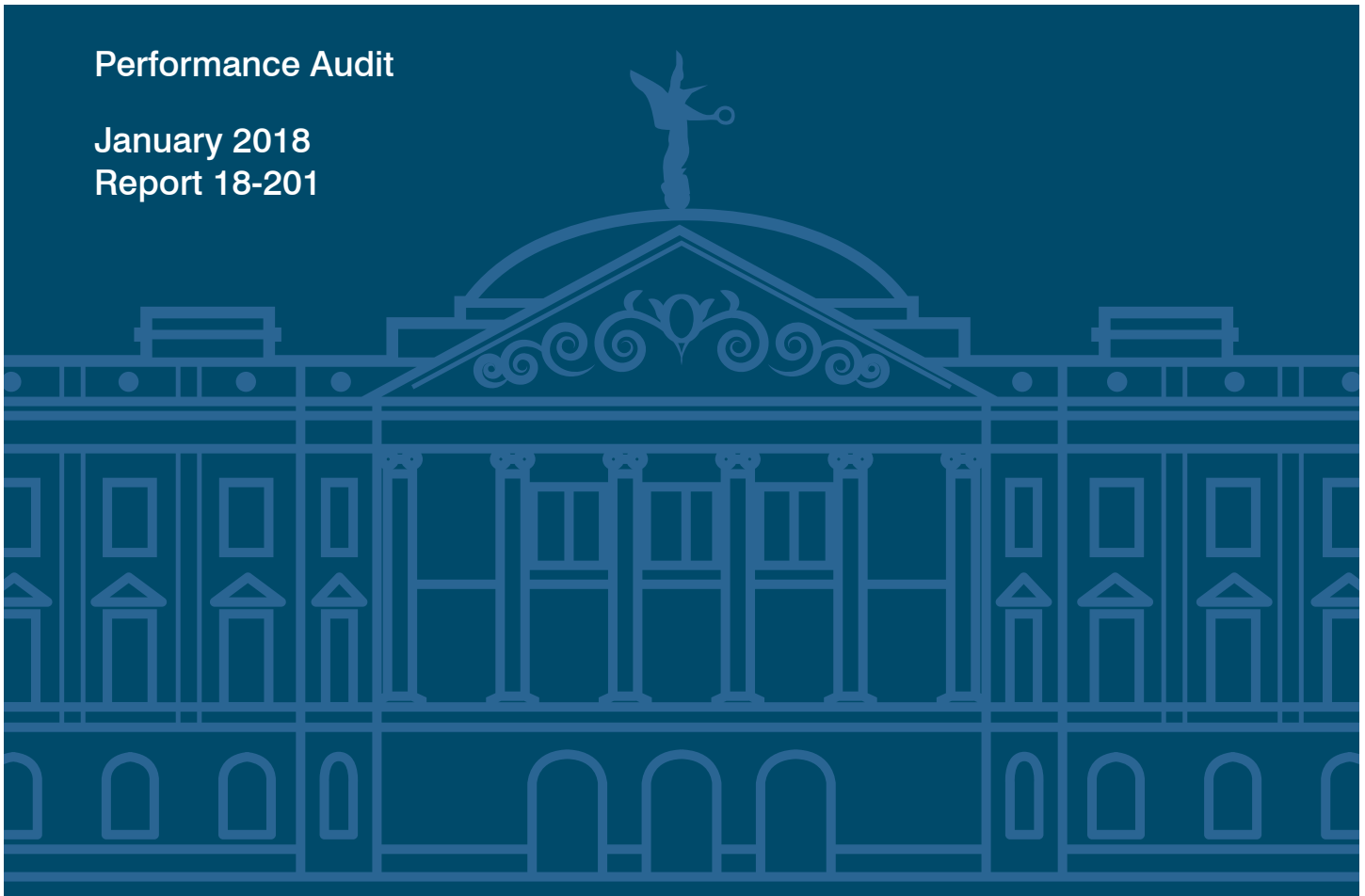


Red Mesa Unified School District

Performance Audit

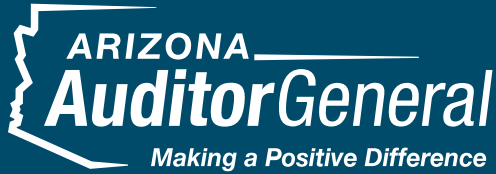
January 2018
Report 18-201



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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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

January 25, 2018

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Red Mesa Unified School District

Mr. Kim Pearce, Superintendent
Red Mesa Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Red Mesa 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

