



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Ash Creek Elementary School District

March • 2013
Report No. 13-02



Debra K. Davenport
Auditor General

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March 7, 2013

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Ash Creek Elementary School District

Ms. Sue Shepard, Principal
Ash Creek Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Ash Creek 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 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

REPORT HIGHLIGHTS PERFORMANCE AUDIT

Our Conclusion

In fiscal year 2011, Ash Creek Elementary School District's student AIMS scores were lower than both its peer districts' and state averages, and its operational efficiencies were mixed. Although Ash Creek ESD spent more per pupil in each of its nonclassroom operational areas than peer districts, most of its operations were reasonably efficient for its size. The District's costs were higher per pupil primarily because it served fewer students. The District could have operated its food service program more efficiently, and to the District's credit, it began taking steps in fiscal year 2012 to do so. However, controls over the District's payroll and purchasing, as well as its computer network, should be improved. The District also needs to improve its transportation program's recordkeeping.

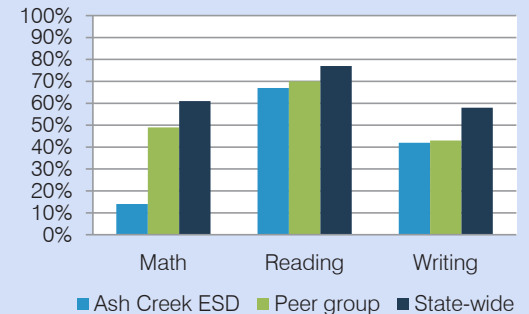
Student achievement and operational efficiency

Student achievement—In fiscal year 2011, Ash Creek ESD's student AIMS scores were lower than peer districts' and state averages. However, for very small districts, such as Ash Creek ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. The District's school met all applicable "Adequate Yearly Progress" objectives for the federal No Child Left Behind Act.

District operated with high costs primarily because of its small size—

Although Ash Creek ESD spent more per pupil in each of its nonclassroom operational areas than peer districts, most of its operations were reasonably efficient for its size. The District's costs were higher per pupil primarily because it served fewer students. Although Ash Creek ESD's administrative costs were high per pupil, auditors did not identify any overstaffing or unusually high salaries. Similarly, the District's plant operations costs were high per pupil primarily because the District maintained more square footage per student than peer districts, but there is little the District can do to reduce the excess square footage because it has only one primary building. The District's food service costs were much higher than peer districts'; however, in fiscal year 2012, the District began taking steps to reduce the program's costs and improve recordkeeping and other procedures. The District's transportation costs were mixed with similar per-mile costs and much higher per-rider costs because the District drove more miles per rider.

Percentage of students who met or exceeded state standards (AIMS)
Fiscal year 2011



Comparison of per-pupil expenditures by operational area
Fiscal year 2011

Operational area	Ash Creek ESD	Peer group average
Administration	\$5,272	\$2,505
Plant operations	2,998	1,681
Food service	1,605	764
Transportation	1,466	743

District working to address its high food service costs and poor procedures

In fiscal year 2011, Ash Creek ESD's food service costs per pupil and per meal were more than double the peer district average. These high costs contributed to the District's need to subsidize over one-half of its food service program's costs with approximately \$37,000 that otherwise potentially could have been spent in the classroom. Additionally, the District had poor food service recordkeeping and procedures. For example, the District did not maintain documentation supporting the number of meals served, likely under-reported the number of meals served for federal reimbursement, lost revenues because of unpaid meal balances, lacked adequate controls over food service cash collections, and prepared specialized meals for employees that were likely costly.



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Steps taken to reduce need for subsidy—In fiscal year 2012, the District began taking steps to reduce its food service costs and increase its revenues. The District replaced its full-time food service employee with a part-time employee at a lower salary and increased meal prices.

Improved food service recordkeeping and procedures—In fiscal year 2012, the District began taking steps to improve its recordkeeping and procedures. The District purchased a software program to better track meals, stopped allowing meals to be charged, improved its controls over food service cash collections, and stopped preparing specialized meals for employees.

