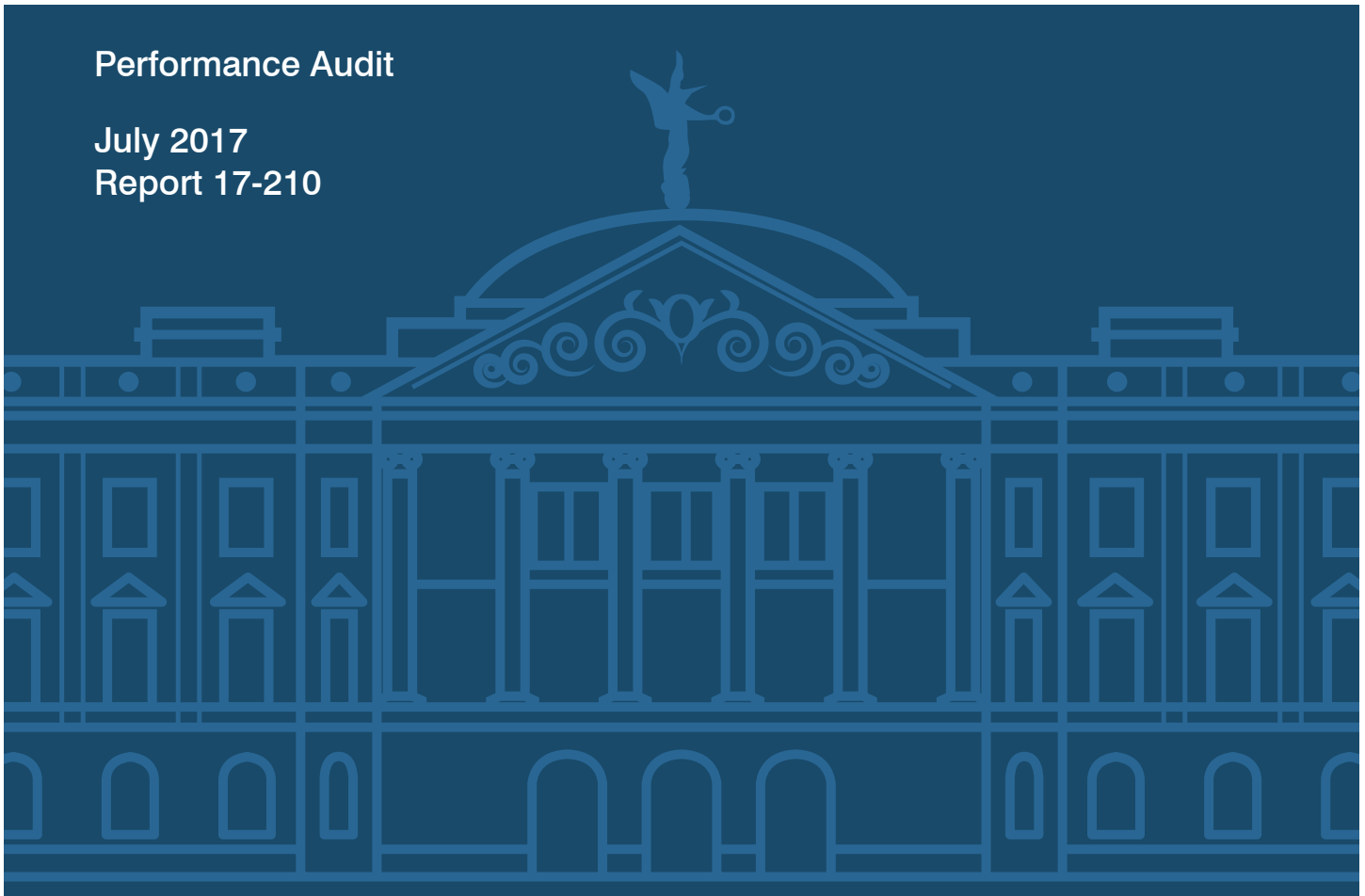


Tuba City Unified School District

Performance Audit

July 2017
Report 17-210



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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July 13, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Tuba City Unified School District

Ms. Sharlene Navaho, Interim Superintendent
Tuba City Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Tuba City 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



Tuba City Unified School District

CONCLUSION: In fiscal year 2015, Tuba City USD's student achievement was lower than the peer districts', and it operated with much higher per pupil costs in most noninstructional areas. Specifically, the District's administrative costs were much higher than the peer districts' average primarily because of higher staffing. In addition, the District needs to strengthen its accounting and computer controls. The District's plant operations costs per square foot and per pupil were much higher than the peer districts' averages, and it operated most of its schools at far below their designed capacities. The District's food service program operated efficiently with a lower cost per meal than the peer districts', on average. Finally, although the District's transportation costs per mile and per rider were much higher than the peer districts' averages, its bus routes were efficient. However, the District lacked adequate documentation to show that its bus drivers met all the State's certification requirements, it could not demonstrate that its buses received required preventative maintenance in a timely manner, and it did not accurately report its number of riders to the Arizona Department of Education for funding purposes.

Lower student achievement and operations were inefficient

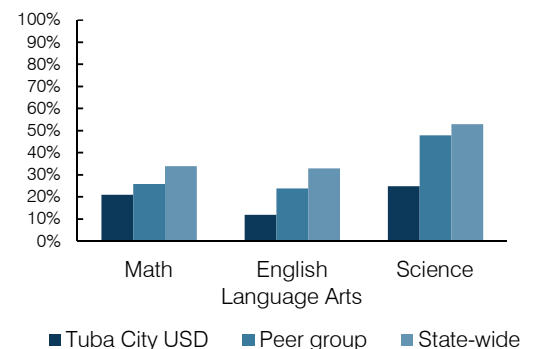
Student achievement lower than the peer districts'—In fiscal year 2015, Tuba City USD's student test scores were similar in math, lower in English language arts, and much lower in science when compared to the peer districts' averages. The District's 68 percent graduation rate in fiscal year 2015 was lower than both the peer districts' 80 percent average and the State's average of 76 percent.

