	1
<b>Finding 1: Some accounting and computer controls need strengthening</b>	3
Inadequate accounting controls	3
Weak password requirements	3
Recommendations	4
<b>Finding 2: Multiple districts claimed same route mileage for transportation funding after law change prohibited practice</b>	5
Recommendation	5
<b>Appendix: Objectives, scope, and methodology</b>	a-1
<b>District Response</b>	
<b>Table</b>	
1 Comparison of per pupil expenditures by operational area	
Fiscal year	
2014	2
(Unaudited)	







## DISTRICT OVERVIEW

Skull Valley Elementary School District is a rural district located about 20 miles west of Prescott in Yavapai County. In fiscal year 2014, the District served 21 students in kindergarten through 5th grade at its one school.

In fiscal year 2014, Skull Valley ESD's student test scores on Arizona's Instrument to Measure Standards (AIMS) were not compared to peer district averages because ten or fewer of the District's students took each section of the AIMS test.<sup>1</sup> Although the District's noninstructional costs varied by area, with some costs higher and some costs lower than peer districts' averages, the District was reasonably efficient overall. However, the District should strengthen some of its accounting and computer controls and ensure it properly reports its student transportation mileage for funding purposes.

### Student achievement

In fiscal year 2014, ten or fewer of Skull Valley ESD's students took each section of the AIMS test. In order to maintain students' anonymity, auditors did not report the District's test scores or compare them to peer districts' scores. Under the Arizona Department of Education's A-F Letter Grade Accountability System, Skull Valley ESD received an overall letter grade of B for fiscal year 2014. Two of the seven peer districts that received letter grades also received Bs, two received As, two received Cs, and one received a D.

### Operations were reasonably efficient overall

As shown in Table 1 on page 2, in fiscal year 2014, Skull Valley ESD spent \$3,125 more per pupil than its peer districts, on average. The District was able to spend more than its peer districts because it received more Maintenance and Operations Fund monies per pupil, including more monies received for student transportation, and because it budgeted and received more in small school adjustment monies per pupil.<sup>2</sup> Although much of the District's higher spending occurred outside of the classroom, its operations were reasonably efficient overall based on auditors' review of various fiscal year 2014 performance measures.

**Slightly lower administrative costs, but some improvements needed**—Skull Valley ESD's \$2,525 administrative cost per pupil was 11 percent lower than the peer districts' \$2,835 average. The District spent slightly less on administration primarily because it operated with only two part-time administrative employees. The District was able to employ so few administrative employees because, like many of the very small school districts in Yavapai County, most of Skull Valley ESD's business office functions, such as recording payroll and purchasing transactions, were performed by the Yavapai County Education Service Agency at a total cost of about \$1,100 for fiscal year 2014. Similarly sized school districts in some other counties employed more administrative employees because similar services were not always available within their counties. For example, six very small recently audited school districts in a southern Arizona county employed an average of 2.4 administrative full-time positions, including positions that provided business office functions. Despite the slightly lower administrative costs, the District should strengthen some of its accounting and computer controls (see Finding 1, page 3).

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

<sup>2</sup> Arizona Revised Statutes §15-949 allows school districts with 125 or fewer students in kindergarten through eighth grade to increase their expenditure budget limits based on need as determined by school districts' governing boards, without voter approval. Statute does not limit the amount of the small school adjustment.

**Higher plant operations costs primarily because of small size**

—Although Skull Valley ESD’s plant operations costs were 56 percent higher per pupil and 23 percent higher per square foot, the District’s plant operations were reasonably efficient. The District maintained 75 percent fewer square feet than the peer districts, on average, and served 77 percent fewer students. Therefore, more fixed-type costs, such as repair and maintenance of school buildings, are spread across fewer square feet and students when calculating plant operations cost measures. Additionally, during fiscal year 2014, the District had to outsource some infrequently occurring repairs to its plumbing and other equipment because it did not employ any skilled maintenance staff. Further, auditors observed the District’s facilities and plant operations activities and did not identify any overstaffing, unusually high salaries, or wastes of resources, such as excessive or unneeded heating or cooling of buildings.

