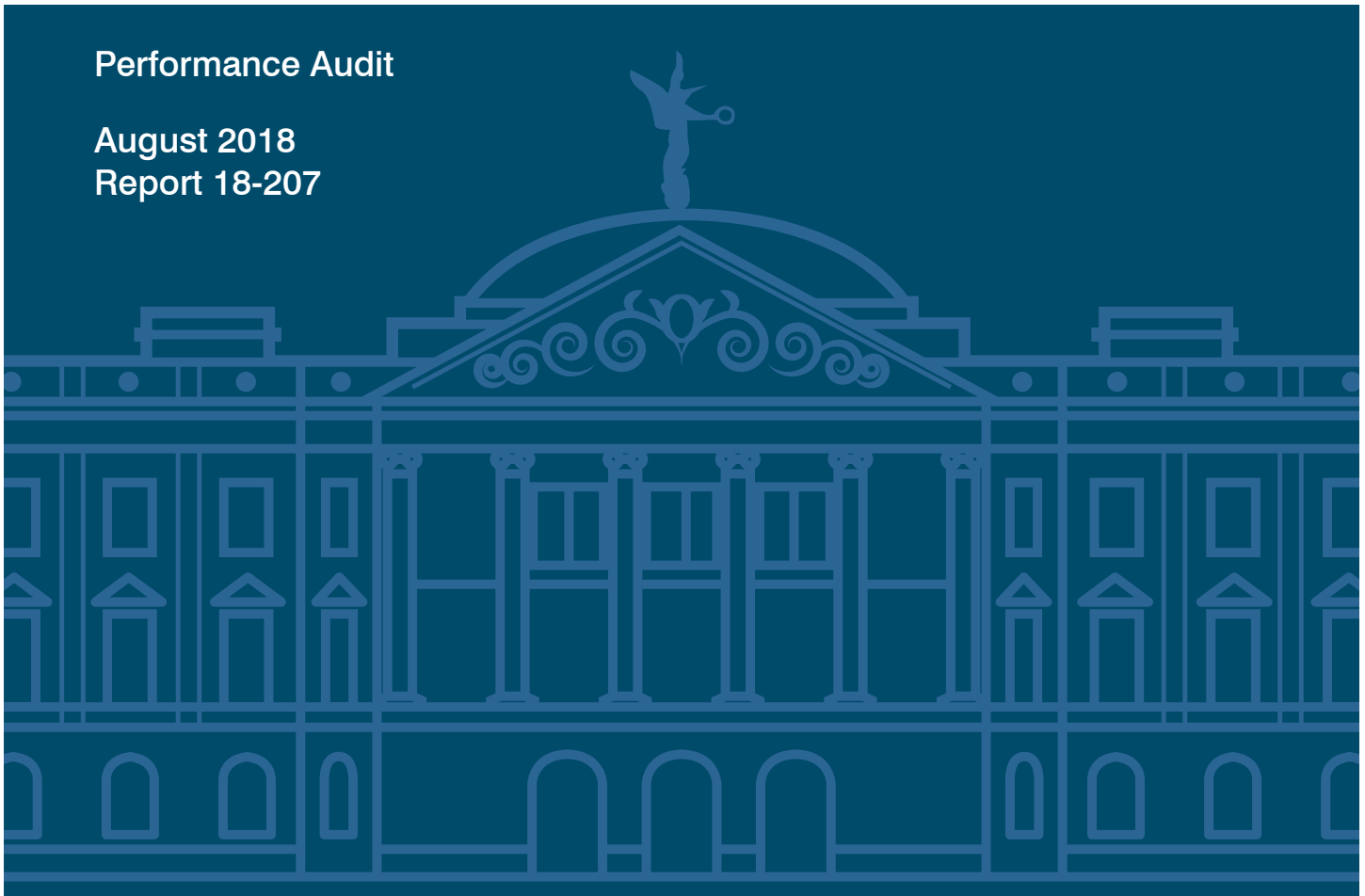


San Fernando Elementary School District

Performance Audit

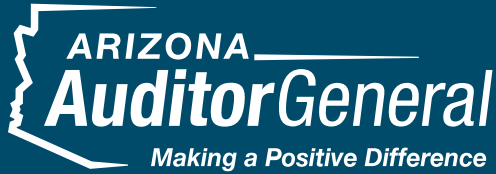
August 2018
Report 18-207



A Report to the Arizona Legislature

Lindsey Perry
Auditor General





The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, the Office 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.