Costs much higher in most operational areas— In fiscal year 2015, Tuba City USD's administrative costs were much higher primarily because of higher staffing. The District's plant operations costs per square foot and per pupil were much higher than the peer districts' averages because the District maintained more square feet per student, and it operated most of its schools far below their designed capacities. The District's food service program operated efficiently with a cost per meal that was lower than the peer districts' average. Finally, the District's transportation costs per mile and per rider were much higher than the peer districts' averages partly because the District operated more bus routes than the peer districts', on average.

Much higher administrative costs

In fiscal year 2015, Tuba City USD's administrative costs per pupil were 65 percent higher than the peer districts' average primarily because it had higher administrative staffing. More specifically, Tuba City USD employed one administrative full-time equivalent (FTE) position for every 44 students while six recently audited peer districts averaged one administrative FTE for every 67 students. The District's staffing levels were higher because it employed more principals; administrative technology positions, such as computer technicians; and business support positions, such as accounts payable clerks, payroll clerks, and warehouse employees.

Percentage of students who met or exceeded state standards
 Fiscal year 2015



Comparison of per pupil expenditures by operational area
 Fiscal year 2015

	Tuba City USD	Peer group average
Administration	\$2,164	\$1,311
Plant operations	2,674	1,483
Food service	660	476
Transportation	993	635

Recommendation

The District should determine and implement ways to reduce administrative costs.

District lacked adequate accounting and computer controls

Accounting controls—The District had an increased risk of errors and fraud because it did not sufficiently separate its payroll and personnel functions. In addition, the District did not always follow proper procurement rules. In fiscal year 2015, the District paid over \$89,000 for financial management services without obtaining written price quotations as the *Uniform System of Financial Records for Arizona School Districts* requires. Further, the District lacked adequate cash-handling controls to ensure that all monies received were properly accounted for. More specifically, the District did not track all student fees to ensure that it received all cash that was collected, ensure receipts were issued for all cash collected, safeguard receipt books by locking them in a cabinet or safe, and ensure the separation of cash collection duties at the District's business office. During the audit, a school site employee admitted to taking \$345 in student fees that the employee had collected in fiscal year 2016.

Computer controls—The District lacked adequate password requirements for access to its computer network. In addition, five of ten accounting system users we reviewed had more access to the accounting system than they needed to perform their job duties. Further, we found seven network user accounts and one accounting system user account with administrator-level access that may not require this level of access. Administrator-level access allows the user full control over computer network and system settings. Lastly, the District lacked adequate procedures for removing access to its network and critical systems, it had one wireless network that was not encrypted, meaning that unauthorized users could detect sensitive data that was transmitted over the network, and its IT contingency plan was incomplete.

Recommendations

The District should:

- Separate its payroll and personnel functions, ensure it follows all procurement rules, and implement proper cash handling controls.
- Implement proper controls over its computer network and accounting system and review its IT contingency plan to ensure it is complete.

High plant operations costs primarily for excess building space

In fiscal year 2015, Tuba City USD's plant operations cost per square foot was 23 percent higher than the peer districts' average, and its cost per pupil was 80 percent higher because it maintained a large amount of excess building space. As a result, the District spent more of its available operating dollars for plant operations, leaving it less money to spend in the classroom. Tuba City USD's schools operated at just 31 percent of capacity, on average, in fiscal year 2015. Maintaining more building space is costly to the District because the majority of its funding is based on its number of students, not the amount of square footage it maintains. To its credit, the District demolished its intermediate school, which was designed to hold almost 800 students, and is replacing it with a small 600-student capacity elementary school. However, given the large amount of remaining excess building space noted above, the District should continue to look for ways to further reduce its excess building space.

Recommendation

The District should continue to review the use of space at its schools and implement ways to reduce identified excess space.

Transportation oversight needs strengthening

In fiscal year 2015, Tuba City USD lacked adequate documentation to show that its bus drivers met all certification requirements and its bus preventative maintenance was performed in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers*. In addition, the District misreported the number of students it transported for state funding purposes.

Recommendation

The District should ensure that bus driver certification and bus preventative maintenance requirements are met and that it accurately calculates and reports its number of students transported for funding purposes.



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DISTRICT OVERVIEW

Tuba City Unified School District is a geographically large, rural district covering over 3,400 square miles located on the Navajo Nation in Coconino County. In fiscal year 2015, the District served 1,579 students in kindergarten through 12th grade at its seven schools.

In fiscal year 2015, Tuba City USD's student achievement was lower than the peer districts' averages, and the District operated with much higher costs in most noninstructional areas.¹ Although the District's food service program was reasonably efficient, its administration, plant operations, and transportation programs operated with costs that were much higher than peer districts' averages. In addition to identifying potential opportunities for greater efficiency, auditors identified some other areas for improvement.

Student achievement lower than peer districts'

In fiscal year 2015, 21 percent of the District's students met or exceeded state standards in math, 12 percent in English language arts, and 25 percent in science. As shown in Figure 1, these scores were similar to the peer districts' averages for math, lower for English language arts, and much lower for science. The District's 68 percent graduation rate in fiscal year 2015 was lower than both the peer districts' 80 percent average and the State's average of 76 percent.