Recommendation

The District should continue monitoring its food service program to identify and implement additional cost-saving measures.

Inadequate accounting and computer controls increased risk of errors and fraud

In fiscal year 2011, Ash Creek ESD lacked adequate controls over payroll and purchasing and its computer network and applications. More specifically, the District did not separate payroll and personnel functions and allowed one district employee, with little or no supervisory review, to complete all purchasing functions. The District also granted one employee full access to all accounting system functions, did not accurately report its costs, and did not always pay employees correct amounts. Lastly, the District's password requirements were weak, lacking complexity and requiring only annual changes.

Recommendations

The District should:

- Implement proper controls over payroll and purchasing.
- Require an independent review and approval for all purchases.
- Limit employee access to the accounting system so that one employee cannot complete transactions without independent review.
- Classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
- Establish procedures to review employee pay to help ensure that employees are paid correctly.
- Implement and enforce stronger password controls.

Improvements needed for transportation program recordkeeping

Ash Creek ESD did not maintain records to show that its reported number of miles traveled and students transported were accurate for state transportation funding purposes. Additionally, the District did not maintain documentation to show that bus drivers performed pre-trip bus inspections or that bus preventative maintenance was performed.

Recommendations

The District should:

- Maintain records supporting the reported number of riders transported and miles driven.
- Ensure that pre-trip inspections and bus preventative maintenance are conducted and documented.

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DISTRICT OVERVIEW

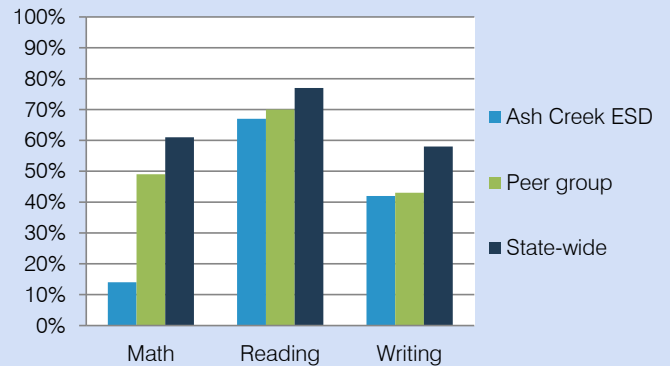
Ash Creek Elementary School District is a very small, rural district located about 100 miles southeast of Tucson, in Cochise County. In fiscal year 2011, the District served 40 students in kindergarten through 8th grade at its one school. Between fiscal years 2004 and 2011, the District's student enrollment fluctuated from a low of 29 students in fiscal year 2009 to a high of 43 students in fiscal year 2006. District officials reported another large fluctuation in August 2012, with student enrollment decreasing to just 20 students.

Ash Creek ESD's fiscal year 2011 student test scores on Arizona's Instrument to Measure Standards (AIMS) were lower than both peer district and state averages, and its operational efficiencies were mixed.¹ Although all of the District's nonclassroom areas operated with higher per-pupil costs than peer districts', most of its operations were reasonably efficient for its size. However, auditors identified some areas for improvement, as well as potential opportunities for greater efficiency.

Student achievement

In fiscal year 2011, 14 percent of the District's students met or exceeded state standards in math, 67 percent in reading, and 42 percent in writing. As shown in Figure 1, these scores were lower than state and peer district averages. However, for very small districts, such as Ash Creek ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. The District's school met all applicable "Adequate Yearly Progress" objectives for the federal No Child Left Behind Act in fiscal year 2011.²

Figure 1: Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2011 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2011 test results on Arizona's Instrument to Measure Standards (AIMS).