Attachment



Red Mesa Unified School District

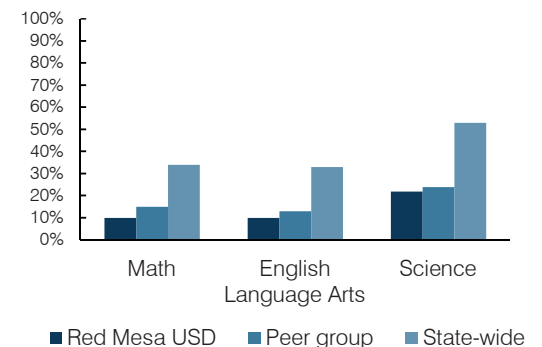
CONCLUSION: In fiscal year 2015, Red Mesa USD's student achievement was similar to the peer districts', and it operated with much higher per pupil costs in all noninstructional areas. Specifically, the District's administrative costs were much higher than the peer districts' average primarily because of higher staffing. In addition to much higher administrative costs, the District lacked adequate accounting and computer controls, which exposed it to an increased risk of errors, fraud, and misuse of sensitive information. The District's plant operations costs per pupil and per square foot were much higher than the peer districts' averages because the District maintained excess building space, had higher energy costs, and employed more maintenance and security staff. The District's food service program cost per meal was higher than the peer districts' average, but the District implemented new practices in fiscal year 2016 that allowed it to obtain lower prices for certain food items. Finally, the District's transportation program was reasonably efficient despite costs per mile and per rider that were much higher than the peer districts' averages. The District's costs were higher primarily because it traveled fewer miles and transported fewer riders than peer districts, and therefore, certain costs were spread over fewer miles and riders.

Similar student achievement and operations were inefficient

Student achievement similar to the peer districts'—In fiscal year 2015, Red Mesa USD's student test scores in math, English language arts, and science were similar when compared to the peer districts' averages. The District's 70 percent graduation rate in fiscal year 2015 was lower than both the peer districts' 76 percent average and the State's 78 percent average.

Operational costs much higher than peer districts'—In fiscal year 2015, Red Mesa USD's administrative costs were more than twice the peer districts' average primarily because of higher staffing. The District's plant operations costs per pupil and per square foot were much higher than the peer districts' averages because the District maintained more square footage per student than the peer districts averaged. Further, the District had higher energy costs when compared to the peer districts' average, and it employed more maintenance and security staff. Additionally, the District's food service cost per pupil was higher than the peer districts' average because it served more meals per pupil than the peer districts. Red Mesa USD's cost per meal was also higher than the peer districts' average. However, in fiscal year 2016, the District began fully using the United States Department of Agriculture food commodities available to it, and it implemented new purchasing practices and obtained certain food items for lower prices, which resulted in a fiscal year 2016 cost per meal that was slightly 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 primarily because the District traveled fewer miles and transported fewer riders than the peer districts, on average. Therefore, certain costs were spread over fewer miles and riders.

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



Comparison of per pupil expenditures by operational area Fiscal year 2015

	Red Mesa USD	Peer group average
Administration	\$2,951	\$1,311
Plant operations	2,793	1,483
Food service	672	476
Transportation	1,330	635

Much higher administrative costs

In fiscal year 2015, Red Mesa USD's administrative costs per pupil were more than twice the peer districts' average primarily because the District employed one administrative full-time equivalent (FTE) position for every 32 students while

six recently audited peer districts averaged one administrative FTE for every 67 students. Staffing was higher primarily in the District's central services where the District employed more business support positions, such as accounts payable clerks, payroll clerks, and computer technicians. Staffing was also higher at the District's schools where it employed more administrative support positions, such as secretaries, office aides, and department heads.

Recommendation

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

District lacked adequate accounting and computer controls

We reviewed the District's list of employees who terminated district employment in fiscal years 2014 and 2015 and found that one employee continued to receive regular paychecks totaling nearly \$5,000 after the employee was no longer employed by the District. Further, the District lacked adequate password requirements for access to its computer network and accounting and student information systems. In addition, 3 of the 10 accounting systems users we reviewed had more access to the accounting system than they needed to perform their job duties. Also, we found 15 network user accounts and 17 accounting system user accounts with administrator-level access that may not require this level of access, which gives the user full control over computer network and system settings. Further, the District lacked adequate procedures for removing access to its network and critical systems, 9 of its 12 network-connected servers were using outdated and unsupported operating systems, and the District's information technology contingency plan was incomplete and lacked sufficient backup procedures.

Recommendations

The District should:

- Ensure that terminated employees are promptly removed from the payroll system to prevent inappropriate payments and determine whether inappropriate payments made to the terminated employee should be recovered.
- Implement proper controls over its computer network and systems.

Excess space, high energy costs, and higher staffing resulted in higher costs

In fiscal year 2015, Red Mesa USD's plant operations cost per pupil was 88 percent higher because it maintained a large amount of excess building space. As a result, the District spent more of its available operating dollars on plant operations, leaving it less money available to spend in the classroom. The additional building space was likely not needed because Red Mesa USD's schools operated at just 43 percent of capacity in fiscal year 2015. Maintaining more building space is costly to the District because most of its funding is based on its number of students, not the amount of square footage it maintains. The District has options to reduce excess building space, including closing one of the three schools located on its main campus and/or closing one or both of its more remote schools.

The District also had much higher energy costs per square foot than the peer districts', on average, partly because employees could change room temperatures by as much as ten degrees without plant operations staff assistance, and the District did not limit the heating and cooling provided to rooms that were not being used by students or staff. Implementing a comprehensive energy conservation plan could help the District reduce its high energy costs by establishing acceptable room temperature settings and light settings for different times of the day. In addition, the District employed more maintenance and security staff than the peer districts' averages. For example, if the District had staffed its maintenance positions at the average level of five recently audited peer districts, it could have employed about three fewer full-time maintenance employees and potentially could have saved over \$132,000 in plant operations salaries and benefits.