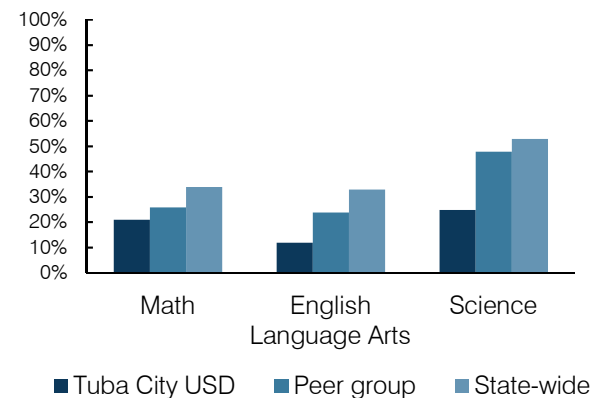
Most operational costs much higher than peer districts'

As shown in Table 1 on page 2, in fiscal year 2015, Tuba City USD spent \$14,586 per pupil, which was \$4,647 more than the peer districts' average. The District was able to spend more per pupil because it received more federal funding than the peer districts, including more federal impact aid because of its location on the Navajo Nation and more federal grant money because of its higher poverty level. However, although Tuba City USD spent \$4,647 more per pupil in total than the peer districts' average, it spent only \$1,089 more per pupil in the classroom and spent the remainder in noninstructional areas, which resulted in higher costs in these areas compared to peer district averages.

Much higher administrative costs—At \$2,164 per pupil, Tuba City USD's administrative costs per pupil were 65 percent higher than the peer districts' \$1,311 average. Tuba City USD spent more on administration primarily because it had higher administrative staffing. Additionally, the District needs to strengthen its accounting and computer controls (see Finding 1, page 3).

Figure 1
Percentage of students who met or exceeded state standards
Fiscal year 2015

(Unaudited)



Source: Auditor General staff analysis of fiscal year 2015 test results on Arizona's Measurement of Educational Readiness to Inform Teaching (AzMERIT) and Arizona's Instrument to Measure Standards (AIMS).

¹ 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 higher plant operations costs primarily because of excess building space—

Tuba City USD’s \$6.60 plant operations cost per square foot was 23 percent higher than the peer districts’ \$5.37 average, and its cost per pupil was 80 percent higher than the peer districts’ average. The District’s plant operations costs were higher primarily because it maintained 48 percent more square feet per student than the peer districts averaged. This additional square footage likely was not needed because Tuba City USD operated most of its schools far below their designed capacities (see Finding 2, page 9).

Reasonably efficient food service program—

Although the District’s food service cost per pupil was much higher than the peer districts’ average, its \$2.96 cost per meal was 13 percent lower than the peer districts’ \$3.41 average. The District’s cost per pupil was high because it served 58 percent more meals per pupil than the peer districts, on average. The District kept its cost per meal lower partly because of favorable terms with its food service vendor, including paying much lower salary and benefit costs per meal and slightly lower food and supply costs per meal than the peer districts, on average.

Much higher transportation costs—

In fiscal year 2015, Tuba City USD’s \$2.90 cost per mile was 31 percent higher than the peer districts’ average, and its \$2,081 cost per rider was 50 percent higher. The District’s costs were much higher than the peer districts’ averages partly because Tuba City USD ran a larger transportation program overall. Specifically, it operated 19 percent more bus routes than the peer districts, on average, because the District’s boundaries covered more than twice as many square miles as the peer districts, on average. Despite the much higher costs, the District operated efficient bus routes, filling buses to an average of 81 percent of seat capacity for its regular education routes. However, the District lacked adequate documentation to show that its bus drivers met all the State’s certification requirements, it could not demonstrate that its buses received required preventative maintenance in a timely manner, and it did not accurately report its fiscal year 2015 number of riders to the Arizona Department of Education for funding purposes (see Finding 3, page 11).

Table 1
Comparison of per pupil expenditures by operational area
Fiscal year 2015
 (Unaudited)

Spending	Tuba City USD	Peer group average	State average
Total per pupil	\$14,586	\$9,939	\$7,658
Classroom dollars	5,901	4,812	4,105
Nonclassroom dollars			
Administration	2,164	1,311	780
Plant operations	2,674	1,483	930
Food service	660	476	417
Transportation	993	635	371
Student support	1,589	747	613
Instruction support	605	475	442

Source: Auditor General staff analysis of fiscal year 2015 Arizona Department of Education student membership data and district-reported accounting data.

District had higher administrative costs and lacked adequate accounting and computer controls

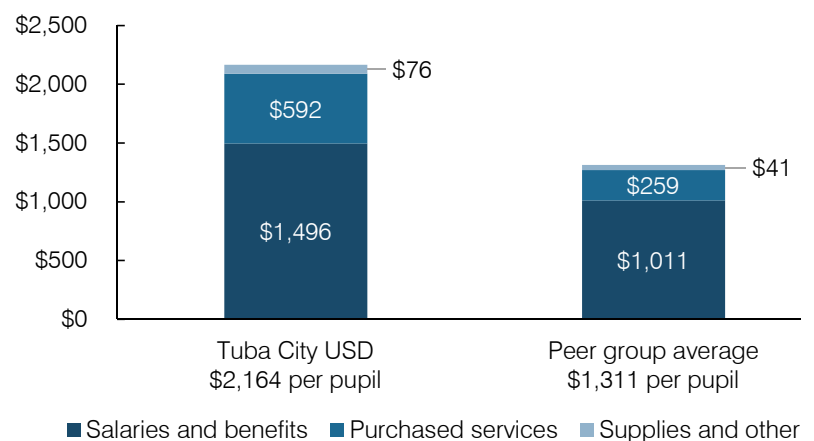
In fiscal year 2015, Tuba City USD’s administrative costs per pupil were 65 percent higher than the peer districts’, on average, primarily because it employed more administrative positions than the peer districts averaged. Additionally, the District lacked adequate accounting and computer controls. These poor controls exposed the District to an increased risk of errors, fraud, and misuse of sensitive information.

District employed more administrative positions

In fiscal year 2015, Tuba City USD spent \$2,164 per pupil for administration, 65 percent more than the peer districts’ \$1,311 per pupil average. As a result, the District spent more of its available operating dollars on administration, leaving it less money available to spend in the classroom.² Had the District spent the same per pupil amount on administration in fiscal year 2015 as its peer districts averaged, it potentially could have saved more than \$1.3 million, monies that otherwise potentially could have been spent in the classroom. As shown in Figure 2, the District’s high costs occurred in all three categories reviewed but primarily in salaries and benefits where the District spent \$485 more per pupil than the peer districts averaged.