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

Spending	Skull Valley ESD	Peer group average	State average
Total per pupil	\$19,226	\$16,101	\$7,578
Classroom dollars	9,602	8,231	4,073
Nonclassroom dollars			
Administration	2,525	2,835	757
Plant operations	3,331	2,137	923
Food service	1,659	901	405
Transportation	1,103	1,072	373
Student support	587	536	600
Instruction support	419	389	447

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

**Reasonably efficient food service program despite much higher costs**

—Although Skull Valley ESD’s \$11.19 cost per meal was much higher than the peer districts’ \$5.02 average, the District’s food service program was reasonably efficient. The District’s higher cost per meal was partly due to it serving 28 percent fewer meals per student than the peer districts, on average. Additionally, the District’s food service costs were high because it paid higher salary and benefit costs resulting from the longevity of its only food service employee, who the District had employed for over 40 years. Although the District’s food service costs were high, it operated the program with only one part-time food service employee, while the peer districts providing food service programs employed an average of 1.4 full-time positions.

**Transportation program reasonably efficient, but some improvements needed**

—In fiscal year 2014, Skull Valley ESD’s \$2.52 cost per mile was 57 percent higher than the peer districts’ average, and its cost per rider was 22 percent lower. The District’s transportation costs were mixed primarily because it transported its riders fewer miles, on average, than the peer districts. Overall, the District’s transportation program was reasonably efficient, operating one bus route and employing one part-time bus driver. Further, as an elementary district not located within a high school district, and because the District did not have a middle school, Skull Valley ESD paid two neighboring districts to transport the middle school and high school students living within Skull Valley ESD boundaries to and from a nearby unified school district. Skull Valley ESD and the other two elementary districts all received transportation funding for the route miles associated with transporting Skull Valley ESD’s middle school and high school riders. Although this practice was allowed by law in fiscal year 2014, beginning in fiscal year 2015, a statutory change required that no more than one district can claim miles for funding. Despite this change, since fiscal year 2014 Skull Valley ESD and at least one of the neighboring elementary districts each have continued to claim the miles associated with Skull Valley ESD middle school and high school students for funding purposes (see Finding 2, page 5).



## Some accounting and computer controls need strengthening

In fiscal year 2014, Skull Valley ESD lacked adequate controls over purchasing, cash handling, and its computer network and student information system. Although no improper transactions were detected in the items auditors reviewed, these poor controls exposed the District to an increased risk of errors, fraud, and misuse of sensitive information.

### Inadequate accounting controls

Skull Valley ESD's procedures for purchasing and cash handling should be strengthened. The District did not always require proper approval prior to purchases being made and did not have adequate controls to safeguard cash collections.

**Some purchases lacked proper approval**—The District needs to strengthen its purchasing controls to ensure that all purchases are properly approved prior to being made. Auditors examined 30 fiscal year 2014 purchases and found that 19 of the 30 purchases were made without prior approval. Although no inappropriate purchases were detected in the items reviewed, the District should ensure that all purchases are properly approved prior to being made, as required by the *Uniform System of Financial Records for Arizona School Districts (USFR)*. Although the District is very small, it has adequate staffing to ensure proper approval. For example, the District's administrative assistant could prepare purchase orders and have them approved by an authorized employee, such as the District's principal, prior to ordering goods or services. This helps ensure that the District has adequate budget capacity and that expenditures are appropriate and properly supported.

**Cash-handling controls need strengthening**—The District receives cash for various purposes, including payments for student meals, fund-raisers, and tax credits. Auditors reviewed the District's cash-handling procedures along with four months of fiscal year 2014 cash deposits and found that the District did not have proper controls in place to ensure that all monies received were properly accounted for. Specifically, the District did not always issue receipts for cash collected, and cash collections were not adequately safeguarded by storing them in a locking drawer or safe until they could be deposited. In addition, one district employee received and deposited food service cash and reconciled the food service bank account without an independent review. Because of the high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash. As required by the USFR, evidence of receipt should be prepared for each cash payment received, such as using prenumbered cash receipts to support monies collected. Additionally, the District should better safeguard monies received by securing them in a safe, locked box, or locked cabinet. Lastly, a second employee, such as the District's head teacher or administrative assistant, should match the receipts to deposited amounts.