The Joint Legislative Audit Committee

Representative **Anthony Kern**, Chair

Representative **John Allen**

Representative **Rusty Bowers**

Representative **Rebecca Rios**

Representative **Athena Salman**

Representative **J.D. Mesnard** (ex officio)

Senator **Bob Worsley**, Vice Chair

Senator **Sean Bowie**

Senator **Judy Burges**

Senator **Lupe Contreras**

Senator **John Kavanagh**

Senator **Steve Yarbrough** (ex officio)

Audit Staff

Vicki Hanson, Director

John Ward, Manager and Contact Person

Jennifer Brown, Team Leader

Contact Information

Arizona Office of the Auditor General
2910 N. 44th St.
Ste. 410
Phoenix, AZ 85018

(602) 553-0333

www.azauditor.gov



LINDSEY PERRY, CPA, CFE
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

August 2, 2018

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
San Fernando Elementary School District

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

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

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

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General



San Fernando Elementary School District

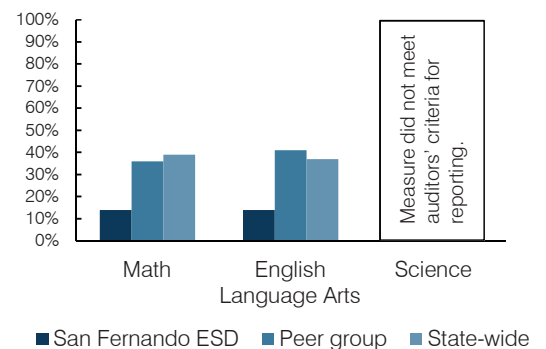
CONCLUSION: In fiscal year 2017, San Fernando ESD's student passage rates on state assessments were lower than its peer districts' averages, and the District's operations were reasonably efficient overall for its small size. The District spent less per pupil on administrative, food service, and transportation costs than its peer districts averaged. Although the District spent slightly more per pupil on plant operations, its higher costs were in large part due to having higher communications costs, likely reflecting the District's remote location. However, the District needs to strengthen some management, accounting, computer, and transportation controls.

Student achievement and operational efficiency

Student achievement—For very small districts such as San Fernando ESD, year-to-year changes in student populations can greatly impact year-to-year student test scores. In fiscal year 2017, the percentages of San Fernando ESD's students who passed state assessments in Math and English Language Arts were lower than its peer districts' averages. We did not report the District's passage rate in Science because the population of test takers was too small, and providing the information could identify individual student results.

Operations were reasonably efficient overall—In fiscal year 2017, San Fernando ESD's operations were reasonably efficient overall for its small size. Although the District spent slightly less per pupil in total than its peer districts averaged, it spent a similar amount per pupil on instruction because it spent less in almost all other operational areas. The District's per pupil administrative costs were slightly lower than the peer districts' average primarily because it spent less on purchased professional services, such as the use of consultants, accountants, legal services, auditors, and other administrative support services. The District spent less on purchased professional services because the Pima County School Superintendent's Office (PCSSO) provided some of these services at no cost to the District and because the District was not required to contract for a financial statement audit. The District also operated a very small food service program with lower costs per pupil than the peer group's average. In fiscal year 2017, the District did not operate a regular transportation program that transported students to and from school daily. Instead, the District used its two buses only to transport students for field trips. As a result, the District spent much less per pupil on transportation than its peer districts, most of which operated regular bus routes. The only operational area where the District spent more than its peer districts was plant operations. The District had slightly higher per pupil plant operations costs in large part because it spent more to obtain communication services such as telephone and internet, likely reflecting the District's remote location and having only a single source from which to obtain internet services.

