

A REPORT  
TO THE  
ARIZONA LEGISLATURE

Division of School Audits

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Performance Audit

# Ajo Unified School District

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June • 2011  
Report No. 11-07



**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 of school districts, state agencies, and the programs they administer.

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AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

June 29, 2011

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board  
Ajo Unified School District

Dr. Robert Dooley, Superintendent  
Ajo Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Ajo 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.

This report will be released to the public on June 30, 2011.

Sincerely,

Debbie Davenport  
Auditor General

**REPORT  
 HIGHLIGHTS**  
 PERFORMANCE AUDIT

**Our Conclusion**

In fiscal year 2009, Ajo Unified School District's student achievement was generally lower than both the peer districts' and state averages while it compared favorably with peer districts in operational efficiencies. The District's per-pupil costs were lower than the peer districts' in all operational areas. However, the District's inadequate accounting and IT controls put it at increased risk for errors and fraud. Further, the District's shift in classroom spending, particularly in fiscal year 2005, indicates that the District may have used Classroom Site Fund monies to supplant district monies that used to be spent in the classroom. Had Ajo USD continued to direct its monies into the classroom at the same rate it did in fiscal year 2001, it would have spent nearly \$160,000 more in the classroom in fiscal year 2009.

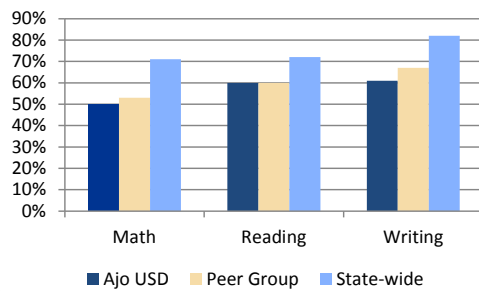


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**Lower student achievement and most operational costs lower than peers'**

**Student achievement lower than peer and state averages**—In fiscal year 2009, Ajo USD's student AIMS scores were lower than or similar to peer districts' averages and below state averages. Additionally, the District's high school failed to meet "Adequate Yearly Progress" for the federal No Child Left Behind Act because of its low 63-percent graduation rate.

**Percentage of Students Who Met or Exceeded State Standards (AIMS) Fiscal Year 2009**



**District's operational costs lower**—In fiscal year 2009, Ajo USD's \$1,092 per-pupil administration costs were 26 percent lower than the peer districts' \$1,466 average because the District employed fewer administrative staff.

The District's \$1,181 per-pupil plant

operations and maintenance costs were 19 percent lower than the peer districts' average primarily because it operated fewer square feet per pupil and its electricity costs were 27 percent lower per square foot.

The District's \$2.55 cost per meal was significantly lower than the \$3.32 peer group average. However, the District had to subsidize its food service program costs by about \$4,000 because it permitted students to charge meal costs and accumulate significant unpaid balances.

Because it transported a very small number of students, the District's per-pupil transportation costs were significantly lower than peer districts' and its per-rider costs were higher. The District's cost per mile was similar to peer districts'.

**Expenditures by Function Fiscal Year 2009**

Per Pupil	Ajo USD	Peer Group Average
Administration	\$1,092	\$1,466
Plant operations	1,181	1,458
Food service	325	467
Transportation	88	472

**Inadequate accounting and IT controls increased risk of errors and fraud**

**Separation of duties lacking**—One district employee was responsible for adding new employees to the payroll system, modifying employee information, entering/editing time sheets, recording payroll expenses, and distributing paychecks, with little or no supervisory review. Although no improper transactions were detected in the sample we tested, this lack of separation could permit false

payments or the creation of nonexistent employees.

**Payroll system inadequate**—The District did not have a delayed payroll system. As a result, employees were paid based on anticipated hours. A delayed payroll system would help ensure employees are paid correctly by giving the District time to make adjustments before making payments.

**Authorization for additional pay inadequately documented**—Some employees were paid for additional duties, but there was no documentation that the additional pay and duties received board approval prior to the work being done. Employee contracts or personnel action forms should include this information.

**Increased risk of unauthorized access**—Three district employees can perform all accounting system functions. Although no improper transactions were detected in the sample we tested, such broad access increases the risk of errors, fraud, or misuse of information, such as processing false invoices or adding nonexistent vendors.