District operated with high costs primarily because of its small size and has taken steps to reduce some costs

As shown in Table 1 on page 2, in fiscal year 2011, Ash Creek ESD spent 48 percent more per pupil than the \$12,821 peer district average and spent more per pupil in every operational area. Although

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 The Arizona Department of Education published the A-F Letter Grade Accountability System for the first time in fiscal year 2011. However, letter grades were not published for small schools that tested fewer than a combined 125 students in math and reading, like Ash Creek ESD.

**Table 1: Comparison of per-pupil expenditures by operational area
Fiscal year 2011
(Unaudited)**

Spending	Ash Creek ESD	Peer group average	State average
Total per pupil	\$18,957	\$12,821	\$7,485
Classroom dollars	6,330	6,280	4,098
Nonclassroom dollars			
Administration	5,272	2,505	728
Plant operations	2,998	1,681	927
Food service	1,605	764	375
Transportation	1,466	743	352
Student support	769	456	571
Instructional support	517	392	434

Source: Auditor General staff analysis of fiscal year 2011 Arizona Department of Education student membership data and district-reported accounting data.

all of the District's nonclassroom areas operated with higher per-pupil costs than peer districts', most of its operations were reasonably efficient for its size. The District's costs were higher per pupil primarily because it served fewer students—40 students in fiscal year 2011 compared to the peer group average of 77 students. However, the District's food service program could have operated more efficiently, and to the District's credit, it began taking steps in fiscal year 2012 to do so.

High administrative costs but not inefficient—The District's \$5,272 administrative cost per pupil was much higher than the \$2,505 peer district average primarily because it had fewer students. Auditors observed the District's administrative operations and did not identify any overstaffing or unusually high salaries. However, the District needs to strengthen controls over payroll and purchasing, as well as its computer network (see Finding 2, page 7).

High plant operations costs—Compared to peer districts', Ash Creek ESD's plant operations costs were similar per square foot, but much higher per pupil. The District's per-pupil plant

operations costs were 78 percent higher than peer districts' because it maintained 65 percent more square feet per pupil than the peer districts. Ash Creek ESD maintained 542 square feet per student while the peers averaged 329 square feet per student. However, there is little the District can do to reduce the excess square footage because it has only one primary building that contains the classrooms, gymnasium, and cafeteria. To help reduce its electricity costs, in fiscal year 2012, the District obtained a solar power system through the federal American Recovery and Reinvestment Act administered by the Arizona School Facilities Board at no cost to the District. The District's electricity usage and costs were about 20 percent lower in the first 9 months of fiscal year 2012 than in the similar time frame of fiscal year 2011.

High food service program costs—In fiscal year 2011, Ash Creek ESD's food service costs were much higher than peer districts', on average. The District spent \$1,605 per pupil for its food service program, more than double the peer districts' average of \$764 per pupil, and its \$8 approximate cost per meal was much higher than the peer districts' \$3.88 cost per meal. In part because of these high costs, the District had to subsidize over one-half of the food service program's costs with approximately \$37,000 that otherwise potentially could have been spent in the classroom. In fiscal year 2012, the District began taking steps to reduce its food service program costs and improve recordkeeping and other procedures (see Finding 1, page 3).

Mixed transportation costs—Ash Creek ESD's transportation program's \$1.87 cost per mile was 9 percent lower than the peer districts' \$2.06 average. However, the District's \$1,932 cost per rider was 58 percent higher than peer districts', on average. The District's higher cost per rider was the result of the District's driving 62 percent more miles per rider than peer districts, on average. However, there was little the District could do to reduce its mileage. Auditors noted that the District's two bus routes operated in different areas of the District and could not be combined despite having adequate space on both buses to do so. However, one transportation area in which the District needs to improve is recordkeeping (see Finding 3, page 11).

FINDING 1

District working to address its high food service costs and poor procedures

In fiscal year 2011, Ash Creek ESD's food service costs were much higher than peer districts', on average. Additionally, the District did not maintain documentation supporting the number of meals served, likely under-reported the number of meals served for federal reimbursement, lost revenues because of unpaid meal balances, lacked adequate controls over food service cash collections, and prepared specialized meals for employees that were likely costly. However, the District began taking steps during fiscal year 2012 to address its high food service costs and poor procedures.