Percentage of students who passed state assessments
 Fiscal year 2017



Comparison of per pupil expenditures by operational area
 Fiscal year 2017

	San Fernando ESD	Peer group average
Administration	\$2,793	\$3,137
Plant operations	2,877	2,644
Food service	829	1,000
Transportation	288	961

District needs to strengthen management, accounting, and computer controls

In fiscal years 2017 and 2018, some of San Fernando ESD's management, accounting, and computer controls were inadequate. Although no improper transactions were detected in the items we reviewed, these poor controls exposed the District to an increased risk of errors, fraud, unauthorized access to sensitive information, and data loss. Specifically:

- **District did not have written agreement with the PCSSO for managing district operations**—The PCSSO performs many of the District's primary business functions, such as processing payments and payroll, managing employee data, and complying with state reporting requirements. However, the District did not have a written agreement with the PCSSO in fiscal years 2017 or 2018 that defined each entity's responsibilities for managing district operations. Because responsibilities were not clearly defined, some key tasks were not performed, including the failure to remove one terminated employee's student information system access, and the District's financial information was not backed up to a secure location.
- **Some purchases lacked proper approval, and others were paid without adequate support**—We reviewed 30 fiscal year 2017 accounts payable transactions and found that 6 transactions failed to meet *Uniform System of Financial Records for Arizona School Districts* requirements. For 2 transactions the District made purchases before it had completed and approved associated purchase orders. For 3 transactions the District paid the vendor without first having adequate documentation supporting that goods or services were received and billings were accurate. Additionally, for 1 transaction the District failed to complete and approve a purchase order and also failed to document that goods or services were received and billing was accurate prior to paying the vendor.
- **District did not accurately classify all its expenditures among and within operational categories**—The District did not accurately classify all its fiscal year 2017 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its *Annual Financial Report* did not accurately present the District's spending among and within operational categories, such as instruction, administration, and food service, among others. We identified classification errors totaling \$28,575 of the District's total \$329,805 in operational spending.
- **Student information system password requirements were weak**—We reviewed the District's password requirements for its student information system in September 2017 and determined that they were weak. Strengthening password requirements would decrease the risk of unauthorized persons gaining access to sensitive information in the District's student information system.
- **Accounting system users had broad access**—We reviewed the District's September 2017 user access report for its four accounting system users and identified that all four users had more access to the accounting system than was appropriate. Granting users such broad access exposes the District to a greater risk of errors and fraud, such as processing false invoices or adding and paying nonexistent vendors or employees.

Recommendations

The District should:

- Establish a written agreement with the PCSSO outlining each entity's responsibilities for managing district operations, including defining responsibilities for promptly removing terminated employees' system access and backing up financial information to a secure location.
- Ensure that purchases are approved before they are made and are adequately supported prior to payment.
- Classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
- Implement proper controls over its student information and accounting systems.

District lacked procedures to ensure bus drivers met certification requirements

In fiscal years 2017 and 2018, the District lacked procedures to ensure that its two bus drivers met certification requirements. As a result, the District's records demonstrating that its bus drivers met the State's *Minimum Standards for School Buses and School Bus Drivers* were incomplete.

Recommendation

The District should develop and implement procedures to ensure that bus drivers meet certification requirements and maintain documentation indicating those requirements have been met.



TABLE OF CONTENTS

District Overview	1
Student achievement	1
District was reasonably efficient overall but needs to improve controls	1
Finding 1: District needs to strengthen management, accounting, and computer controls	3
District needs to strengthen management and accounting controls	3
District needs to strengthen computer controls	4
Recommendations	4
Other Findings	7
District lacked procedures to ensure bus drivers met certification requirements	7
Recommendation	7
Appendix: Objectives, scope, and methodology	a-1
District Response	
Table	
1 Comparison of per pupil expenditures by operational area Fiscal year 2017 (Unaudited)	2
Figure	
1 Percentage of students who passed state assessments Fiscal year 2017 (Unaudited)	1