The District’s administrative costs were higher primarily because it employed more administrative positions than the peer districts, on average. Specifically, auditors compared Tuba City USD’s administrative staffing to six other recently audited peer districts and found that Tuba City USD employed one administrative full-time equivalent (FTE) position for every 44 students while the six peer districts averaged one administrative FTE for every 67 students. Staffing levels were higher primarily at the District’s schools and in its central services.³ At the school level, the District employed more principals because it operated more schools than any other district in its peer group. The District also employed more school administrative support positions, such as secretaries and department heads,

Figure 2
Comparison of per pupil administrative costs by category
Fiscal year 2015
 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2015 Arizona Department of Education student membership data and district-reported accounting data.

² Available operating dollars are those used for the District’s day-to-day operations. For further explanation, see Appendix page a-1.

³ Central services are activities that support other administrative and instructional functions, including fiscal services, human resources, planning, and administrative information technology.

than the peer districts, on average. As discussed in Finding 2 of this report, the District operates its schools far below their designed capacities and likely could operate fewer schools, which may allow it to reduce administrative staffing and costs as well. In its central services, the District employed more administrative technology positions, such as computer technicians, and business support positions, such as accounts payable clerks, payroll clerks, and warehouse employees.

District lacked adequate accounting controls

In fiscal year 2015, Tuba City USD did not adequately separate its payroll and personnel functions, did not always follow proper procurement practices, did not have proper controls over its cash collections, and did not accurately report its costs.

Payroll lacked proper separation of responsibilities—The District had an increased risk of errors and fraud because it did not sufficiently separate its payroll and personnel functions. One district employee, who was responsible for performing all payroll-processing duties, also frequently added or deleted employees or changed pay information within the District’s payroll system, which is a personnel function. Auditors reviewed detailed payroll and personnel records for 30 of the 395 individuals who received payments in fiscal year 2015, and although no improper payments were detected, allowing an individual the ability to initiate and complete the payroll process, including performing some personnel functions, could allow the processing of false payments.

Procurement rules not always followed—In fiscal year 2015, the District hired consultants to provide it financial management services. However, the District did not follow all applicable rules, including its own procurement policy, when procuring these services. Specifically, the District paid over \$89,000 for financial management services without obtaining written price quotations as the *Uniform System of Financial Records for Arizona School Districts* requires. Following procurement requirements promotes open and fair competition among vendors and helps ensure that districts receive the best possible value for the public monies they spend. Further, the District’s own policy required that governing board approval be obtained for any purchases above \$5,000. However, the District did not obtain this approval before purchasing the financial management services.

District lacked adequate cash-handing controls—Tuba City USD collects cash for various purposes, including athletic fees, fundraisers, and other student activities. Because of the high risk associated with cash transactions, effective controls to safeguard cash should be established and maintained. Auditors reviewed a sample of over \$110,000 of cash collections from six months in fiscal year 2015 and five months in fiscal year 2016 and determined that the District did not have proper controls in place to ensure that all monies received were properly accounted for. Specifically, auditors noted the following:

- **Cash collections not properly tracked**—In fiscal years 2015 and 2016, the District’s business office did not track what student fees, such as athletic or school trip fees, should have been collected at the school sites. Therefore, the District could not ensure that all revenues from student fees had been collected and deposited. Further, cash collected at school sites was not always deposited with the District’s business office in a timely manner, and because the business office was not tracking what monies the school sites were collecting, the District was not aware that some student fee monies were being stored for long periods of time at the school sites.
- **Receipts not properly accounted for**—Although district procedures required receipts to be issued for all cash collections and a duplicate of the receipt to be maintained, auditors noted several gaps in the prenumbered receipts that were issued at one school site in fiscal year 2016. Auditors reviewed original receipt books for cash collected at the junior high school and found that some receipts, including entire pages with multiple receipts, were missing. In addition, the District allowed its schools to purchase their own receipt books instead of using receipt books the business office issued and that could be properly controlled, so it was not always aware of receipts that had been voided or torn out of receipt books or how many or what kind of receipt books were being used at each school. Further, the District did not always properly safeguard its receipt books at the school sites because they were not always stored in locking file cabinets or safes. Because of this, district officials were unable to locate one of the receipt books used by staff at the junior high

school. Without sufficient documentation, such as cash receipts, the District cannot ensure that it collected all the cash that it should have, or that all collected monies were deposited with the District's business office.

- **Responsibilities not properly separated**—For cash collected at the school sites, such as athletic fees, individual employees received monies and prepared cash collection documents to give to district business office staff for deposit into the bank. Although a district business office employee reviewed and reconciled the cash receipts and cash collection documents brought to them by school site staff, bank deposits were prepared and made by one district business office employee without an independent review. Therefore, the District could not ensure that all monies received from the school sites were deposited into the bank.

During the audit, a school site employee admitted to taking \$345 in student fees that the employee had collected in fiscal year 2016. At the time of this report's release, the District's cash-handling practices were under further review by the Office of the Auditor General.

District did not accurately report its costs—Tuba City USD did not consistently classify its fiscal year 2015 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its *Annual Financial Report* did not accurately reflect its costs, including both classroom and nonclassroom expenditures. Auditors identified errors totaling approximately \$1.5 million of the District's total \$23 million in operational spending.⁴ The dollar amounts shown in the tables and used for analysis in this report reflect the necessary adjustments.

District lacked adequate computer controls

In fiscal years 2015 and 2016, Tuba City USD lacked adequate controls over user access to its computer network and accounting and student information systems. These poor controls exposed the District to an increased risk of unauthorized access to these critical systems. Additionally, the lack of a thorough and tested information technology (IT) contingency plan could result in interrupted operations or data loss.