**Weak password requirements**—The District does not require complex passwords with letters and numbers or periodic password changes.

**Disaster recovery plan lacking**—The District does not have a formal, up-to-date, and tested IT disaster recovery plan. Further, although the District stores backup tapes off-site, it does not regularly test whether it can restore its system from the backup tapes.

**Recommendations**—The District should:

- Ensure adequate separation of duties
- Establish a delayed payroll system to help ensure employees are paid correctly
- Document and approve in advance additional pay and duties
- Limit employees' accounting system access to only those functions necessary to perform their jobs
- Implement and enforce password requirements
- Create and implement a formal IT disaster recovery plan

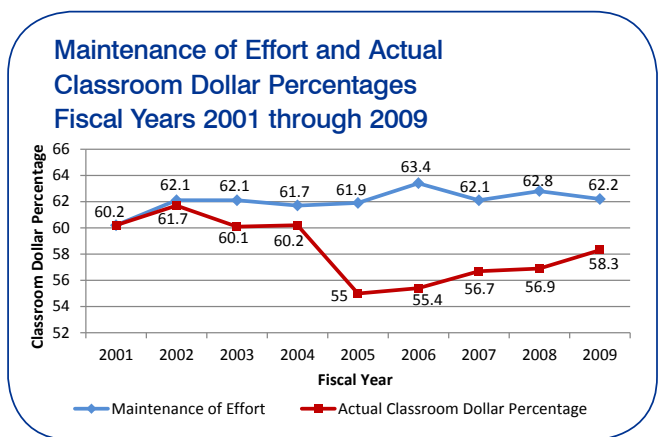
## Shift in spending indicates possible supplanting

Ajo USD's shift in classroom spending, particularly in fiscal year 2005, indicates that the District used Classroom Site Fund (CSF) monies to supplant other monies. Statute requires that districts use CSF monies to supplement and not supplant—that is, add to rather than replace—other monies spent in the classroom. In fiscal year 2001, before CSF monies were available, Ajo USD spent 60.2 percent of its operating dollars in the classroom. In fiscal year 2009, despite receiving over \$186,000 of CSF monies primarily earmarked for the classroom, the District spent only 58.3 percent in the classroom. Had the District continued to direct its other monies into the classroom at the same rate as in fiscal year 2001, the additional CSF monies would have boosted the District's classroom dollar percentage to 62.2 percent and it would have spent nearly \$160,000 more in the classroom in fiscal year 2009 alone.

The largest drop in the District's classroom spending came in fiscal year 2005 when it increased administrative spending by about \$200,000 to address technology issues. Classroom spending dropped by over 5 percentage points that fiscal year.

Although spending on administration has decreased since fiscal year 2005, the District's classroom spending is still lower than expected levels because the District increased its spending on student support and instructional support such as psychologists and speech therapists, teacher training, and curriculum development. Although spending in these areas is closely tied to the classroom, the increased spending should not come at the expense of classroom spending.

**Recommendation**—The District should ensure that CSF monies are used to supplement rather than supplant other monies spent on classroom instruction.



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# DISTRICT OVERVIEW

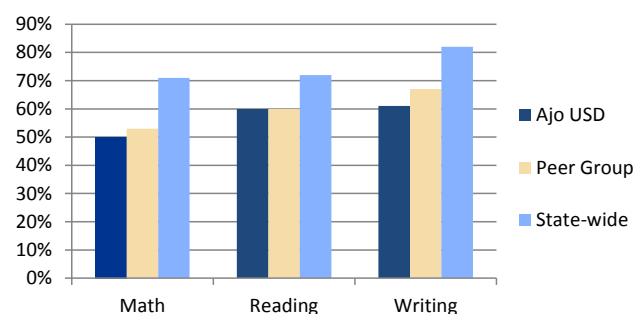
Ajo Unified School District is a rural district located in southwest Pima County. In fiscal year 2009, the District served 451 kindergarten through 12th grade students at its two schools located on the same campus.

The District compares favorably with peer districts in operational efficiencies, but not as well in student achievement.<sup>1</sup> Its student achievement was generally below both peer district and state averages. Overall, the District operated its administration, plant operations, food service, and student transportation operations efficiently with per-pupil costs that were lower than the peer districts' averages. However, the District needs to improve controls over its payroll processing and computer systems and ensure that it spends Classroom Site Fund monies appropriately.