DISTRICT OVERVIEW

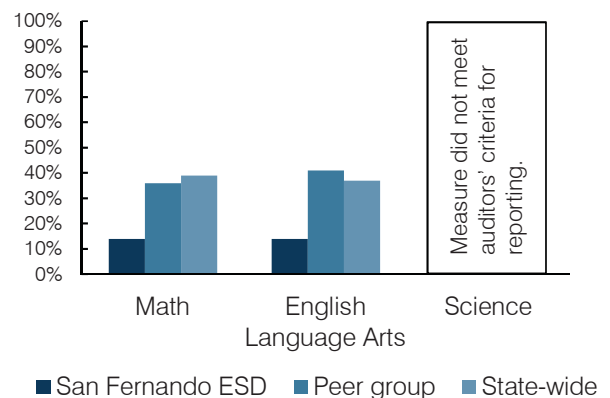
San Fernando Elementary School District is a rural district located about 72 miles south of Tucson in Pima County, on the United States/Mexico border. In fiscal year 2017, the District served 21 students in kindergarten through 8th grade at its one school.

In fiscal year 2017, the percentages of San Fernando ESD's students who passed state assessments in Math and English Language Arts were lower than its peer districts' averages.¹ Although the District's total per pupil spending was slightly less than its peer districts' average, it spent slightly more of its available operating dollars on instruction, and its operations were reasonably efficient overall for its small size.² However, the District needs to strengthen some of its management, accounting, computer, and transportation controls.

Student achievement

In fiscal year 2017, 14 percent of the District's students passed the state assessment in Math, and 14 percent passed in English Language Arts. As shown in Figure 1, these passage rates were lower than the peer districts' averages. However, for very small districts such as San Fernando ESD, year-to-year changes in student populations can greatly impact year-to-year student test scores. Auditors did not report the District's passage rate in Science because the population of test takers was too small, and providing the information could identify individual student results. Additionally, the District's school did not receive a letter grade under the Arizona Department of Education's A-F Accountability System for the 2016-2017 school year, primarily because the school did not have a sufficient number of students who took state assessments.³

Figure 1
Percentage of students who passed state assessments
Fiscal year 2017
(Unaudited)



Source: Auditor General staff analysis of fiscal year 2017 test results on Arizona's Measurement of Educational Readiness to Inform Teaching (AzMERIT) and Arizona's Instrument to Measure Standards (AIMS).

District was reasonably efficient overall but needs to improve controls

As shown in Table 1 on page 2 and based on auditors' review of various performance measures and auditors' observations, in fiscal year 2017, San Fernando ESD's operations were reasonably efficient overall for its small size. Although the District spent slightly less per pupil in total than its peer districts averaged, it spent a similar amount per pupil on instruction because it spent less in almost all other operational areas. As a result, the District spent 53.8 percent of its available operating dollars on instruction

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

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

³ In fiscal year 2017, the State Board of Education (SBE) required that a minimum number of students at a school be tested with state assessments in order for the Arizona Department of Education to assign the school a letter grade. In fiscal year 2017, San Fernando ESD's school did not meet the SBE's requirements to be assigned a letter grade because it had fewer than 20 eligible test takers in some testing categories.

while the peer districts averaged 49.3 percent. However, despite reasonably efficient operations overall, auditors identified some opportunities for improved controls in several areas.

Slightly lower administrative costs but some improvements needed—San Fernando ESD’s \$2,793 per pupil administrative costs were 11 percent lower than the peer districts’ \$3,137 average primarily because the District spent less than its peer districts on purchased professional services, such as the use of consultants, accountants, legal services, auditors, and other administrative support services. One reason for the District’s lower costs in this area is that the Pima County School Superintendent’s Office provided some of these types of services to the District at no cost to the District. Another reason for the District’s lower administrative costs is that in fiscal year 2017, it was not required to contract for a financial statement audit of the prior fiscal year because the District’s fiscal year 2016 Maintenance and Operation (M&O) Fund expenditure budget was less than \$700,000.⁴ However, the District should strengthen some of its management, accounting, and computer controls (see Finding 1, page 3).