Weak password requirements—The District lacked adequate password requirements for access to its computer network. More specifically, the passwords lacked length and complexity requirements—that is, passwords could be short and did not need to contain numbers and symbols. In addition, auditors found 99 network user accounts with passwords that will never expire. Therefore, these users are not required to change their passwords periodically. 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. Strengthening password requirements would decrease the risk of unauthorized persons gaining access to the District's computer network and systems.

Broad access to accounting system—Auditors reviewed the District's fiscal year 2016 user access report for 10 of the 60 accounting system users and identified five district employees who had more access to the accounting system than they needed to perform their job duties. One employee had full access to the accounting system, giving this employee the ability to perform all accounting system functions. Although auditors did not detect any improper transactions in the payroll and accounts payable transactions reviewed, such broad access, especially full system access, exposed the District to a greater risk of errors and fraud, such as processing false invoices or adding and paying nonexistent vendors or employees.

Too many employees with administrator-level access—Administrator-level access allows the user full control over computer network and system settings, including the ability to add new users and modify the level of access users have in the network and systems. Auditors reviewed the District's fiscal year 2016 user access reports and found that 24 network user accounts and 2 accounting system user accounts had this type of access. Auditors reviewed 20 of the network user accounts and the 2 accounting system user accounts with administrator-level access and found that 7 of the 20 network accounts and 1 of the 2 accounting system accounts may not require this level of access. By allowing too many users to have this access level, the District increased its risk of security breaches because hackers typically target administrator accounts for their greater access privileges. A compromised administrator account could result in unauthorized access to and loss of sensitive

⁴ Operational spending includes costs incurred for the District's day-to-day operations. For further explanation, see Appendix page a-1.

data or disruption of district operations. Therefore, the District should review these accounts and determine if the users require administrator-level access.

Inadequate procedures for removing access to the network and critical systems—The District did not have sufficient procedures in place to ensure that only current employees had access to its network and accounting system. Auditors reviewed the District’s fiscal year 2016 user access reports and found 12 network user accounts and 3 accounting system user accounts that were linked to employees who no longer worked for the District. At least three of these individuals had not worked for the District for more than 1 year. To reduce the risk of unauthorized access, the District should implement procedures to ensure the prompt removal of access when a user is no longer employed by the District.

Unencrypted wireless network—Although the District has encrypted wireless networks for its students and employees, it also had one network that was not encrypted, meaning that unauthorized users could detect sensitive data that was transmitted over the network. Implementing wireless network encryption technology would decrease the risk of unauthorized persons gaining access to the District’s network.

Incomplete IT contingency plan and lack of backup testing—In fiscal years 2015 and 2016, the District had an IT contingency plan, but it was missing some key components. For example, the contingency plan did not contain important information regarding the recovery of critical systems, testing the plan, or contact information for staff with responsibilities during system or equipment failure or interruption. A comprehensive contingency plan would help ensure continued operations in the case of a system or equipment failure or interruption. As part of a contingency plan, the District should also perform documented tests of its ability to restore electronic data files from backups, which are important to ensure continuous accessibility to sensitive and critical data. Additionally, although the District maintained backup drives of its data, it stored these drives in the same room where its servers were located. Backup drives should be stored in a secure location separate from servers. These insufficient backup procedures could result in the loss of sensitive and critical information during a disaster.

Recommendations

1. The District should review its administrative positions and related duties and determine and implement ways to reduce administrative costs.
2. The District should implement proper controls over its payroll process to ensure proper separation of responsibilities.
3. To help ensure it receives the best price for goods and services, the District should follow procurement requirements found in the *Uniform System of Financial Records for Arizona School Districts* as well as its own procurement policies when purchasing goods and services.
4. The District should strengthen its controls over cash handling, including tracking all student fees to ensure it is receiving all cash that is collected, ensuring that receipts are issued for all cash collected, making timely deposits, and ensuring the separation of cash collection duties performed at the District’s business office, including preparing and making bank deposits.
5. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
6. The District should implement and enforce stronger password requirements related to password length, complexity, and expiration.
7. The District should limit employees’ access in the accounting system to only those accounting system functions needed to perform their work.
8. The District should review and consider reducing the number of users with administrator-level access to its computer network and systems.

9. The District should develop and implement a formal process to ensure that terminated employees have their computer network and systems access promptly removed.
10. The District should encrypt its wireless network.
11. The District should review its contingency plan to ensure it is complete and test it periodically to identify and remedy any deficiencies. Additionally, the District should store backup drives in a secure location, separate from its server.



District spent more on plant operations primarily for excess building space

In fiscal year 2015, Tuba City USD's plant operations cost per square foot and cost per pupil were much higher than the peer districts' averages. As a result, the District spent more of its available operating dollars for plant operations, leaving it less money to spend in the classroom. The higher costs were primarily caused by the District maintaining a large amount of excess building space—48 percent more square feet per student than the peer districts, on average. The large amount of excess square footage was likely not needed because most of the District's schools operated far below their designed capacities.

Higher plant costs because of excess building space

As shown in Table 2, Tuba City USD's plant operations cost per pupil was 80 percent higher than the peer districts' average, and its cost per square foot was 23 percent higher than the peer districts' average. The higher plant costs were primarily caused by the District operating and maintaining substantially more building space per pupil than the peer districts averaged. Had the District maintained a similar amount of school building square footage per pupil as the peer districts, it could have saved more than \$1.3 million, monies that otherwise potentially could have been spent in the classroom. As shown in Table 2, Tuba City USD operated and maintained 405 square feet of building space per pupil, 48 percent more than the peer districts' average of 274 square feet per student and well above the State's applicable minimum standards for elementary, middle, and high school facilities of 80, 84, and 120 square feet per pupil, respectively, as established by Arizona Revised Statutes §15-2011. Maintaining more building space per student is costly to the District because most its funding is based on its number of students, not its amount of square footage.