## Student achievement below peer district and state averages

In fiscal year 2009, 50 percent of the District's students met or exceeded state standards in math, 60 percent in reading, and 61 percent in writing. As shown in Figure 1, these scores were below or similar to the peer districts' averages and below state averages. In that same fiscal year, the District's elementary school met all applicable "Adequate Yearly Progress" (AYP) objectives for the federal No Child Left Behind (NCLB) Act while its high school did not because it did not achieve a sufficient graduation rate. Further, the high school has not met all AYP objectives for at least 2 consecutive years and is involved in the required NCLB school improvement process monitored by the Arizona Department of Education. The District's fiscal year 2009 graduation rate of 63 percent matched the peer district average, but was lower than the state average of 76 percent.

Figure 1: Percentage of Students Who Met or Exceeded State Standards (AIMS) Fiscal Year 2009 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2009 test results on the Arizona Instrument to Measure Success (AIMS).

## District operates efficiently with costs lower than peer districts'

As shown in Table 1 on page 2 and based on auditors' reviews of various performance measures, for fiscal year 2009, Ajo USD operated its administration, plant operations, food service, and

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



transportation programs efficiently with per-pupil costs that were lower than the peer districts' averages. By keeping spending low in these operational areas, the District managed to spend a similar amount per pupil in the classroom as the peer districts despite spending \$1,107 less per pupil overall. However, since fiscal year 2005, the District has allocated a smaller proportion of its monies to the classroom than it did in fiscal years 2001 through 2004 (see Finding 2, page 7).

**Significantly lower administrative costs**—At \$1,092 per pupil, the District's administrative costs were 26 percent lower than the peer districts' average of \$1,466 per pupil primarily because it employed 7.75 administrative full-time equivalent (FTE) positions, while peer districts employed an average of 9 administrative FTE. However, auditors identified some administrative and IT practices that need strengthening (see Finding 1, page 3).

**Lower plant operation and maintenance costs**—Ajo USD's \$1,181 per-pupil plant operation and maintenance costs were 19 percent lower than peer districts' primarily because it operated and maintained 13 percent fewer square feet per pupil than the peer districts' average. Also, Ajo USD's \$4.97 per-square-foot plant costs were 13 percent lower than peer districts' primarily because its electricity costs were 27 percent lower per square foot than the peer districts'. Ajo USD is located in an area with a higher average annual temperature and lower elevation than the peer districts, on average. Based on analyses from the Auditor General *Arizona Public School Districts' Dollars Spent in the Classroom, Fiscal Year 2005* report, districts at lower elevations with higher average temperatures typically have lower energy costs.

**Food service program costs were lower**—Ajo USD's \$2.55 cost per meal was significantly lower than the peer group average of \$3.32 per meal. The District achieved this lower cost by having both lower salary and benefits costs and food costs. Despite low per-meal costs, the program's costs exceeded its revenues by about \$4,000, and the District allowed students to charge meal purchases to their individual meal accounts and accumulate significant unpaid balances totaling over \$6,000 in fiscal year 2009 (see Other Findings, page 11).

**Transportation costs were mixed**—Although the District's per-pupil transportation costs were significantly lower than peer districts'—\$88 versus \$472—its costs were about 35 percent higher than peer districts' costs when the comparison was based solely on the number of pupils who actually rode buses to and from school. The District's per-rider costs were higher because it transported only 35 riders while the peer districts transported an average of 265 riders each, and therefore, could spread their fixed costs over more riders. However, Ajo USD's \$2.63 per-mile student transportation cost was similar to the peer districts'.

**Table 1:** Comparison of Per-Pupil Expenditures by Function Fiscal Year 2009 (Unaudited)

Spending	Ajo USD	Peer Group Average	State Average
Total per pupil	\$8,995	\$10,102	\$7,908
Classroom dollars	5,240	5,216	4,497
Nonclassroom dollars			
Administration	1,092	1,466	729
Plant operations	1,181	1,458	920
Food service	325	467	382
Transportation	88	472	343
Student support	523	570	594
Instructional support	539	446	431
Other	7	7	12

Source: Auditor General staff analysis of fiscal year 2009 Arizona Department of Education student membership data and district-reported accounting data.