Table 1
Comparison of per pupil expenditures by operational area
Fiscal year 2017
(Unaudited)

Operational area	San		
	Fernando ESD	Peer group average	State average
Instruction	\$8,450	\$ 8,613	\$4,377
Administration	2,793	3,137	844
Plant operations	2,877	2,644	977
Food service	829	1,000	422
Transportation	288	961	381
Student support	102	601	679
Instruction support	373	498	461
Total per pupil	\$15,712	\$17,454	\$8,141

Source: Auditor General staff analysis of fiscal year 2017 Arizona Department of Education student membership data and district-reported accounting data.

Plant operations reasonably efficient despite slightly higher costs—The District’s \$2,877 plant operations costs per pupil were slightly higher than the peer districts’ \$2,644 average. The District spent slightly more per pupil despite maintaining almost 200 fewer square feet of building space per pupil than its peer districts averaged, in large part because it spent \$463 more per pupil for its communication services such as telephone and internet. The higher costs likely reflect the District’s remote location and, according to district officials, having only a single source from which to obtain internet services. Despite the slightly higher per pupil plant operations costs, auditors observed the District’s facilities and plant operations activities and did not identify any overstaffing, unusually high salaries, or excessive or unneeded heating or cooling of buildings.

Food service program reasonably efficient—The District operated a very small food service program and did not participate in the National School Lunch Program (NSLP) in fiscal year 2017.⁵ The District operated its program at a cost of \$829 per pupil, which was lower than its peer districts’ \$1,000 average. Auditors observed food service program operations and did not identify any overstaffing or unusually high salaries, and its production and inventory procedures appeared adequate to limit food waste.

District did not operate a regular transportation program with daily routes but some improvements still needed—In fiscal year 2017, the District did not operate a regular transportation program that transported students to and from school daily. Instead, the District’s two buses were used only to transport students for field trips. As a result, the District spent much less per pupil on transportation than its peer districts, most of which operated regular bus routes. Although the District transported students only for field trips, it did not ensure that its bus drivers met all certification requirements (see Other Findings, page 7).

⁴ A school district that has an adopted expenditure budget of \$2 million or more for the M&O Fund is required to contract for an annual financial statement audit. A school district that has an adopted expenditure budget of less than \$2 million but more than \$700,000 for the M&O Fund is required to contract for a biennial financial statement audit (i.e., an audit of two fiscal years performed after the second year). A school district that has an adopted expenditure budget of \$700,000 or less for the M&O Fund is not subject to financial statement audits.

⁵ Arizona Revised Statutes §15-242 allows districts like San Fernando ESD to be exempt from participating in the NSLP if they have fewer than 100 students and were not participating in the program as of August 2005.



District needs to strengthen management, accounting, and computer controls

In fiscal years 2017 and 2018, some of San Fernando ESD's management, accounting, and computer controls were inadequate. Although no improper transactions were detected in the items auditors reviewed, these poor controls exposed the District to an increased risk of errors, fraud, unauthorized access to sensitive information, and data loss.

District needs to strengthen management and accounting controls

Although the Pima County School Superintendent's Office (PCSSO) managed much of San Fernando ESD's operations because of the District's very small size, the District lacked a written agreement with the PCSSO in fiscal years 2017 and 2018 defining each entity's responsibilities for managing district operations. Additionally, the District lacked proper approval for some of its fiscal year 2017 purchases, paid for some purchases without adequate support, and did not accurately classify all its expenditures.