District has taken steps to decrease high food service costs and increase revenues

In fiscal year 2011, Ash Creek ESD spent \$1,605 per pupil on its food service program compared to \$764 per pupil for peer districts. Additionally, its \$8 approximate cost per meal was much higher than the peer districts' \$3.88 average. In part because of these high costs, the District had to subsidize over one-half of the food service program's costs with approximately \$37,000 that otherwise potentially could have been spent in the classroom. However, the District has taken steps to help its food service program work toward reducing costs and becoming self-sufficient. In fiscal year 2012, the District replaced its full-time food service employee with a part-time employee at a lower salary. Additionally, the District raised meal prices by \$0.25 per breakfast and \$0.75 per lunch for students who do not qualify for free or reduced-priced meals. The District also changed other procedures that will impact its costs and revenues as discussed below.

District has improved recordkeeping and procedures

In fiscal year 2011, the District did not maintain documentation supporting the number of meals served, likely claimed an inaccurate number of meals for reimbursement from the National School Lunch Program, lost revenue because it allowed students to accumulate large unpaid meal balances, had inadequate controls over cash collected from meal sales, and prepared specialized meals for employees that were likely costly. In fiscal year 2012, the District began making important changes to improve its recordkeeping and procedures.

Meal claim reporting improved—School districts that participate in the National School Lunch Program receive federal reimbursement for eligible meals served to students. In order to receive the reimbursement, districts report the number of meals served each month. However, in fiscal year 2011, the number of meals reported by Ash Creek ESD were unsupported and likely inaccurate. As a result, the District may not have received the correct reimbursement amount. Because the District did not maintain records of meals served in fiscal year 2011, the exact number of meals that should have been claimed could not be determined. However, as an example of likely errors in the District's reporting that year, the District claimed only 95 meals for September 2010, but claimed over 1,000 meals, on average, for other months with a similar number of school days. In fiscal year 2012, the District purchased a software program to help track meals. Auditors' review of meals served and claimed for 9 months of fiscal year 2012 showed accurate meal claim procedures.

Large unpaid meal balances no longer allowed to accumulate—Ash Creek ESD has had a written policy that allows students to charge up to \$2 in meal purchases to their individual meal accounts. However, in fiscal year 2011, Ash Creek ESD allowed students to charge meals far in excess of its \$2 limit and also allowed employees to charge meal purchases. Overall, eight students, approximately one-fifth of the District's students, and four staff members had negative meal account balances ranging from \$1 to \$304, for a total of \$905 owed to the District at the end of the 2010-2011 school year. According to district officials, the District was unable to collect any of the monies owed by students. In fiscal year 2012, the District stopped allowing meals to be charged, and at the end of the fiscal year, the District did not have any students or staff with unpaid meal balances.

Improved controls over food service cash handling—In fiscal year 2011, the District did not adequately separate cash-handling and recordkeeping responsibilities for food services cash collections. Additionally, the District did not maintain documentation to support the amount of money that was collected or that should have been deposited. Failure to adequately separate these duties and to maintain proper records of cash collections left these monies susceptible to loss, theft, or misuse. Beginning in fiscal year 2012, the District changed this process by having another employee perform cash collections and also began maintaining proper cash records to support the amount of money collected and deposited.

No longer preparing special meals for employees—Likely contributing to its high food service costs in fiscal year 2011, the District prepared special meals for employees rather than serving them the same meal that was available to students. According to district officials, employees would place orders for specialized meals that were likely much more expensive to prepare than student meals and also much more expensive than the \$3 employee meal price. Beginning in fiscal year 2012, the District stopped this practice, and began requiring employees who want to purchase a meal from the cafeteria to purchase the same meal that is prepared for students.

Recommendation

The District should continue to closely monitor its food service program to identify and implement additional cost-saving measures.