Recommendation

The District should determine and implement ways to reduce plant operations costs, including reducing excess building space, implementing an energy conservation plan, and reviewing its maintenance and security staffing.



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DISTRICT OVERVIEW

Red Mesa Unified School District is a rural district located on the Navajo Nation in Apache County. In fiscal year 2015, the District served 698 students in kindergarten through 12th grade at its five schools.

In fiscal year 2015, Red Mesa USD's student achievement was similar to the peer districts' averages, and the District operated with much higher per pupil costs in all noninstructional areas.¹ Although the District's transportation program was reasonably efficient, its administration, plant operations, and food service program 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 similar to peer districts'

In fiscal year 2015, 10 percent of the District's students met or exceeded state standards in math, 10 percent in English language arts, and 22 percent in science. As shown in Figure 1, these scores were similar to peer districts' averages. The District's 70 percent graduation rate in fiscal year 2015 was lower than both the peer districts' 76 percent average and the State's 78 percent average.

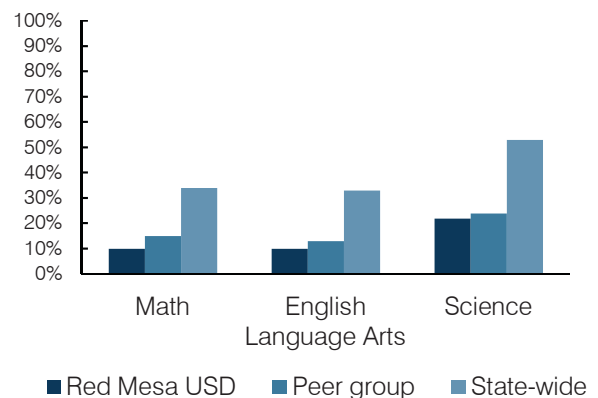
Operational costs much higher than peer districts'

As shown in Table 1 on page 2, in fiscal year 2015, Red Mesa USD operated with much higher per pupil costs in total and in all noninstructional areas. In total, the District spent \$15,707 per pupil, which was \$5,768 more than the peer districts' average. The District was able to spend more per pupil in total because it received more federal funding than the peer districts, including more federal impact aid due to its location on the Navajo Nation and more federal grant money due to its higher poverty level. However, although Red Mesa USD spent \$5,768 more per pupil in total than the peer districts' average, it spent only \$1,002 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 \$2,951 per pupil, Red Mesa USD's administrative costs per pupil were more than twice the peer districts' \$1,311 average. Red Mesa USD spent much 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).

Much higher plant operations costs primarily because of excess building space—Red Mesa USD's \$2,793 cost per pupil was 88 percent higher than the peer districts' \$1,483 average, and its \$8.56 cost per

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.

square foot was 59 percent higher than the peer districts' \$5.37 average. The District's plant operations costs were much higher primarily because it maintained 19 percent more square feet per student than the peer districts averaged. Additionally, the District's schools operated far below their designed capacities. Further, the District had higher energy costs and employed more maintenance and security guards than peer districts, on average (see Finding 2, page 7).

High food service program costs, but the District implemented changes to reduce costs—

Red Mesa USD's \$672 food service cost per pupil was 41 percent higher than the peer districts' \$476 average, and its \$3.85 cost per meal was 13 percent higher than the peer districts' \$3.41 average. The District's cost per pupil was high because it served 22 percent more meals per pupil than the peer districts, on average. The District's fiscal year 2015 cost per meal was high because the District had much higher food costs than the peer districts, on average.

The District's food costs were much higher partly because it did not make good use of its United States Department of Agriculture (USDA) food commodities. Districts participating in the National School Lunch Program can obtain food commodities by paying only a small shipping charge. In fiscal year 2015, Red Mesa USD used only 21 percent of the food commodities available to it. In fiscal year 2016, the District began making full use of the USDA food commodities available to it, and it also implemented new purchasing practices and was able to obtain certain food items, such as milk, for much lower prices. As a result, the District lowered its cost per meal to \$3.20 in fiscal year 2016, which was slightly lower than the peer district average for that fiscal year.

Transportation program reasonably efficient despite higher costs—Although Red Mesa USD's \$2.56 cost per mile was 16 percent higher than the peer districts' average and its \$2,010 cost per rider was 45 percent higher, auditors found the District's transportation program to be reasonably efficient. Costs were higher primarily because the District traveled fewer miles and transported fewer riders than peer districts, and therefore, certain costs were spread over fewer miles and riders. The District reviewed its bus routes every 2 to 3 months to ensure they were as efficient as possible, but because of the District's remote location and large geographic area, the District could not combine or eliminate any of its bus routes without increasing the already long route times. Despite its reasonably efficient program, the District did not always perform bus preventative maintenance in a timely manner (see Other Findings, page 11).