District did not have written agreement with the PCSSO for managing district operations—

The PCSSO performs many of the primary business functions for San Fernando ESD, such as processing payments and payroll, managing employee data, and complying with state reporting requirements. However, the District did not have a written agreement with the PCSSO in fiscal years 2017 and 2018 that defined each entity's responsibilities for managing district operations. Because responsibilities were not clearly defined in a written agreement, some key tasks were not performed, including the failure to remove student information system access for one employee who had not worked for the District for more than a year, increasing the risk of unauthorized access to the District's student information system. According to district officials, the responsibility for developing and implementing procedures for promptly removing a terminated employee's access to the student information system was not clearly defined between San Fernando ESD and the PCSSO. Additionally, the District's financial information in its accounting system was not backed up to a secure location at any time during fiscal year 2017 or 2018 because the District did not define this responsibility with the PCSSO. As a result, the District was left vulnerable to the loss of its financial accounting data in the event of a disaster. By creating a written agreement, San Fernando ESD and the PCSSO can help ensure accountability for performing all key tasks by clearly defining each entity's responsibilities. An agreement should specify responsibilities pertaining to decision-making authority; accounting, payroll, and human resource procedures; federal and state reporting procedures; establishing and maintaining computer systems' user access, including removing terminated employees' access from systems; ensuring the security of computer systems' data; and data backup, storage, and recovery.

Some purchases lacked proper approval, and others were paid without adequate support—

The District needs to strengthen its purchasing controls to ensure that all purchases are properly approved prior to being made and that payments occur only after the District has verified that it has received all goods or services and billings are accurate. Auditors reviewed 30 fiscal year 2017 accounts payable transactions and found that 6 transactions failed to meet *Uniform System of Financial Records for Arizona School Districts* (USFR) requirements. For 2 transactions, the District made purchases before it had completed and approved an associated purchase order. For 3 other transactions, the District paid the vendor without first having adequate documentation supporting that goods or services were received and billings were accurate. Additionally, 1 transaction had both problems mentioned above because the District failed to complete and approve a purchase order and also

failed to document that goods or services were received and billing was accurate prior to paying the vendor. Although no inappropriate transactions were detected in the items auditors reviewed, the District should ensure that an authorized employee approves all purchases prior to ordering goods or services and should pay vendors only after verifying that the District has received the goods or services and billings are accurate, as required by the USFR. This would help ensure that the District has adequate budget capacity and that expenditures are appropriate and properly supported.

District did not accurately classify all its expenditures among and within operational categories—San Fernando ESD did not accurately classify all its fiscal year 2017 expenditures in accordance with the Uniform Chart of Accounts for school districts. Specifically, the District did not accurately classify all its expenditures among and within operational categories, such as instruction, administration, and food service, among others. As a result, the District's *Annual Financial Report* did not accurately present the report's users with the District's spending in these operational categories. Auditors identified classification errors totaling \$28,575 of the District's total \$329,805 in operational spending.⁶ The dollar amounts shown in the table and used for analysis in this report reflect the necessary adjustments.

District needs to strengthen computer controls

San Fernando ESD lacked adequate controls over its critical information technology systems. These poor controls exposed the District to an increased risk of unauthorized access to these critical systems, as well as an increased risk of errors and fraud.

Student information system password requirements were weak—The District did not have strong password requirements for its student information system. 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. However, auditors reviewed the District's password requirements in September 2017 and determined that the District did not require that system passwords meet these guidelines. Strengthening password requirements would decrease the risk of unauthorized persons gaining access to sensitive information in the District's student information system.

Accounting system users had broad access—Auditors reviewed the District's user access report in September 2017 for the four accounting system users, all of whom were PCSSO business office employees because the PCSSO performs all San Fernando ESD's accounting system functions, and identified that all four users had more access to the accounting system than was appropriate. All four users had full access to the system, giving them the ability to perform all accounting functions without an independent review and approval. Additionally, two users had access to administer the District's accounting system. Administrator-level access allows users full control over system settings, such as the ability to add new users and modify the level of access users have in the system, including granting themselves full access to edit all accounting data in the system. Although the PCSSO performs the District's accounting system functions, the District did not have a review process in place to help ensure that accounting system users had appropriate levels of access. As part of a review process, the District should work with the PCSSO to transfer administrator-level access to someone outside of the PCSSO business office. Although auditors did not detect any improper transactions in the payroll and accounts payable transactions reviewed, granting users such broad access, especially full system access, exposes the District to a greater risk of errors and fraud, such as processing false invoices or adding and paying nonexistent vendors or employees.