### Weak password requirements

In fiscal year 2014, the District did not have password requirements for its computer network and student information system. Although users developed their own passwords, the passwords lacked length and complexity requirements—that is, passwords could be short and did not need to contain numbers or symbols. Additionally, the passwords were set to never expire, and because of the District's very small size, some employees shared

network passwords with each other. Common guidelines for strong passwords recommend that passwords be at least eight characters in length; contain a combination of lowercase and uppercase alphabetic characters, numbers, and symbols if permitted by the system; and be changed periodically. Additionally, users should not share their passwords with each other. These practices would decrease the risk of unauthorized persons gaining access to the District's network and student information system.

## **Recommendations**

1. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.
2. The District should implement proper controls over its cash receipts by preparing and issuing prenumbered cash receipts for all monies collected, properly safeguarding cash prior to deposit, and having a second employee reconcile or review the reconciliations of issued receipt amounts to actual deposits.
3. The District should implement and enforce password requirements related to password length, complexity, and expiration, and only the user should know his/her password.



# Multiple districts claimed same route mileage for transportation funding after law change prohibited practice

Despite a law change prohibiting the practice effective in fiscal year 2015, Skull Valley ESD continued to claim the route mileage that other districts also claimed for transporting Skull Valley ESD's middle and high school students. In fiscal year 2014, as allowed by law, Skull Valley ESD and two neighboring elementary school districts each submitted transportation mileage reports to the Arizona Department of Education (ADE) for funding for some of the same miles. Districts receive student transportation funding based on a formula that uses primarily the number of route miles traveled and secondarily the number of eligible students transported.

As an elementary school district not located within a high school district, Skull Valley ESD had to provide transportation to a high school located in a neighboring unified district for the high school students living within its boundaries. In addition, the District did not have a middle school, so it also had to provide transportation to the same neighboring unified district for the middle school students living within its boundaries. However, the District did not have a bus to transport these students. Therefore, the District contracted with two nearby elementary districts to transport its middle and high school students. One of the nearby elementary districts transported Skull Valley ESD's students to the neighboring unified district in the morning, and the other elementary district transported those students back home in the afternoon. The two elementary districts used their own existing bus routes, which already passed through Skull Valley ESD's boundaries, to transport these middle and high school students.

In fiscal year 2014, Skull Valley ESD and the two neighboring elementary districts each reported to ADE the route miles driven to transport Skull Valley ESD students because students from both Skull Valley ESD and the elementary district providing the transportation were on the buses at the same time. Although this practice was allowed by law in fiscal year 2014, it resulted in state and local taxpayers funding the same miles for more than one school district. However, effective July 1, 2014, Arizona Revised Statutes §15-923 was revised to prohibit more than one district from claiming the same transportation miles for funding purposes. In fiscal years 2015 and 2016, Skull Valley ESD continued to receive funding associated with its middle and high school students even though at least one of the other elementary districts also received transportation funding for these miles. Because the other elementary school districts used existing bus routes and did not drive additional miles to transport Skull Valley ESD students, Skull Valley ESD should not have continued to report these miles for funding purposes. Although the District incorrectly reported these miles, this did not affect the amount of transportation funding it received in fiscal years 2015 and 2016 because transportation funding does not decrease for year-to-year decreases in mileage.

### Recommendation

To ensure that no more than one school district reports the same transportation miles for funding purposes, the District should no longer report miles for funding purposes that other school districts drove to transport Skull Valley ESD middle and high school students.





## Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of the Skull Valley Elementary 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>3</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.