Table 2
Comparison of plant operations efficiency measures
Fiscal year 2015
(Unaudited)

Efficiency measures	Tuba City USD	Peer group average
Cost per square foot	\$6.60	\$5.37
Cost per pupil	\$2,674	\$1,483
Square feet per pupil	405	274

Source: Auditor General staff analysis of fiscal year 2015 Arizona School Facilities Board square footage information, Arizona Department of Education student membership data, and district-reported accounting data.

Most schools operated far below designed capacities

The District's additional building space was likely not needed because most of its schools operated far below their designed capacities. As shown in Table 3 on page 10, Tuba City USD's schools operated at just 31 percent of capacity, on average, in fiscal year 2015. Although the District's schools had a total capacity of 5,108 students, the District's student population has been much lower for many years. Since fiscal year 2005, Tuba City has experienced a steady decline in student enrollment, decreasing 32 percent between fiscal years 2005 and 2015.

To the District's credit, it has already taken one step to reduce its extra space. Specifically, the District has demolished its intermediate school, which was designed to hold almost 800 students, and is replacing it with

a smaller, 600-student capacity elementary school that will eventually house students in kindergarten through 5th grade from Tuba City Primary School. Additionally, the District is planning to repurpose its primary school building to include a preschool, and the District plans to rent out a portion of the primary school. However, in light of the District's higher-than-average plant operations costs and its remaining large amount of excess building space, the District should look for ways to further reduce its excess building space. For example, the District's high school, junior high school, and the new school under construction are all located within 2 miles of each other. The District could consider combining two or more of these schools. Additionally, the District could consider reviewing capacity usage at its two outlying schools, Tsinaabaas Habitiin Elementary School located northwest of Tuba City and Dzil Libei Elementary School located south of Tuba City. Both schools serve separate communities located about 30 miles outside of Tuba City, and both schools operated at capacities of 22 percent or less in fiscal year 2015. Because both schools serve only students in kindergarten through 5th grade, Tuba City USD buses already transport students in 6th through 12th grades living in these outlying areas to schools within Tuba City. Therefore, the District could consider closing one or both of these schools and transporting these students to schools within Tuba City. Although decisions to close schools can be difficult and painful, these decisions are important because, as stated earlier, school district funding is based primarily on the number of students enrolled, not on its amount of square footage. Reducing its plant operations costs would free up dollars that otherwise potentially could be spent in the classroom.

Table 3
Number of students, designed capacity, and percentage of capacity used by school
Fiscal year 2015
 (Unaudited)

School name	Number of students	Designed capacity	Percentage of capacity used
Dzil Libei Elementary School	76	386	20%
Eagles Nest Intermediate School	256	787	33
Tsinaabaas Habitiin Elementary	59	270	22
Tuba City Alternative School	36	56	64
Tuba City High School	632	1,440	44
Tuba City Junior High School	228	1,056	22
Tuba City Primary School	292	1,113	26
Totals and average	1,579	5,108	31%

Source: Auditor General staff analysis of fiscal year 2015 Arizona Department of Education student membership data and fiscal year 2015 building capacity information obtained from the Arizona School Facilities Board.

Both schools serve separate communities located about 30 miles outside of Tuba City, and both schools operated at capacities of 22 percent or less in fiscal year 2015. Because both schools serve only students in kindergarten through 5th grade, Tuba City USD buses already transport students in 6th through 12th grades living in these outlying areas to schools within Tuba City. Therefore, the District could consider closing one or both of these schools and transporting these students to schools within Tuba City. Although decisions to close schools can be difficult and painful, these decisions are important because, as stated earlier, school district funding is based primarily on the number of students enrolled, not on its amount of square footage. Reducing its plant operations costs would free up dollars that otherwise potentially could be spent in the classroom.

Recommendation

The District should continue to review the use of space at each of its schools and determine and implement ways to reduce identified excess space.



District needs to improve transportation program oversight

In fiscal year 2015, Tuba City USD lacked adequate documentation to show that bus drivers met certification requirements and preventative maintenance was performed on its buses in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*. Additionally, the District misreported the number of students it transported for state funding purposes.

District lacked adequate procedures to ensure bus drivers met certification requirements

To help ensure student safety, the State's *Minimum Standards* administered by the Department of Public Safety require districts to ensure that bus drivers are properly certified and receive random drug and alcohol tests, annual drug tests, physical examinations, physical performance tests, refresher training, and CPR and first aid certification. Auditors reviewed files for 10 of the District's 30 bus drivers for fiscal year 2015 and found that the District lacked complete records demonstrating that its bus drivers met the *Minimum Standards*. Specifically:

- Nine drivers' files did not have evidence of required physical performance tests;
- Two drivers' files did not have evidence of required physical examinations; and
- One driver's file did not have evidence of a required annual drug test.

To comply with the *Minimum Standards* and to help ensure a safe transportation program, the District should ensure that drivers meet all required standards and should maintain all documentation demonstrating compliance.

District lacked documentation to demonstrate it regularly maintained buses

According to the State's *Minimum Standards*, districts must be able to demonstrate that their school buses receive systematic preventative maintenance. Preventative maintenance includes items such as periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. These standards are designed to help ensure the safety and welfare of school bus passengers, as well as extend the useful life of buses. However, Tuba City USD did not always conduct preventative maintenance in a timely manner. According to the District's informal policy, each bus should have received preventative maintenance service at least every 6,000 miles. However, auditors reviewed bus maintenance files for 10 of the District's 37 buses and found that even though the 10 buses each traveled between 17,000 and 35,000 miles during fiscal year 2015, none of them had documentation showing that they received preventative maintenance services in accordance with the District's informal policy. Without this documentation, the District cannot demonstrate that it is properly maintaining its school buses according to the *Minimum Standards*.