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

Spending	Red Mesa USD	Peer group average	State average
Total per pupil	\$15,707	\$9,939	\$7,658
Classroom dollars	5,814	4,812	4,105
Nonclassroom dollars			
Administration	2,951	1,311	780
Plant operations	2,793	1,483	930
Food service	672	476	417
Transportation	1,330	635	371
Student support	1,296	747	613
Instruction support	851	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 much higher administrative costs and lacked adequate accounting and computer controls

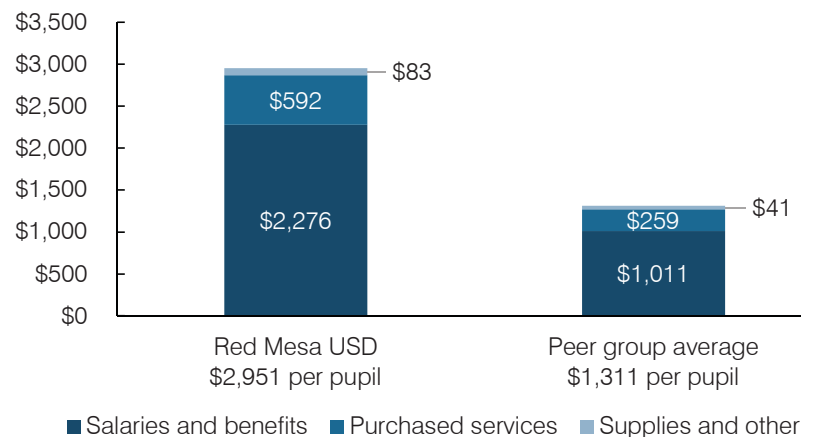
In fiscal year 2015, Red Mesa USD’s administrative costs per pupil were more than twice the peer districts’ average primarily because it employed more administrative positions. Additionally, the District lacked adequate accounting and computer controls. These poor controls exposed the District to an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

District employed more administrative positions

In fiscal year 2015, Red Mesa USD spent \$2,951 per pupil for administration, more than twice 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 \$1.14 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 \$1,265 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 Red Mesa USD’s administrative staffing to six other recently audited peer districts and found that Red Mesa USD employed one administrative full-time equivalent (FTE) position for every 32 students while the six peer districts averaged one administrative FTE for every 67 students. Staffing was higher primarily in the District’s central services where the District employed more business support positions, such as accounts payable clerks, payroll clerks, and warehouse employees, and more administrative technology positions, such as computer technicians.³ Staffing was also higher at the District’s schools where

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.

the District employed more administrative support positions, such as secretaries, office aides, and department heads, than the peer districts, on average. As discussed in Finding 2 of this report (see page 7), the District operates its schools far below their designed capacities and likely could operate fewer schools, which may allow it to reduce school-level administrative staffing and costs.

District lacked adequate accounting controls

In fiscal year 2015, Red Mesa USD lacked adequate controls over its payroll function, which resulted in it overpaying a terminated employee, and it did not accurately classify its expenditures.

District overpaid terminated employee—Auditors reviewed the District’s list of employees who terminated district employment in fiscal years 2014 and 2015 and found that one employee continued to receive regular paychecks totaling nearly \$5,000 after the District no longer employed the employee. According to the District’s personnel procedures, human resources staff are to complete a personnel action request notifying payroll staff when an employee’s employment has been terminated. Despite having procedures in place, district officials stated that the appropriate departments were not informed of this employee’s termination. The District should ensure that terminated employees are promptly removed from its payroll system to prevent inappropriate payments and seek legal counsel to determine whether overpayments made to the terminated employee should be recovered.

District did not accurately classify its expenditures—Red Mesa USD did not accurately 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 classification errors totaling approximately \$764,000 of the District’s total \$11 million in operational spending. 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, Red Mesa 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 loss of data.

Weak password requirements—The District lacked adequate password requirements for access to its computer network, accounting system, and student information system. More specifically, the passwords lacked length and complexity requirements, thus passwords could be short and did not need to contain numbers and symbols, and many network accounts did not require periodic password changes. 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 the system permits; and be changed periodically. Further, while at the District, auditors observed a note that had multiple usernames and passwords written on it in plain view. Strengthening password requirements and safeguarding usernames and passwords 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 36 accounting system users and identified three employees who had more access to the accounting system than they needed to perform their job duties. Two of the employees had full access to the accounting system, giving these employees the ability to perform all accounting system functions. Granting employees system access beyond what is required to fulfill their job duties, especially full system access, exposed the District to an increased 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 22 network user accounts and 22 accounting system user accounts had this type of access. Auditors reviewed each of these user accounts and found that 15 of the 22 network user accounts and 17 of the 22 accounting system user 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 data or disruption of district operations. Therefore, the District should review these accounts, determine if the users require administrator-level access, and make changes to access, accordingly.

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, accounting system, and student information system. Auditors reviewed the District’s fiscal year 2016 user access reports and found 12 network user accounts, 6 accounting system user accounts, and 2 student information system user accounts that were linked to employees who no longer worked for the District. 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 prompt access removal of any user the District no longer employs.

Outdated and unsupported operating systems—The District did not assess security risks associated with using outdated and unsupported operating systems. Auditors determined that 9 of the District’s 12 network-connected servers were using outdated and unsupported operating systems. The use of outdated and unsupported operating systems could compromise the District’s computer network and its sensitive information. Outdated and unsupported operating systems are at higher risk of computer-related attacks because the manufacturers no longer provide fixes for vulnerabilities discovered in the systems.