For very small districts, such as Skull Valley ESD, increasing or decreasing student enrollment by just five or ten students, or employing even one additional part-time position can dramatically impact the district's costs per pupil in any given year. As a result and as noted in the fiscal year 2014 *Classroom Dollars* report, spending patterns of very small districts are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of Skull Valley ESD's operations, less weight was given to various cost measures, and more weight was given to auditor observations made at Skull Valley ESD.

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 Skull Valley ESD'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. Skull Valley ESD's student achievement peer group includes Skull Valley ESD and the eight other elementary school districts that also served student populations with poverty rates less than 17 percent in towns and rural areas. Auditors did not compare Skull Valley ESD's student AIMS scores to those of its peer group averages because ten or fewer of the District's students were tested in each of the test sections, and reporting these students' test scores could jeopardize their anonymity. However, auditors did report the District's Arizona Department of Education-assigned letter grade.<sup>4</sup>

To analyze Skull Valley ESD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size and location. This operational peer group includes Skull Valley ESD and 39 other school districts that also served fewer than 200 students and were located in towns and rural areas. Auditors compared Skull Valley ESD's costs to its peer group averages. Generally, auditors considered Skull Valley ESD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 15 percent of peer averages, higher/lower if they were within 16 to 30 percent of peer averages, and much higher/lower if they were more than 30 percent higher/lower than peer averages. However, in determining the overall efficiency of

<sup>3</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>4</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.



Skull Valley ESD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as square footage per student, meal participation rates, and bus capacity utilization, as well as auditor observations and any unique or unusual challenges the District had. Additionally:

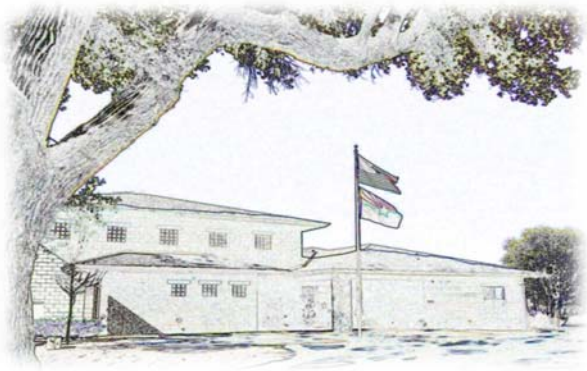
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2014 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for all 12 individuals who received payments in fiscal year 2014 through the District's payroll system and reviewed supporting documentation for 30 of the 899 fiscal year 2014 accounts payable transactions. No improper transactions were identified. Auditors also evaluated other internal controls that were 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'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 transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, and bus maintenance and safety records. Auditors also reviewed fiscal year 2014 transportation costs and compared them to peer districts'.
- 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 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; and observed food service operations.
- 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 Skull Valley Elementary School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.



# DISTRICT RESPONSE



Skull Valley Elementary School  
Post Office Box 127  
3150 Old Skull Valley Rd.  
Skull Valley, AZ 86338  
928-442-3322

*Where Students Come First*

September 29, 2016

This is a response to the preliminary report draft of the Skull Valley School District performance audit for Fiscal Year 2014. The audit was useful to our district, because it helped us to evaluate our policies and procedures. In most instances, we agree with the findings and recommendations. Attached you will find the official response form.

Thank you,

Vicki Hilliker, District Administrator

## **Finding 1:** Some accounting and computer controls need strengthening

District Response: The district agrees with the finding. Recommendations 1 & 2 will be implemented, and Recommendation 3 will be modified for implementation.

**Recommendation 1:** The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.

District Response: Prior to the audit, SVESD procedures for purchases and cash handling were not adequately controlled, according to the audit. Purchases were often made without a purchase order. Of course, there were no inappropriate purchases or even a hint that the purchases had not been approved, and our district has never exceeded its budget in any way. However, our office lacked the physical evidence of purchase orders showing independent authorization for purchases. After being advised by the auditors during the months of the audit, we began to utilize purchase orders more widely, and there is now an approval and purchase order for every qualifying purchase.