District incorrectly reported number of riders for state transportation funding

In fiscal year 2015, the District over-reported to the Arizona Department of Education its number of eligible riders transported by 678 students, or 47 percent. Auditors determined that the error was caused by the District double-counting most riders. Transportation funding is primarily based on miles driven, but the number of riders is also a factor in determining the per mile funding rate that districts receive. Although the District's inaccurate reporting of riders in fiscal year 2015 was not great enough to affect its transportation funding, the District should ensure that it is meeting state reporting requirements by reporting the actual number of students transported. Additionally, having accurate rider counts will enable the District to calculate and use rider-based performance measures, such as cost per rider and bus capacity utilization, to evaluate its routes and program efficiency and make informed program decisions.

Recommendations

1. The District should develop and implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's *Minimum Standards*.
2. The District should develop and follow formal bus preventative maintenance policies that ensure the safe operation of its buses in accordance with the State's *Minimum Standards*.
3. The District should accurately calculate and report to the Arizona Department of Education the actual number of riders transported for state funding purposes.



In addition to the three main findings presented in this report, auditors identified one other area of concern that requires district action.

District did not follow all requirements for its English Language Learner program

Arizona Revised Statutes §15-756.08 requires the Arizona Department of Education (ADE) to perform an evaluation of school districts' English Language Learner (ELL) programs. In April 2014, ADE performed such an evaluation and determined that Tuba City USD's ELL program did not meet all requirements. Specifically:

- **Parental notification**—In the files ADE reviewed, there was not always evidence to show that parents of students qualifying for English language instruction were notified.
- **Monitoring of ELL students**—The District was not able to show that all ELL students who exited the ELL program were monitored for the required 2 years.
- **Model implementation**—The District did not properly implement the State's Structured English Immersion (SEI) model for English language learners. For example, instruction time did not always include the specific required categories of Oral Conversation/Vocabulary, Grammar, or Writing, and lesson plans were not provided; not all the District's ELL students were enrolled in the required 4 hours per day of English language development, including an explicit 1 hour of grammar; not all ELL students at the high school were enrolled in the SEI classes; some required forms with signatures from parents, teachers, and administrators were missing; and none of the classrooms utilizing Individual Language Learner Plans (ILLPs) had English Language Proficiency Standards/Performance Indicators in either their lesson plans or evident in the classrooms.⁵

In September 2014, ADE completed a follow-up review and determined that Tuba City USD had not corrected the findings. The District was required to submit a Corrective Action Plan to ADE by March 2015. In April 2015, ADE completed another follow-up review of the District, and the original findings were upheld. In May 2015, ADE provided assistance to district personnel in an effort to help correct the District's issues. Further, in August 2015, ADE attempted to provide training and assistance to Tuba City USD, but according to ADE, appropriate district personnel did not attend the training and were unreachable during the scheduled training time. In October 2015, ADE attempted to reevaluate the areas of noncompliance and, according to ADE, was told by district officials that Tuba City USD would not be compliant. Because of these deficiencies, ADE referred the District to the State Board of Education for a finding of noncompliance. Because the District does not receive state SEI monies for its program, the Board has not taken action against the District. At the time of this report's release, district officials indicated that they are working on developing an alternative model to provide English language instruction to its ELL students.

Recommendation

The District should ensure that it develops and follows an ADE-approved corrective action plan or ADE-approved alternative model that corrects all deficiencies in its ELL program.

⁵ Arizona Revised Statutes §15-756.02 requires school districts to select a State Board of Education-approved model for structured English immersion. Schools with 20 or fewer ELL students within a three-grade span may provide instruction through the development of ILLPs created for each ELL student.



Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of the Tuba City 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 2015, was considered.⁶ 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 2015 summary accounting data for all districts and Tuba City USD's fiscal year 2015 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. Tuba City USD's student achievement peer group includes Tuba City USD and the 16 other unified school districts that also served student populations with poverty rates between 28 and 36 percent in towns and rural areas. Auditors compared Tuba City USD's graduation rate and its percentage of students who met state standards to those of its peer group averages.⁷ Generally, auditors considered Tuba City USD's percentages 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 the percentage of students who met state standards between Tuba City USD and its peers, as well as differences between their graduation rates.

To analyze Tuba City 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 Tuba City USD and the 28 other unified and union high school districts that also served between 600 and 1,999 students and were located in towns and rural areas. To analyze Tuba City 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 17 school districts that also traveled more than 489 miles per rider and were located in towns and rural areas. Auditors compared Tuba City USD's costs to its peer group averages. Generally, auditors considered Tuba City USD's costs to be 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

⁶ Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with repaying debt, the acquisition of capital assets (such as purchasing or leasing land, buildings, and equipment), and programs such as adult education and community service that are outside the scope of preschool through grade 12 education.

⁷ The percentage of students who met state standards is based on the number of students who scored proficient or highly proficient on the Arizona's Measurement of Educational Readiness to Inform Teaching (AzMERIT) math and English language arts tests and those who met or exceeded the state standards on the Arizona's Instrument to Measure Standards (AIMS) science test. Test results were aggregated across grade levels and courses, as applicable.

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 Tuba City USD'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 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 2015 administration costs and compared them to peer districts'. To further evaluate staffing levels, auditors surveyed six of the peer districts that were recently audited to review the districts' number of administrative staff.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2015 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 395 individuals who received payments in fiscal year 2015 through the District's payroll system and reviewed supporting documentation for 30 of the 13,808 fiscal year 2015 accounts payable transactions. No improper transactions were identified. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2015 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that were considered significant to the audit objectives.
- 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 plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2015 plant operations and maintenance costs and use of district building space, and compared these costs and use of space to peer districts'.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, reviewed bus driver files for 10 of the District's 30 drivers, reviewed bus maintenance and safety records for 10 of the District's 37 buses, and reviewed bus routing and bus capacity usage. Auditors also reviewed fiscal year 2015 transportation costs and compared them to peer districts'.
- To assess whether the District's English Language Learner program met all state and federal requirements, auditors reviewed the most recent evaluation from the Arizona Department of Education.
- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2015 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 was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2015 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 Tuba City Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

Sharlene Navaho, Interim
Superintendent, M.A.Ed.