Recommendations

1. The District should establish a written agreement with the PCSSO that outlines each entity's responsibilities for managing district operations.

⁶ Operational spending includes costs incurred for the District's day-to-day operations. For further explanation, see Appendix page a-1.

2. The District should develop and implement procedures to help ensure that terminated employees have their access to the District's information technology systems promptly removed.
3. The District should back up its financial information in its accounting system to a secure location.
4. The District should ensure that it requires an independent review and approval for all its purchases prior to the purchases being made and document that all goods and services have been received and billings are accurate prior to payment.
5. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
6. The District should implement stronger password requirements for its student information system related to password length, complexity, and expiration.
7. The District should limit users' access in its accounting system to only those accounting system functions necessary to perform their job duties, including transferring the business office employees' administrator-level access to someone outside of the business office.



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

District lacked procedures to ensure bus drivers met certification requirements

Although San Fernando ESD did not operate a regular transportation program with daily bus routes, it employed two employees whose duties included transporting students on buses for field trips. To help ensure student safety, the State's *Minimum Standards for School Buses and School Bus Drivers* (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 interviewed district officials and reviewed bus driver files for the District's two employees who were assigned to drive in fiscal years 2017 and 2018 and found that the District lacked procedures to ensure both bus drivers met certification requirements. As a result, the District's records demonstrating that its bus drivers met the Minimum Standards were incomplete. Specifically, auditors noted that available documentation in one driver's file indicated a 4-month lapse in the bus driver's commercial driver's license, an 11-month lapse in required annual drug testing, a 2-year lapse in physical performance testing, a 2-year lapse in refresher training, a 2-year lapse in CPR training, and a 1-year lapse in first aid certification. Additionally, available documentation in the other bus driver's file indicated an 8-month lapse in required annual drug testing.

To comply with the Minimum Standards and to help ensure a safe transportation program, the District should develop and implement procedures to ensure that drivers meet all certification requirements and should maintain documentation demonstrating compliance.

Recommendation

The District should develop and implement procedures to ensure that bus drivers meet certification requirements and maintain documentation indicating those requirements have been met in accordance with the State's Minimum Standards.



Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of the San Fernando Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation because of their effect on instructional 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 2017, was considered.⁷ 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 on instruction.

For very small districts such as San Fernando ESD, increasing or decreasing student enrollment by just five or ten students or employing even one additional part-time position can dramatically impact the district's costs per pupil in any given year. As a result, and as noted in the fiscal year 2017 *Arizona School District Spending* report, very small districts' spending patterns are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of San Fernando ESD's operations, less weight was given to various cost measures, and more weight was given to auditor observations made at San Fernando ESD.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2017 summary accounting data for all districts and San Fernando ESD's fiscal year 2017 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. San Fernando ESD's student achievement peer group includes San Fernando ESD and the six other elementary school districts that also served student populations with poverty rates less than 16 percent and were located in towns and rural areas. Auditors compared San Fernando ESD's percentages of students who passed state assessments to its peer groups' averages.⁸ Generally, auditors considered San Fernando ESD's percentages to be similar if they were within 5 percentage points of peer averages and higher/lower if they were more than 5 percentage points higher/lower than peer averages.

To analyze San Fernando ESD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size and location. This operational peer group includes San Fernando ESD and 52 other school districts that also served fewer than 200 students and were located in towns and rural areas. Auditors compared San Fernando ESD's costs to its peer group averages. Generally, auditors considered San Fernando ESD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 15 percent of peer averages, higher/lower if they were within 16 to 30 percent of peer averages, and much higher/

⁷ 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.