Wireless network not adequately secured—Although the District had encrypted its wireless networks, it was using an older and less secure method of encryption. Implementing a more up-to-date and secure 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 roles and responsibilities for staff 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 ensure that terminated employees are removed from the payroll system in a timely manner to prevent inappropriate payments.
3. The District should seek legal counsel to determine whether overpayments made to the terminated employee should be recovered.
4. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

5. The District should implement and enforce stronger password requirements related to password length, complexity, and expiration and not maintain any lists containing users' passwords.
6. The District should limit employees' access in the accounting system to only those accounting system functions needed to perform their work.
7. The District should review and reduce the number of users with administrator-level access to its computer network and systems.
8. The District should develop and implement a formal process to ensure that terminated employees have their computer network and systems access promptly removed.
9. The District should ensure that its network-connected servers have currently supported operating systems installed or reduce the risk of computer-related attacks by limiting their use and/or remove the network access to these servers.
10. The District should implement a more secure, up-to-date wireless network encryption technology.
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.

Much higher plant costs due to excess space, high energy costs, and higher staffing

In fiscal year 2015, Red Mesa USD’s plant operations costs per square foot and per pupil were much higher than the peer districts’ averages. The District’s costs were higher because it maintained excess building space, had higher energy costs, and employed more maintenance and security guards than the peer districts, on average. As a result, the District spent more of its available operating dollars on plant operations, leaving it less money available to spend in the classroom.

Higher plant costs because of excess building space

As shown in Table 2, Red Mesa USD’s plant operations cost per pupil was 88 percent higher than the peer districts’ average, and its cost per square foot was 59 percent higher. The District’s much higher costs were primarily caused by the District operating and maintaining 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 \$314,000, monies that otherwise potentially could have been spent in the classroom. As shown in Table 2, Red Mesa USD operated and maintained 326 square feet of building space per pupil, 19 percent more than the peer districts’ average of 274. Additionally, the number of square feet per pupil at each of the District’s schools was 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. As shown in Table 3 on page 8, the District operated between 201 and 460 square feet per pupil at each of its schools. Maintaining more building space per student is costly to the District because most of its funding is based on its number of students, not on the amount of square footage it maintains.

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

Efficiency measures	Red Mesa USD	Peer group average
Cost per square foot	\$8.56	\$5.37
Cost per pupil	\$2,793	\$1,483
Square feet per pupil	326	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.

The District’s additional building space was likely not needed because, in fiscal year 2015 and in many years prior, the District operated its schools far below their designed capacities. As shown in Table 3 on page 8, in fiscal year 2015, all five Red Mesa USD schools operated at below 60 percent of capacity, and the District overall operated at just 43 percent of capacity. The District had a total capacity for 1,633 students at its schools but had a student population of only 698 students. As shown in Figure 3 on page 8, excess building space is not a recent issue, as Red Mesa USD’s excess building space has existed since at least fiscal year 2008, during which time its building capacity has remained relatively stable while its number of students has decreased by 13 percent.

Table 3
Square footage per student, number of students, designed capacity, and percentage of capacity used by school
Fiscal year 2015
(Unaudited)

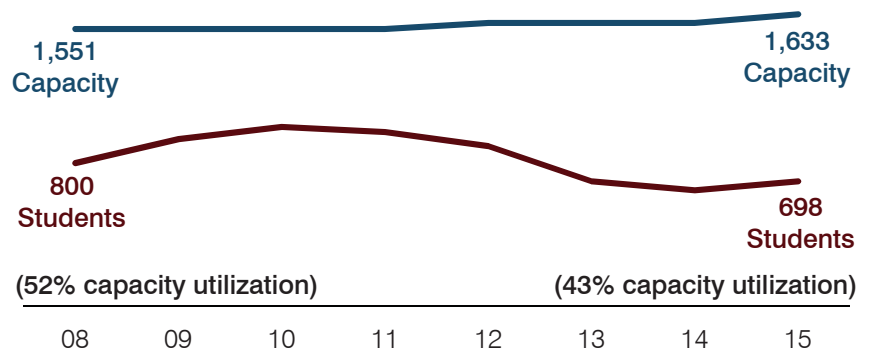
School name	Square footage per student	Number of students	Designed capacity	Percentage of capacity used
Red Mesa Elementary School	259	185	321	58%
Red Mesa Junior High School	201	127	247	51
Red Mesa High School	401	216	566	38
Round Rock Elementary/Junior High School	304	123	325	38
Red Valley/Cove High School	460	47	174	27

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

District can reduce excess building space

Three of the District’s schools, Red Mesa Elementary School, Red Mesa Junior High School, and Red Mesa High School, are located on the same campus. Therefore, because of the very close proximity of these schools and their low-capacity utilization, the District has options to reduce excess building space. Specifically, the District could consider closing one of the schools and accommodating the students at the remaining two schools. The District could also evaluate continued need for one or both of its more remote schools and/or the feasibility of combining students from its two more remote schools onto one campus because each of these schools operated at less than 40 percent of designed capacity, as shown in Table 3, above. Round Rock Elementary/Junior High School is located 46 miles from Red Mesa USD’s main campus, while Red Valley/Cove High School is located over 70 miles from the main campus. However, these two more remote schools are 37 miles apart from each other, so if the District determines that it does not need to operate both schools, it could consider combining them. The District could also consider closing off portions of its school buildings with unused space and adjusting the levels to which it heats and cools the space. Although decisions to close schools or portions of schools can be difficult and painful, these decisions are important because, as stated earlier, the District’s funding is based primarily on its number of students and not on its amount of square footage. However, operating fewer schools and thereby reducing plant operations costs would free up dollars that otherwise potentially could be spent in the classroom.