**Recommendation 2:** The District should implement proper controls over its cash receipts by preparing and issuing prenumbered cash receipts for all monies collected, properly safeguarding cash prior to deposit, and having a second employee reconcile or review the reconciliations of issued receipt amounts to actual deposits.

District Response: Cash is being handled much more carefully since our district's audit. The cash that is handled in our district usually is limited to lunch money (under \$50 per week) and fees for field trips (under \$100 per year). There was more money handled during the FY14 year for which we were audited because of a special trip in which families were involved, but that was an unusual circumstance. Since the audit, we have developed procedures to issue receipts for cash collections, keep cash in a locked storeroom or a locked cabinet, and have two staff members count cash before deposit and reconcile with issued receipts.

**Recommendation 3:** The District should implement and enforce password requirements related to password length, complexity, and expiration, and only the user should know his/her password.

District Response: During the audit, we discussed password requirements at length with the auditors. The district did not have password requirements for staff users. The auditors recommended that we enforce password requirements for length, complexity, and expiration. I believe that part of this concern is that student hackers have been known to access high school computers for nefarious purposes. The fact that we are a K-6 school, and that our students are always supervised makes that concern irrelevant, leaving only the concern about staff members accessing one another's files. Challenges to implementing the auditors' recommendations include the fact that we do not have an on-site IT person, where most districts have an IT department that keeps track of users and their passwords. We contract our IT services, so we generally have access to that person only about 7 or 8 days per year. It might seem reasonable that because we lack an IT department, the district administrator or designee be required to act in that capacity as the keeper and enforcer of passwords. However, our district administrator is part-time and is not always present on campus. In addition, the auditors had a problem with only one person on our staff knowing one other person's password. They were quite disturbed by the fact that the district administrator and her assistant shared passwords to their computers – in our district, we feel that this is a safety issue. When the part-time

administrator is not available, her assistant can, if necessary, access files. Another way to address the safety issue would be to duplicate sensitive information which is kept in the district administrator's computer files to the administrative assistant's computer, but that seems to defeat the purpose of security entirely. Redundant files on two computers would be considerably less secure than having one other staff member able to access the files. Another issue the auditors addressed was expiration of passwords. Our IT contractor believes, as do we, that having very short lives for complex passwords leads to writing them down, which is much less secure than memorized passwords. We are working on finding reasonable and workable solutions to these problems. Since the audit, we have strengthened our password requirements related to password length and complexity. In addition, we have begun developing requirements that are reasonable for a staff as small as ours.

**Finding 2:** Multiple districts claimed same route mileage for transportation funding after law change prohibited practice

District Response: The district agrees with the finding and the recommendation.

**Recommendation 1:** To ensure that no more than one school district reports the same transportation miles for funding purposes, the District should no longer report miles for funding purposes that other school districts drove to transport Skull Valley ESD middle and high school students.

District Response: Skull Valley ESD's audit was for the FY14 school year, the last year during which this practice was allowed. Our district contracted routes for our high school students for which we paid a per-student fee. Reason dictates that we would be allowed to claim the students and the miles when we were paying for their tuition and their transportation. I have a concern regarding the auditor's statement that neighboring districts cannot claim the same route miles; the fact is that neighboring districts' buses travel the same roads. There is one main road to Prescott from Yarnell, Kirkland, and Skull Valley. Driving three buses to Prescott means that three districts would claim the miles, although the miles would be for different students. Since our three districts all have to transport high school students to Prescott, those miles will be claimed for all of the students. In the past, the contracted district claimed those miles only for its students, and we claimed the miles only for our students. All of the students must travel the same road to get to the high school. Using three buses to drive this road seems to be a waste of taxpayer money, and therefore we chose to contract our transportation. This is the reason that claiming those miles was our standard practice in the past. Because this was legal and standard practice during the audit year, we were very surprised that this would be a finding in the audit. We were unaware of the rule change for the FY15 year, and the FY16 report was completed before we learned of the rule change, but the practice has now ceased and will not be repeated. There will be no overlaps in route mileage in the future.