# FINDING 1

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## Inadequate accounting and IT controls increased risk of errors and fraud

In fiscal year 2009, Ajo USD lacked adequate controls over its payroll processing and computer network and applications. Although no improper transactions were detected in the samples auditors reviewed, these poor controls exposed the District to an increased risk of errors and fraud. Specifically, auditors observed the following:

### Payroll process lacked proper separation of duties

The District had an increased risk of errors and fraud, such as unauthorized changes to employee pay rates and processing false time sheets, because it did not separate payroll and personnel functions. One district employee, with little or no supervisory review, was responsible for entering new employees into the system, modifying employee information, entering and editing employees' time sheets, recording payroll expenses, and distributing paychecks. Allowing an individual the ability to initiate and complete a transaction without an independent supervisory review could allow the person to process false payments or create nonexistent employees.

### District lacked a delayed payroll system

The District does not have a delayed payroll system, a system that pays employees after they have performed the work and accurately reported the time spent. Instead, employees are paid based on anticipated hours before work is actually performed. Although no overpayments were identified in the sample reviewed by auditors, to ensure that employees are paid correctly, the District should establish a delayed payroll system as required by the *Uniform System of Financial Records for Arizona School Districts*. This would help ensure employees receive payments only for what they have earned and allow time for adjustments to be made before payment.

## Authorization for additional pay inadequately documented

The District did not always have documentation showing that additional duties and pay were approved prior to services being rendered. For example, governing board meeting minutes from fiscal years prior to 2009 showed that one employee's additional duties and pay were typically approved before services were rendered. However, although the employee continued to perform the duties and receive the additional pay in fiscal year 2009, governing board meeting minutes for that year did not show that the District sought continued approval of the additional duties and pay. Auditors also found an additional employee who received extra duty pay without prior approval. In both of these situations, the employees were not improperly paid. However, to ensure that all pay is properly authorized and employees are paid correctly, the District should include additional pay in the employees' contracts or personnel action forms and ensure that these documents are properly approved prior to payment. This documentation should be maintained in employees' personnel files.

## Increased risk of unauthorized access to critical systems

Weak controls over user access to the District's network, student information, and accounting systems increased the risk of unauthorized access to these critical systems.

**Broad access to accounting system increased risk of errors, fraud, and misuse of sensitive information**—Three district employees have the ability to perform all accounting system functions. Further, two accounts with full accounting system access exist but are not assigned to specific district users. Although no improper transactions were detected in the sample auditors reviewed, access beyond what is required for job duties, especially full system access, exposes the District to increased risk of errors, fraud, and misuse of information, such as processing false invoices or adding nonexistent vendors or employees.

**Weak password requirements**—The District needs stronger controls over its network, student information, and accounting system passwords. Although users develop their own passwords for the accounting system, passwords for the network and student information system are assigned to users by the District's technology director. Further, users are not prompted to periodically change the passwords for the network, student information system, and accounting system. Additionally, passwords to the network and student information system have a low-complexity requirement—that is, passwords need not contain numbers or symbols. Passwords should be user-defined based on specific composition requirements, known only to the user, and changed periodically. Common practice requires passwords to be at least eight characters, contain a combination of alphabetic and numeric characters, and be changed every 90 days. These practices would decrease the risk of unauthorized persons gaining access to the systems.

District does not monitor user activity—The District does not review and monitor audit files that log all user activity to determine whether any unauthorized activity or changes to critical applications or systems have occurred. This includes monitoring the activities of administrative users, or users with full access to critical systems or applications. To reduce the risk of unauthorized activities going undetected, the District should develop and implement policies and procedures for monitoring and reviewing user activities on critical systems and applications.

Weakness in physical access controls—The District also had a weakness in physical access controls because it did not disable unused network connection outlets in district walls. Not disabling unused outlets could allow unauthorized users to access the District’s network and critical systems. Although no network breach or loss of data were noted, the District should ensure that all unused computer network connection outlets are disabled to reduce the risk of such events.