FINDING 2

Inadequate accounting and computer controls increased risk of errors and fraud

In fiscal year 2011, Ash Creek ESD lacked adequate controls over payroll and purchasing and its computer network and applications. Although no improper transactions were detected in the items auditors reviewed, these poor controls exposed the District to an increased risk of errors, fraud, and misuse of sensitive information. Additionally, the District did not accurately report its costs on its Annual Financial Report.

Payroll and purchasing controls inadequate

Ash Creek ESD's procedures for processing payroll and purchasing were inadequate. Specifically, auditors observed the following:

Payroll and purchasing lacked proper separation of responsibilities—The District had an increased risk of errors and fraud, such as processing false time sheets and modifying employee pay rates, because it did not sufficiently review or separate the payroll and personnel functions. Additionally, one district employee, with little or no supervisory review, was responsible for completing all purchasing functions. This increased the risk of having false invoices processed or nonexistent vendors added to the District's system. Although the District's administrative staff numbers were small, there was opportunity to separate these duties or use compensating controls and thereby ensure that proper controls were in place.

Employees paid incorrect amounts—In fiscal year 2011, the District paid an incorrect stipend amount to 1 of its 13 employees and incorrectly calculated the number of hours worked by at least 2 employees. Auditors reviewed all 13 employees' files and found that 1 employee should have received a \$1,000 stipend for extra duty, but received only \$500. Additionally, auditors reviewed 8 employees' time sheets for one pay period in fiscal year 2011 and found that for 2 of the 8 employees, the District incorrectly calculated the number of hours worked resulting in employees' being underpaid. The District had no review process in place to help ensure the accuracy of its payroll. The high percentage of mistakes found in the small sample auditors reviewed suggests that the problem may have been widespread.

Some purchases lacked proper approval—The District also had an increased risk of errors and fraud because it did not always require proper approval prior to purchases being made. For 19 of 30 fiscal year 2011 purchases examined, auditors found that items or services were purchased without prior approval. Although no inappropriate transactions were detected, the District should ensure that all purchases are approved by an authorized employee prior to ordering goods or services, as required by the *Uniform System of Financial Records for Arizona School Districts*. This helps ensure that purchases are appropriate and that the District has adequate budget capacity prior to ordering goods and services.

Inadequate computer and network controls

Ash Creek ESD lacks adequate controls over its accounting system and lacks an agreement with the County for housing its accounting system. Although no improper transactions were detected, these poor controls expose the District to an increased risk of errors, fraud, and misuse of information.

Broad access to accounting system—Auditors reviewed the District's user access report for all three users with access to the accounting system and found that 1 district employee has full access to all accounting system functions. Full access in the accounting system provides an employee the ability to add new vendors, create and approve purchase orders, and pay vendors without independent review. It also provides the ability to add new employees, set employee pay rates, and process payroll payments. Although no improper transactions were detected in the payments to the 13 employees and 30 purchases auditors reviewed, such broad access exposes the District to a greater risk of errors, fraud, and misuse, such as processing false invoices or adding and paying nonexistent vendors or employees. Although the District had a limited number of staff, there were still opportunities to separate access in the accounting system or create other compensating controls.

Weak password requirements—The District needs stronger controls over its computer passwords. Although users develop their own passwords, they are required to change the passwords only annually. Additionally, the District's passwords lack a complexity requirement—that is, passwords can be short and need not contain numbers and symbols. Passwords should be user-defined based on specific composition requirements, known only to the user, and changed regularly. 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.

No written agreement for maintaining district accounting system—Like many small districts within Cochise County, Ash Creek ESD's accounting system resides at the Cochise County School Superintendent's Office, and the District accesses the system remotely from its offices. However, the District does not have a written agreement that

stipulates each party's responsibilities. An agreement should specify responsibilities such as software licensing; establishing and maintaining user access; ensuring the security of data; data backup, storage, and recovery; and removal of terminated employees' access. Lack of clearly defined responsibilities increases the potential for such essential tasks and controls to be ineffectively performed or missing altogether.