Figure 3
Comparison of total school designed capacities and number of students
Fiscal years 2008 through 2015
(Unaudited)



Source: Auditor General staff analysis of fiscal years 2008 through 2015 student membership data obtained from the Arizona Department of Education and fiscal years 2008 through 2015 building capacity information obtained from the Arizona School Facilities Board.

District's energy costs higher than peer districts'

In fiscal year 2015, Red Mesa USD's energy costs per square foot were 81 percent higher than the peer districts', on average. Although the District had informal policies that employees were to keep room temperatures at 70 to 71 degrees, most thermostats were not locked, and staff could change temperatures by as much as ten degrees without assistance from plant operations staff. Additionally, the District was not limiting the heating and cooling provided to rooms that were not used by students or staff. For example, auditors observed classrooms that were being used for storage but that were being cooled to 71 degrees. Further, the District did not monitor and compare monthly energy usage so that it could identify areas of high usage and evaluate options to reduce usage and costs.

Implementing a comprehensive energy conservation plan could help the District reduce its high energy costs by establishing acceptable room temperature settings and light settings for different times of the day. A comprehensive energy conservation plan could also set criteria regarding equipment usage, such as not allowing teachers to keep mini refrigerators, microwave ovens, and coffee makers in their classrooms. The plan could also require other energy-saving measures, such as keeping doors and windows closed when heating or cooling rooms, and closing blinds to reduce heat loss in the winter and keep heat out in the summer. The plan should also include provisions for monitoring energy usage at the District's schools and identifying ways to lower usage based on each site's specific facilities and equipment.

Higher staffing contributed to higher costs

Red Mesa USD's much higher plant operations costs in fiscal year 2015 were also the result of it employing more maintenance staff and security guards than the peer districts averaged. Specifically, Red Mesa employed one maintenance full-time equivalent (FTE) position for every 42,102 square feet, while five recently audited peer districts averaged one maintenance FTE for every 97,086 square feet. If the District had staffed its maintenance employees at the average level of these five peer districts, it could have employed about three fewer full-time maintenance employees and potentially could have saved over \$132,000 in plant operations salaries and benefits. The District's higher maintenance staffing can be attributed, at least partly, to the fact that it employed maintenance staff at its two more remote schools in addition to its main campus. Additionally, the District employed one security guard FTE for every 28,826 square feet, while the five recently audited peer districts averaged one security guard FTE for every 58,808 square feet. According to district officials, they employ security guards to help keep students in class, to keep unwanted visitors from entering school facilities, and to provide additional security at extracurricular events. However, if the District reduced its excess building space, as discussed in the previous sections, it could potentially reduce its maintenance and security guard staffing levels.

Recommendations

1. The District should review the use of space at each of its schools and determine and implement ways to reduce identified excess space.
2. To help reduce its energy costs, the District should monitor its energy usage and develop and implement a comprehensive energy conservation plan that identifies ways to lower energy usage at each of its schools based on each school's specific facilities and equipment.
3. The District should review its plant operations maintenance and security positions and determine and implement ways to reduce plant operations costs.



In addition to the two main findings presented in this report, auditors identified two other areas of concern that require district action. These additional findings and their related recommendations are as follows:

1. District did not always perform bus preventative maintenance in a timely manner

According to the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards), districts must demonstrate that their school buses receive systematic preventative maintenance and inspections, including 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, Red Mesa USD did not always conduct preventative maintenance activities in a timely manner. Auditors reviewed fiscal years 2014, 2015, and 2016 bus maintenance files for 15 of the District's 29 buses and found that 8 buses reviewed exceeded the District's informal 7,000-mile oil change schedule. These lapses ranged from 572 miles to over 18,000 miles. Further, although the District had an informal policy for the number of allowable miles between oil changes, it did not have a policy and schedule pertaining to other preventative maintenance activities, such as tire and brake inspections, or specific procedures to be performed during preventative maintenance services.

Recommendation

The District should develop a formal preventative maintenance policy and schedule, including the specific procedures to be performed during preventative maintenance services, and ensure that bus preventative maintenance is conducted in a systematic and timely manner in accordance with its policy and the State's Minimum Standards.