## Lack of disaster recovery plan could result in interrupted operations or loss of data

The District does not have a formal, up-to-date, and tested disaster recovery plan, even though it maintains critical student information on its systems and network. A written and properly designed disaster recovery plan would help ensure continued operations in the case of a system or equipment failure or interruption. Although the District stores backup tapes offsite it does not regularly test its ability to restore electronic data files from the backup tapes, which could result in the loss of sensitive and critical data. Disaster recovery plans should be tested periodically and modifications made to correct any problems and to ensure their effectiveness.

## Recommendations

1. The District should implement proper controls over its payroll processing to ensure adequate separation of duties.
2. The District should establish a delayed payroll system in compliance with the *Uniform System of Financial Records for Arizona School Districts* to help ensure that employees are paid correctly.
3. The District should ensure that payments for additional work are properly documented, approved, and maintained in employee personnel files.
4. The District should limit employees’ access to only those accounting system functions needed to perform their work and should remove all generic user accounts.

5. The District should implement stronger password controls, requiring its employees to create more secure passwords and to periodically change those passwords.
6. The District should establish and implement policies and procedures for logging and monitoring users' activities on critical systems and applications.
7. The District should create a formal process for disabling unused network connection outlets on district walls.
8. The District should create a formal disaster recovery plan and test it periodically to identify and remedy any deficiencies.

# FINDING 2

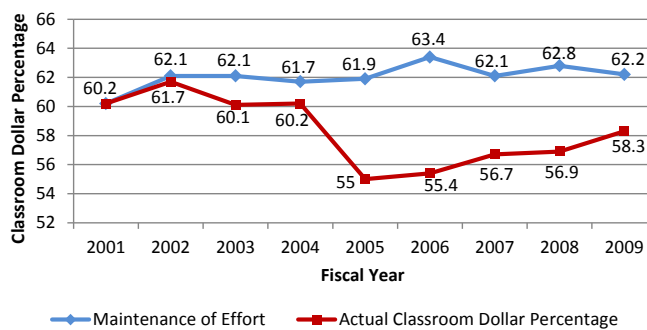
## Shift in classroom spending indicates possible supplanting

In fiscal year 2009, Ajo USD spent its Classroom Site Fund (CSF) monies for purposes authorized by statute.<sup>1</sup> However, the District's shift in spending, particularly in fiscal year 2005, indicates supplanting, a violation of A.R.S. §15-977. Additionally, the District did not maintain documentation demonstrating that employees met two of the District's three performance pay goals.

## Shift in spending indicates supplanting violations

Since receiving CSF monies in fiscal year 2002, Ajo USD has shifted its spending of other monies away from the classroom, an indication of supplanting. A.R.S. §15-977 requires that CSF monies be used to supplement, not supplant, monies from other sources. In fiscal year 2001, prior to CSF monies being available, the District spent 60.2 percent of its available operating dollars in the classroom.<sup>2</sup> In fiscal year 2009, despite receiving over \$186,000 of CSF monies primarily earmarked for the classroom, the District's overall classroom dollar percentage of 58.3 percent was actually 1.9 percentage points lower than in 2001. As shown in Figure 2, if the District had continued to direct its other monies into the classroom at the same rate it did in 2001, the year prior to receiving CSF monies (i.e., maintained the same level of effort), the addition of CSF monies would have increased the District's 2009 classroom dollar percentage 3.9 percentage points to 62.2 percent. This means an additional \$159,748 would have been spent in the classroom in fiscal year 2009 alone.

Figure 2: Maintenance of Effort and Actual Classroom Dollar Percentages Fiscal Years 2001 through 2009 (Unaudited)



Source: Auditor General Staff analysis of school district summary accounting data for fiscal years 2001 through 2009.

<sup>1</sup> In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. Under statute, these monies, also known as Classroom Site Fund monies, may be spent only for specific purposes, primarily increasing teacher pay.

<sup>2</sup> Available operating dollars are those used for the District's day-to-day operations. They exclude costs associated with repaying debt, capital outlay, and non-K-12 programs. Classroom spending includes salaries and benefits of teachers and instructional aides, textbooks, and other classroom supplies.