District did not accurately report its costs

Ash Creek ESD did not always classify its fiscal year 2011 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 \$114,000 of the District's total \$749,000 in current spending. When corrected, these changes decreased the District's reported instructional expenditures by about \$35,000, or 4.5 percentage points. The dollar amounts shown in the tables in this report reflect the necessary adjustments.

Recommendations

1. The District should implement proper controls over its payroll and purchasing to ensure adequate separation of duties or alternatively establish an appropriate review process as a compensating control.
2. The District should establish and implement procedures to review employee pay to help ensure that employees are paid correctly.
3. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.
4. The District should limit employee access to the accounting system so that one employee cannot complete transactions without independent review.
5. The District should implement and enforce stronger password controls, requiring its employees to regularly change their passwords and require more complex passwords.
6. The District should establish a written agreement with the Cochise County School Superintendent's Office that outlines each party's responsibilities for its accounting system.
7. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

FINDING 3

Improvements needed for transportation program recordkeeping

In fiscal year 2011, Ash Creek ESD did not maintain documentation for state funding purposes for its transportation program and did not meet certain state requirements because it did not maintain documentation of bus pre-trip operations checks, preventative maintenance, and repairs.

Student transportation mileage and rider documentation not maintained

For state transportation funding, school districts are required to report to the Arizona Department of Education actual miles driven to transport students to and from school and the number of eligible students transported, and districts are required to maintain the related records to document that they have reported this information accurately. However, in fiscal year 2011, Ash Creek ESD did not maintain records documenting the number of miles traveled or students transported as required by the Arizona State Library, Archives, and Public Records retention schedule. Auditors were able to use alternative documentation, including annual district vehicle reports and route maps showing bus stops and student riders, to determine that the number of miles and riders reported appeared reasonable.

Required bus pre-trip inspections and preventative maintenance not documented

According to the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*, districts must demonstrate that its school bus drivers perform pre-trip inspections of each school bus before it is operated for the first time each day. Additionally, districts must demonstrate that their school buses receive systematic preventative maintenance, which includes items such as periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. These standards are designed to help ensure the safety and welfare of school bus passengers, as well as extend the useful life of buses. Ash Creek ESD did not maintain documentation to show that such inspections and preventative maintenance were performed.

Recommendations

1. The District should maintain its records supporting the reported number of eligible riders transported and actual miles driven as required by the Arizona State Library, Archives, and Public Records retention schedule.
2. The District should ensure that pre-trip inspections and bus preventative maintenance are conducted and documented as specified in the *Minimum Standards*.

OTHER FINDINGS

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

District may be able to improve efficiency and lower costs through the use of cooperative agreements

Very small districts generally have inherently higher costs because they are not able to benefit from the economies of scale like larger districts and their cost measures are more negatively impacted by fixed costs. However, there may be an opportunity for very small districts, such as Ash Creek ESD, to improve operational efficiency through the use of cooperative agreements with nearby school districts or the local county school superintendent's office. For example, some districts have been able to control costs by:

- Sharing superintendents, principals, business staff, and plant maintenance employees.
- Participating in county school superintendent cooperative programs where the superintendent's office performs many of the primary business functions for the district, such as processing payments and payroll, and preparing budgets and expenditure reports.
- Combining food service programs and preparing meals at one site and delivering them to multiple schools and districts.
- Combining transportation services and transporting students to two different school districts on the same buses.

Recommendation

The District should continue to look for ways to improve efficiency and lower costs, including the possibility of cooperatively providing services with other school districts or the County School Superintendent's Office.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Ash Creek Elementary School District 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 School District Spending (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only current expenditures, primarily for fiscal year 2011, were considered.¹ Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how it accounted for dollars spent in the classroom.