2. 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 September 2008, ADE performed such an evaluation and determined that Red Mesa USD's ELL program did not meet all requirements. Although the District submitted a corrective action plan in response to ADE's evaluation, in September 2017, ADE conducted another evaluation of the District's ELL program and found issues similar to those found in the 2008 evaluation and determined once again that the District's program did not meet all requirements. Specifically, in 2017, ADE found that the District did not meet the following requirements:

- **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**—Because the District had fewer than 20 ELL students per grade span by school, these students could be placed on Individual Language Learner Plans (ILLPs) and receive ELL services in the mainstream classroom. However, none of the District's ELL students had ILLPs in place.

Because of these deficiencies, the District was required to submit a corrective action plan to ADE by mid-December 2017. If the District is still found to be noncompliant, ADE may refer the District to the State Board of Education for review.

Recommendation

The District should ensure that it submits and follows an approved corrective action plan that corrects all deficiencies in its ELL program.



Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of the Red Mesa 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*. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2015, was considered.⁴ 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 Red Mesa 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. Red Mesa USD's student achievement peer group includes Red Mesa USD and the 15 other unified school districts that also served student populations with poverty rates greater than 36 percent and were located in towns and rural areas. Auditors compared Red Mesa USD's graduation rate and its percentage of students who passed state assessments to its peer group averages for these measures.⁵ Generally, auditors considered Red Mesa 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 passed state assessments between Red Mesa USD and its peers, as well as differences between their graduation rates.

To analyze Red Mesa 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 Red Mesa USD and the 28 other unified and union school districts that also served between 600 and 1,999 students and were located in towns and rural areas. To analyze Red Mesa 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 Red Mesa USD and the 16 other school districts that also traveled more than 489 miles per rider and were located in towns and rural areas. Auditors compared Red Mesa USD's costs to its peer group averages. Generally, auditors considered Red Mesa USD's costs to be

⁴ Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with the acquisition of capital assets (such as purchasing or leasing land, buildings, and equipment), interest, and programs such as adult education and community service that are outside the scope of preschool through grade 12 education.

⁵ The percentage of students who passed state assessments 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 state standards on the Arizona's Instrument to Measure Standards (AIMS) science test. Test results were aggregated across grade levels and courses, as applicable.

similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 10 percent of peer averages, higher/lower if they were within 11 to 15 percent of peer averages, and much higher/lower if they were more than 15 percent higher/lower than peer averages. However, in determining the overall efficiency of Red Mesa 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 240 individuals who received payments in fiscal year 2015 through the District's payroll system and reviewed supporting documentation for 30 of the 6,000 fiscal year 2015 accounts payable transactions. 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 evaluate staffing levels, auditors reviewed the number of plant operations and maintenance staff at five of the peer districts that were recently audited and, like Red Mesa USD, did not outsource their plant operations and maintenance programs and compared their staffing levels to Red Mesa USD's.
- 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 18 bus drivers, and reviewed bus maintenance and safety records for 15 of the District's 29 buses, 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 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 (ADE) food service-monitoring reports; reviewed point-of-sale system reports; and observed food service operations.
- To assess whether the District's English Language Learner program met all state and federal requirements, auditors reviewed the most recent evaluation from ADE.
- 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 Red Mesa Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE



Red Mesa Unified School District #27

HC 61 Box 40 * Teec Nos Pos, AZ 86514 * Phone (928) 656-4100 * Fax (928) 656-4106 * <http://www.rmUSD.net>
Mr. Kim Pearce - Superintendent - kpearce@rmUSD.net

January 11, 2018

State of Arizona
Office of the Auditor General
Division of School Audits
Ms. Ann Orrico
2910N 44th Street, Suite 410
Phoenix, AZ 85018

RE: Red Mesa School District Performance Audit

Dear Ms. Orrico:

Red Mesa Unified School District #27 has received and reviewed the Preliminary Draft Performance Audit for Fiscal Year 2015. On behalf of the Governing Board and the staff of Red Mesa Unified, I would like to commend the Auditor General staff that worked with us on the audit and assistance with responses to the audit findings. The audit process and the written findings provide a vehicle to improve our efficiency procedures, record keeping and overall performance moving forward. The District will work to ensure that all findings and recommendations are addressed and resolved in a timely manner. The District response to each of the findings is enclosed with this letter.

If you have any questions or concerns, please do not hesitate to contact me at (928) 656-4108.

Sincerely,

Kim J. Pearce
Superintendent

Cc: Henrietta Keyannie, Chief Financial Officer

Governing Board

Ernest Harry Begay
Board President

Sarah Lee
Board Vice President

Timothy Benally
Board Member

Martha Saggboy
Board Member

Minnie John
Board Member

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

District Response: Red Mesa Unified School District (RMUSD) agrees with the finding and all the recommendations. The Administrative Team has been working to achieve efficiency in its overall operations over the last few years.

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 has eliminated several administrative positions in recent years. One satellite school now has a lead teacher as opposed to a full time principal. Another satellite school shares a principal with a school on main campus. A support services director position was eliminated as well. The supervision for the support services departments are now lead positions as opposed to director positions. The effort continues to reduce administrative costs wherever possible.

Recommendation 2: The District should ensure that terminated employees are removed from the payroll system in a timely manner to prevent inappropriate payments.

District Response: The District now inactivates the terminated employee in the system after the final payroll is paid to the employee. The employee remains in inactive status for two (2) years, then archived.