**Large drop in fiscal year 2005 classroom spending due to increased administrative spending**—In fiscal year 2005, the District's classroom dollar percentage dropped by 5.2 percentage points because of increased spending in administration. According to district officials, this increase in administrative spending occurred because the District paid about \$200,000 to hire consultants to address technology issues. This additional spending caused the percentage of available operating dollars spent on administration to increase by 4.2 percentage points to 16.5 percent. Increased spending in noninstructional areas such as this should not be made at the expense of classroom spending and is possibly a violation of the supplanting provisions of A.R.S. §15-977. Although the District spent less on administration in fiscal year 2006, it was not until fiscal year 2008 that its percentage spent on administration dropped back down to pre-fiscal year 2005 levels because the additional spending for technology issues was no longer needed.

## **Classroom dollar percentage remains lower than fiscal year 2001 level because of increased student and instructional support spending**

Although spending on administration has been decreasing since it peaked in fiscal year 2005, increases in student support and instructional support services have kept the District's classroom dollar percentage from rebounding to the fiscal year 2001 level. Student support services include activities designed to assess and improve students' well-being and to supplement the teaching process, such as attendance, guidance, health, and psychological services. Instructional support services are activities associated with assisting teachers with the content and process of providing learning experiences for students, and include services such as librarians, teacher training, and curriculum development. Since fiscal year 2001, the District's spending for student support has increased by 1.1 percentage points and its instructional support spending has increased by 2 percentage points. Although the District's per-pupil expenditures for student support still remain below the average for peer districts, expenditures for instructional support are 21 percent higher than the average for these districts.

According to district officials, student support spending increased because of the costs of contracting for service providers, such as psychologists and speech therapists. The District also experienced additional student support costs for hiring a contractor to ensure the accuracy of its student information system data. District officials further stated that instructional support costs were higher, in part, because the District pays to provide some of its teachers with the additional training they need to obtain highly qualified status. Further, because the District's high school has failed to meet all Adequate Yearly Progress objectives of the NCLB Act, it must participate in a required school improvement process, which includes the need to provide more teacher training. Although student support and instructional support activities are necessary and closely tied to the classroom, the increased spending in these areas should not come at the expense of classroom spending.

## CSF performance pay records were incomplete

The District did not maintain documentation to support most of its performance pay awards. For fiscal year 2009, the District paid \$571 in CSF performance pay monies to each eligible full-time employee for meeting a district-wide student achievement goal requiring the number of students in specific grades scoring in the “Meets” or “Exceeds” category on the AIMS test to increase by at least an average of 6 percent. However, the District did not maintain documentation showing its analysis of the test scores and how the amount paid to employees was determined. Eligible employees each also received \$1,050 in performance pay for ensuring that at least 90 percent of their students were represented by a parent or guardian at fall and spring parent-teacher conferences. Again, the District did not maintain documentation, such as parent sign-in sheets, demonstrating that employees successfully completed this goal. As a result, the District could not show that its employees had met the required performance measures for 80 percent of performance pay monies they received for fiscal year 2009.

## Recommendations

1. The District should ensure that CSF monies are used to supplement rather than supplant other monies spent on classroom instruction.
2. The District should ensure that adequate documentation is retained to support all performance pay awards.





# OTHER FINDINGS

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

## 1. District did not accurately report its costs

Ajo USD did not consistently classify its fiscal year 2009 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its annual financial report did not accurately reflect its costs, including both classroom and nonclassroom expenditures. Auditors identified errors totaling approximately \$133,000 of the District's total \$4 million in current spending.<sup>1</sup> When corrected, these changes decreased the District's reported instructional expenditures by over \$55,000, or 1.1 percentage points. The dollar amounts shown in the tables in this report reflect the necessary adjustments.

### Recommendation

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

## 2. District allowed students to charge meal costs and accumulate significant unpaid balances

According to district officials, for many years, Ajo USD has followed an unwritten policy that allows students to charge up to \$10 in meal purchases to their individual meal accounts. Although the *Uniform System of Financial Records for School Districts* allows this practice, the District does not appear to be following its unwritten policy, which is meant to restrict the amount of charged meals owed to the District. As a result, in October 2010, 159 students, 36 percent of the District's students at that time, had unpaid meal balances cumulatively totaling over \$6,000. Although district officials stated that students could charge up to \$10 in meal purchases, the students with unpaid meal balances owed the District an average of about \$38 each and had unpaid balances ranging from \$1.25 to \$326. About 43 percent of the students with unpaid meal

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<sup>1</sup> Current expenditures are those incurred for the District's day-to-day operation. For further explanation, see Appendix page a-1.