Adelbert Goldtooth, M.A.
Interim Human Resources

Leah Begay, M.A. Business
Manager

Tuba City Unified School District

"A CULTURE OF EXCELLENCE"

P.O. Box 67, Tuba City, Arizona 86045 ♦ Phone: (928) 283-1006 ♦ Website: www.tcusd.org

July 3, 2017

State of Arizona
Office of the Auditor General
Ms. Debra Davenport
2910 N 44th Street, Suite 410
Phoenix, AZ 85018

Re: Tuba City Unified School District Performance Audit

Dear Ms. Davenport:

Tuba City Unified School District #15 has received and reviewed the Preliminary Draft Performance Audit for Fiscal Year 2015. Tuba City Unified would like to extend its appreciation to your staff for their professionalism and patience throughout this process. The information shared throughout the process has provided Tuba City Unified with an opportunity to continue to refine its procedures and make improvements toward continued efficiency, compliance and transparency. The District will continue to strive toward compliance in all areas and will comply with the recommendations as noted in the District's response, which is enclosed.

If you have any questions or concerns, please do not hesitate to contact me at (928) 606-1269.

Sincerely,

Sharlene Navaho
Interim Superintendent

cc: Leah Begay, TCUSD Business Manager
Adelbert Goldtooth, TCUSD Interim Human Resource Director

Ronald Begay
Board President

Mary Worker
Board Clerk

Evelyn Kiyaani
Board Member

Lee Tsingine
Board Member

Marie B. Acothley
Board Member

Finding 1: District had higher administrative costs and lacked adequate accounting and computer controls

District Response: The district agrees with the findings and will evaluate staffing levels at the district's schools and in the central services.

Recommendation 1: The District should review its administrative positions and related duties and determine and implement ways to reduce administrative costs.

District Response: The district will review all current positions coded at the administration level and make changes as necessary.

Recommendation 2: The District should implement proper controls over its payroll process to ensure proper separation of responsibilities.

District Response: Personnel responsibilities have been redirected back to human resources. Payroll clerk is no longer performing personnel duties.

Recommendation 3: To help ensure it receives the best price for goods and services, the District should follow procurement requirements found in the *Uniform System of Financial Records for Arizona School Districts* as well as its own procurement policies when purchasing goods and services.

District Response: The business office received procurement training and currently utilizing Mohave and state contracts.

Recommendation 4: The District should strengthen its controls over cash handling, including tracking all student fees to ensure it is receiving all cash that is collected, ensuring that receipts are issued for all cash collected, making timely deposits, and ensuring the separation of cash collection duties performed at the District's business office, including preparing and making bank deposits.

District Response: Student activities clerk reviews the documentation, the Business Accountant reconciles in QuickBooks to the bank statements. Coconino county office has changed to Chase bank which will allow the district to make deposits within allocated time.

Recommendation 5: The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

District Response: The district has updated its account codes and has implemented the recommendations provided by the Auditor General's office.

Recommendation 6: The District should implement and enforce stronger password requirements related to password length, complexity, and expiration.

District Response: The district will enforce the Password Policy the district has in place, with emails notifying the end-user on when to change their passwords.

Recommendation 7: The District should limit employees' access in the accounting system to only those accounting system functions needed to perform their work.

District Response: The district has made changes since the audit and only the district's technology director can add both to the system through Active Directory and Within Infinite Visions itself. The business manager and business accountant have administrator access but are not super-users, these individuals can assign visions users to their assigned budget containers.

Recommendation 8: The District should review and consider reducing the number of users with administrator-level access to its computer network and systems.

District Response: The district cleaned-up user-access, only the technology director and two technicians have admin-level access to install software and run updates. Only one vendor has access to server maintenance only for updates and troubleshooting purposes.

Recommendation 9: The District should develop and implement a formal process to ensure that terminated employees have their computer network and systems access promptly removed.

District Response: The district will implement a formal process to ensure terminated employees' access to the computer network and systems has been promptly removed.

Recommendation 10: The District should encrypt its wireless network.

District Response: All wireless networks encrypted now there are no open wi-fi networks district-wide.

Recommendation 11: The District should review its contingency plan to ensure it is complete and test it periodically to identify and remedy any deficiencies. Additionally, the District should store backup drives in a secure location, separate from its server.

District Response: The district has corrected this deficiency. The district backs-up onsite and now back-up to an off-site location for Disaster Recovery Purposes.

Finding 2: District spent more on plant operations primarily for excess building space

District Response: The district agrees with the findings and will make an effort to reduce the amount spent on plant operations.

Recommendation: The District should continue to review the use of space at each of its schools and determine and implement ways to reduce identified excess space.

District Response: The district will make an effort to reduce the amount of excess space at each of our schools.

Finding 3: District needs to improve transportation program oversight

District Response: The district agrees with the findings and will implement the recommendations.

Recommendation 1: The District should develop and implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's *Minimum Standards*.

District Response: The district will ensure the bus driver certification requirements are met and documented in accordance with the State's Minimum Standards.

Recommendation 2: The District should develop and follow formal bus preventative maintenance policies that ensure the safe operation of its buses in accordance with the State's *Minimum Standards*.

District Response: The district will properly maintain maintenance records for all district vehicles and this will include school busses.

Recommendation 3: The District should accurately calculate and report to the Arizona Department of Education the actual number of riders transported for state funding purposes.

District Response: The district will ensure proper reporting of all students transported to Arizona Department of Education.

Other Findings: District did not follow all requirements for its English Language Learner program

District Response: The district agrees with the findings and will make an effort to follow the requirements for the English Language Learner program.

Recommendation: The District should ensure that it develops and follows an ADE-approved corrective action plan or ADE-approved alternative model that corrects all deficiencies in its ELL program.

District Response: The district will implement the corrective action plan as outlined by ADE during the last monitoring visit.