Recommendation 3: The District should seek legal counsel to determine whether overpayments made to the terminated employee should be recovered.

District Response: A letter was sent to the individual but they did not attempt to reimburse the District. Legal Counsel for the District advised that an attempt to pursue legal action would be more costly in legal fees than what was owed. There are safeguards in place now to prevent overpayments from occurring. School/department secretaries are required to report staff absences timely.

Recommendation 4: The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

District Response: The District has implemented Purchasing Procedures in accordance with the Uniform System of Financial Records, the Arizona Administrative Code and The Uniform Chart of Accounts. The account codes are reviewed and verified that they are accurate and in accordance with the Uniform Chart of Accounts.

Recommendation 5: The District should implement and enforce stronger password requirements related to password length, complexity, and expiration and not maintain any lists containing users' passwords.

District Response: There were changes made in the Active Directory to implement stronger passwords. Users are prompted periodically to change their passwords, which now require more complexity. Password lists are not being maintained.

Recommendation 6: The District should limit employees' access in the accounting system to only those accounting system functions needed to perform their work.

District Response: There were changes made to the user roles for positions to limit access only to menu items required of the position in the accounting system. So when an employee is assigned the user role, they only access what is necessary for the position role.

Recommendation 7: The District should review and reduce the number of users with administrator-level access to its computer network and systems.

District Response: There were changes made to limit the administrator-level access to the computer network and systems. Administrator-level access is now limited to the two (2) Technology Technicians at the District and two (2) Apache County Technology Technicians who assist the district with the server/network support.

Recommendation 8: 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 Human Resources Department now notifies the Technology Department of the termination of employees via email. The IT staff then remove all access to systems for the employee.

Recommendation 9: The District should ensure that its network-connected servers have currently supported operating systems installed or reduce the risk of computer-related attacks by limiting their use and/or remove the network access to these servers.

District Response: The older servers that were running 2003 server edition operating systems have been removed from the network. They were replaced with host servers and virtual servers with newer operating systems.

Recommendation 10: The District should implement a more secure, up-to-date wireless network encryption technology.

District Response: New, more secure wireless access points are currently being installed. The upgrades started with the school buildings and will be completed with all the other buildings by March, 2018.

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 contingency plan has been reviewed and tested with assistance from the Apache County Technology Technicians when new servers were setup for the Accounting data. The backup data is now stored at a separate building.

Finding 2: Much higher plant costs due to excess space, high energy costs, and higher staffing

District Response: RMUSD agrees with the finding and all the recommendations. The District has experienced declining student enrollment over the last several years. The decline has resulted in unused classroom space in the school buildings. Due to the construction of the facilities, it is not always a matter of turning off utilities to portions of buildings. The District is in the process of evaluating the best course of action to reduce plant costs.

Recommendation 1: The District should review the use of space at each of its schools and determine and implement ways to reduce identified excess space.

District Response: The district hired a consultant to do assessments, evaluations and construct a capital improvement plan to support facilities. The best solution is being explored to possibly consolidate schools and close down unused areas or even the whole building if feasible.

Recommendation 2: To help reduce its energy costs, the District should monitor its energy usage and develop and implement a comprehensive energy conservation plan that identifies ways to lower energy usage at each of its schools based on each school's specific facilities and equipment.

District Response: An improvement plan is being implemented to support weatherizing buildings and upgrading operational systems to more efficient systems.

Recommendation 3: The District should review its plant operations maintenance and security positions and determine and implement ways to reduce plant operations costs.

District Response: The District is in the process of restructuring the organization to align staffing with the declining student enrollment. This will address the staffing in the plant operations as well as other support departments. The cross training of maintenance personnel has been implemented to minimize the need for contractors' services.

Other Finding 1: District did not always perform bus preventative maintenance in a timely manner

District Response: RMUSD agrees with the finding and the recommendation. The District has developed processes and procedures to improve bus preventive maintenance.

Recommendation 1: The District should develop a formal preventative maintenance policy and schedule, including the specific procedures to be performed during preventative maintenance services, and ensure that bus preventative maintenance is conducted in a systematic and timely manner in accordance with its policy and the State's *Minimum Standards*.

District Response: The District developed and implemented a preventive maintenance procedure and schedule. Each bus has a dedicated binder which contains forms and logs of the dates and types of services performed. The mechanics maintain the logs and sign that the services were completed. The buses are inspected annually by AZ DPS.

Other Finding 2: District did not follow all requirements for its English Language Learner program

District Response: RMUSD agrees with the finding and the recommendation. The District has developed and implementing the English Language Learner Program.

Recommendation 1: The District should ensure that it submits and follows an approved corrective action plan that corrects all deficiencies in its ELL program.

District Response: The Corrective Action Plan for the ELL Program has been submitted to Arizona Department of Education. An employee has been designated as the Red Mesa District AZELLA test coordinator and this person has been testing new enrollees within the requirement of 2 weeks. The Test Coordinator is working on sending parent letters and reports within the designated time requirements for AZELLA letters and information. The principals are working with teachers to collaborate with the Test Coordinator to begin writing ILLPs for their students who are identified as ELLs.