account balances owed the District less than \$10, 34 percent owed \$10 to \$49, and 23 percent owed \$50 or more. Further, district officials stated that students with unpaid meal balances above \$10 are to be given a sandwich, typically peanut butter and jelly, at no charge instead of the hot meal being served by the cafeteria. However, auditors observed a lunch service during October 2010 and found that several students with unpaid meal balances above \$10 continued to charge meals in the cafeteria that day rather than being served a sandwich. Each week, the District sends out a form letter to the parents of students with unpaid meal balances. Since this has not encouraged many parents to pay the balances, the District should determine what other steps can be taken to collect the unpaid meal balances.

## Recommendation

The District should formalize, by putting in writing, and follow its stated policy for student meal charge sales and provide a sandwich to students who are carrying unpaid meal balances above \$10. Further, the District should determine what other steps can be taken to collect unpaid meal balances.

# APPENDIX

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## Objectives, Scope, and Methodology

The Office of the Auditor General's performance audit of the Ajo Unified School District was conducted pursuant to A.R.S. §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the Auditor General's annual report, *Arizona Public School Districts' Dollars Spent in the Classroom (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operation and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only current expenditures, primarily for fiscal year 2009, were considered.<sup>1</sup> Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how it accounted for dollars spent in the classroom.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2009 summary accounting data for all districts and Ajo USD's fiscal year 2009 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 analyze Ajo USD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes Ajo USD and the other 18 small unified or union high school districts that also served between 200 and 599 students and were located in town/rural areas.<sup>2</sup> To compare districts' academic indicators, auditors developed a separate student achievement peer group using the same size and location categories as in the operational peer group, but with the additional consideration of each district's poverty rate because poverty rate has been shown to be strongly related to student achievement. Ajo USD's student achievement peer group includes Ajo USD and the 12 other districts that also served between 200 and 599 students, were located in town/rural areas, and had poverty rates below the state average of 19 percent. 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 2009 administration costs and compared these to peer districts'.

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<sup>1</sup> Current expenditures are those incurred for the District's day-to-day operation. They exclude costs associated with repaying debt, capital outlay (such as purchasing land, buildings, and equipment), and programs such as adult education and community service that are outside the scope of preschool through grade-12 education.

<sup>2</sup> Auditors excluded one district that received such a high level of additional funding that it skewed the peer-spending averages.

- To assess whether the District's plant operation and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2009 plant operation and maintenance costs and district building space, and compared these costs and capacities to peer districts'.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2009 food service revenues and expenditures, including labor and food costs, and compared costs to peer districts', reviewed the Arizona Department of Education's food service monitoring reports, and observed food service operations.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus capacity usage. Auditors also reviewed fiscal year 2009 transportation costs and compared them to peer districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2009 expenditures to determine whether they were appropriate, properly accounted for, and remained within statutory limits. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and reviewed transactions for proper account classification and reasonableness. Auditors also evaluated other internal controls that were considered significant to the audit objectives.

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 Ajo Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

# DISTRICT RESPONSE

DISTRICT RESPONSE

# ***AJO UNIFIED SCHOOL DISTRICT NO. 15***

## **Governing Board Members:**

**Ms. Lisa Rossi**  
President  
**Ms. Rose Cameron**  
Clerk  
**Mr. John Byrnes**  
Member  
**Ms. Marcia Duncan**  
Member  
**Mr. Eric Krznarich**  
Member

## **Administration:**

**Dr. Robert F. Dooley**  
Superintendent  
**Dr. Joen M. Painter**  
Principal  
**Ms. Patricia Spencer**  
Director of Finance

June 9, 2011

Ms. Debra K. Davenport  
Office of the Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

RE: Ajo Unified School District Response Report – Performance Audit for 2009

Dear Ms. Davenport:

The Ajo Unified School District #15 respectfully submits its response to the performance audit conducted by the Auditor General for the fiscal year 2009. The report includes a number of findings and recommendations for those findings. These recommendations, to each finding, have already, and will continue to, improve our district's processes and procedures. The following pages address the District's response to the findings, and the recommendations, as well as the current status of implementation of each recommendation.