⁸ 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 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.

lower if they were more than 30 percent higher/lower than peer averages. However, in determining the overall efficiency of San Fernando ESD's noninstructional operational areas, auditors also considered other factors that affect costs and operational efficiency such as square footage per student, 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 2017 administration costs and compared them to peer districts'.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2017 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for the nine individuals who received payments in fiscal year 2017 through the District's payroll system and reviewed supporting documentation for 30 of the 426 fiscal year 2017 accounts payable transactions. No improper transactions were identified. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2017 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that they 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 transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, bus driver files for the District's two drivers, and bus maintenance and safety records. Auditors also reviewed fiscal year 2017 transportation costs. Because the District did not operate daily bus routes in fiscal year 2017, auditors did not compare the District's fiscal year 2017 transportation costs per mile and per rider to peer districts'.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2017 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 food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2017 food service revenues and expenditures, including labor and food costs; compared costs to peer districts; and observed food service operations.
- To assess whether the District complied with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2017 expenditures to determine whether they were appropriate and if the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how it distributed performance pay. 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 San Fernando Elementary School District's board members and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE



San Fernando School #35

*P.O. Box 80
Sasabe, AZ 85633*

July 19, 2018

*State of Arizona
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018*

*Attn: Lindsey Perry, Auditor General
Mr. John Ward, Audit Manager*

RE: San Fernando ESD#35 Performance Audit

Dear Auditors,

San Fernando ESD#35 has received and reviewed the Preliminary Draft Performance Audit conducted for fiscal year 2017. Our District would like to extend our appreciation to your organization for its willingness to take the time necessary to clarify the items that required discussion. We concur with the findings presented.

The audit has provided San Fernando ESD#35 staff with the opportunity to make improvements were needed. Our District will implement the recommendations as outlined in this preliminary report. Our goal is to be in compliance with all legal requirements for this District as well as implement best practices for this organization. This audit will help us improve in the areas you outlined.

San Fernando ESD#35 would like to thank your audit team for the professionalism and courtesy shown throughout this process.

Sincerely,

*Veronica Jacquez,
Governing Board Member*

Finding 1: District needs to strengthen management, accounting, and computer controls

District Response: District agrees with your findings. The District has hired full-time IT Specialist, that has computer controls that have been updated and password protected.

Recommendation 1: The District should establish a written agreement with the PCSSO that outlines each entity's responsibilities for managing district operations.

District Response: District agrees. Working with County School Superintendent's Office to implement an agreement that outlines responsibilities for managing District operations.

Recommendation 2: The District should develop and implement procedures to help ensure that terminated employees have their access to the District's information technology systems promptly removed.

District Response: District agrees with findings. District has now implemented a formal process to ensure that terminated employees have their computer network and systems access immediately removed.

Recommendation 3: The District should back up its financial information in its accounting system to a secure location.

District Response: District agrees. District will work with County Superintendent's Office.

Recommendation 4: The District should ensure that it requires an independent review and approval for all its purchases prior to the purchases being made and document that all goods and services have been received and billings are accurate prior to payment.

District Response: District agrees. District will implement a review of items to be purchased before hand. With Board Members and staff.

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

District Response: District agrees. District will work with County School Superintendent's Office to be accordance with the Uniform Chart of Accounts for District.

Recommendation 6: The District should implement stronger password requirements for its student information system related to password length, complexity, and expiration.

District Response: District agrees. This has been done and all passwords have been updated with the requirements.

Recommendation 7: The District should limit users' access in its accounting system to only those accounting system functions necessary to perform their job duties, including transferring the business office employees' administrator level access to someone outside of the business office.

District Response:District agrees. Working closely with Pima County School Superintendent's Office in regards to District's accounting functions.

Other Findings:District lacked procedures to ensure bus drivers met certification requirements

District Response:District agrees. We will implement procedures to make sure bus drivers have all the requirement documents.

Recommendation:The District should develop and implement procedures to ensure that bus drivers meet certification requirements and maintain documentation indicating those requirements have been met in accordance with the State's Minimum Standards.

District Response:District agrees. We are now developing procedures to ensure that bus drivers meet all the necessary qualifications and maintain the required documentation indicating that we are in accordance with the State's Minimum Standards.