Ajo Unified School District would like to thank the Auditor General staff that was assigned to our District with regard to their professionalism while interacting with our various staff members. The individuals were sensitive to the District's need for additional time for completion of this audit and were diligent in answering all of the district's questions.

If you have any additional questions, please feel free to call me at (520) 387-5618.

Sincerely,

Robert F. Dooley, Ed.D.  
Superintendent  
Ajo Unified School District #15

**AJO UNIFIED SCHOOL DISTRICT NO 15**  
**PERFORMANCE AUDIT RESPONSES**

**FINDING 1: Inadequate accounting and IT controls increase risk of errors and fraud**

Recommendations:

1. The District should implement proper controls over its payroll processing to ensure adequate separation of duties.  
District Response: The District agrees with the finding and will implement the recommendation. The District has implemented a pre and post payroll review including staff, rates of pay, and contract payments to ensure only Board approved staff are being paid. The review is being documented and performed by the Director of Finance. In addition, the distribution of all checks will now be delegated to the Superintendent's Secretary as an additional separation of duties.
2. The District should establish a delayed payroll system in compliance with the Uniform System of Financial Records for Arizona School Districts to help ensure that employees are paid correctly.  
District Response: The District agrees with the finding and will implement the recommendation. The District is working on a delayed payroll schedule for the 11-12 school year.
3. The District should ensure that payments for additional work are properly documented, approved, and maintained in employee personnel files.  
District Response: The District agrees with the finding and will implement the recommendation. Governing Board action has already taken place for the 10-11 school year regarding authorization of additional pay for additional work, and will be on the agenda for approval each year. All pay actions resulting in additional pay for additional work will be documented with a copy of the district's PAR approved form in the individual personnel file.
4. The District should limit employees' access to only those accounting system functions needed to perform their work and should remove all generic user accounts.  
District Response: The District agrees with the finding and will implement the recommendation. The District is working with the IT Director to limit the areas each employee has access to so they are specific to the job responsibilities.
5. The District should implement stronger password controls, requiring its employees to create more secure passwords and to periodically change those passwords.  
District Response: The District agrees with the finding and will implement the recommendation. The District is working with the IT Director to put a procedure in writing and in place, for a stronger and more secure password process.
6. The District should establish and implement policies and procedures for logging and monitoring users' activities on critical systems and applications.



District Response: The District agrees with the finding and will implement the recommendation. The District IT Director is running log reports on a monthly basis and reviewing them for any inappropriate entries for staff.

7. The District should create a formal process for disabling unused network connection outlets on district walls.

District Response: The District agrees with the finding and will implement a modification to the recommendation. The IT Director has implemented actions to protect the integrity of the District's technology systems.

8. The District should create a formal disaster recovery plan and test it periodically to identify and remedy any deficiencies.

District Response: The District agrees with the finding and will implement the recommendation. The IT Director will establish a disaster recovery plan and will test it every three months to ensure its integrity.

## **FINDING 2:**

### Recommendations:

1. The District should ensure that CSF monies are used to supplement rather than supplant other monies spent on classroom instruction.

District Response: The District agrees with the finding in terms of the issue of supplanting and will implement the recommendation. However, the District does not agree that there were any supplanting violations by the District at any time.

2. The District should ensure that adequate documentation is retained to support all performance pay awards.

District Response: The District agrees with the finding and will implement the recommendation. The District Administration is presently providing hard copy documentation for all additional pay including performance pay awards.

## **OTHER FINDINGS:**

### **1. DISTRICT DID NOT ACCURATELY REPORT ITS COSTS**

#### Recommendation:

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

District Response: The District agrees with the finding and will strive to ensure that all transactions be in accordance with the Uniform Chart of Accounts for school districts.

### **2. DISTRICT ALLOWED STUDENTS TO CHARGE MEAL COSTS AND ACCUMULATE SIGNIFICANT UNPAID BALANCES**

#### Recommendation:

1. The District should formalize, by putting in writing, and follow its stated policy for student meal charge sales and provide a sandwich to students who are carrying unpaid meal balances above \$10. Further, the District should determine what other steps can be taken to collect unpaid meal balances.

District Response: The District agrees with the finding and will implement the recommendation. The District is currently working with the Governing Board, Principal, Director of Finance, and Food Service Director to implement a firm policy regarding any negative balances, as well as educating the public on these policy updates.