For very small districts, such as Ash Creek 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 *Classroom Dollars* report, spending patterns of very small districts are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of Ash Creek ESD's operations, less weight was given to various cost measures and more weight was given to auditors' observations made both at Ash Creek ESD and at five other very small districts also being audited for fiscal year 2011 operations.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2011 summary accounting data for all districts and Ash Creek ESD's fiscal year 2011 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 Ash Creek ESD'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 Ash Creek ESD and the five other elementary school districts that also served fewer than 200 students and were located in towns/rural areas in Cochise County that were being audited for their fiscal year 2011 operations. To compare districts' academic indicators, auditors developed a separate 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, size, and location to further refine these groups. Ash Creek ESD's student achievement peer group includes Ash Creek ESD and the five other elementary districts that also served student populations with poverty rates greater than 46 percent. Additionally:

¹ Current expenditures are those incurred for the District's day-to-day operations. 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.

- To assess the District's student achievement, auditors reviewed the Arizona's Instrument to Measure Standards' (AIMS) passing rates and "Adequate Yearly Progress" for the federal No Child Left Behind Act. AIMS passing rates were compared to the state-wide average and the average of the student achievement peer districts.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2011 food service revenues and expenditures, including labor and food costs, compared costs to peer districts', reviewed the Arizona Department of Education's food service monitoring reports, and observed food service operations.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2011 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for the 13 employees who were paid at least \$2,000 and reviewed supporting documentation for 30 of 742 accounts payable transactions. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2011 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 system, 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'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 routing. Auditors also reviewed fiscal year 2011 transportation costs and compared them to peer districts'.
- 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 2011 administration costs and staffing levels and compared these to peer districts'.
- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2011 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2011 expenditures to determine whether they were appropriate, and the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed. 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 Ash Creek Elementary School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

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Ash Creek Elementary School

6460 East Highway 181

Pearce, AZ 85625

(520) 824-3340 Fax (520) 824-3410



January 21, 2013

State of Arizona
Office of the Auditor General
C/o Debbie Davenport, Auditor General
2910 N. 44th Street Suite 410
Phoenix, Arizona 85018

RE: Response to Ash Creek Elementary School District's Performance Audit

Ms. Davenport:

Ash Creek Elementary School District respectfully submits its response to the Performance Audit of fiscal year 2010-2011, which was conducted pursuant to Arizona Revised Statutes (A.R.S.) 41-1279.03.

Attached is the response to each of the findings and recommendations, and the District's plan to implement the recommendations.

Ash Creek Elementary School is committed to operating efficiently and strives to direct dollars to the classroom. The District appreciated the professionalism of the audit team. We value the data and findings, presented in the report.

Sincerely,

Sue Shepard
Principal

Ash Creek Elementary School

*6460 East Highway 181
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(520) 824-3340 Fax (520) 824-3410*



Responses to Performance Audit Findings

Finding 1: District working to address its high food service costs and poor procedures.

The District agrees with the finding and will implement the recommendations.

Recommendation 1 The District should continue to closely monitor its food service program to identify and implement additional cost-saving measures.

Response: The District has been making changes to improve its record keeping and procedures, implementing Meal Time computer program, purchasing more commodities.

Finding 2: Inadequate accounting and computer controls increased risk of errors and fraud.

The District agrees with the finding and will implement the recommendations.

Recommendation 1 The District should implement proper controls over its payroll and purchasing to ensure adequate separation of duties or alternatively establish an appropriate review process as a compensating control.

Response: The District has implemented controls over payroll and purchasing. This is overseen by an independent company and Cochise County School Superintendent's Office.

Recommendation 2 The District should establish and implement procedures to review employees pay to help ensure employees are paid correctly.

Response: The District will implement procedures to review employees pay. This will be overseen by an independent company ADI Business Solutions.

Recommendation 3 The District should ensure that it requires an independent review and approval of all of its purchases prior to the purchase being made.

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Response: The District will review various accounting practices to ensure established procedures are being followed.

Recommendation 4 The District should limit employee access to the accounting system so that one employee cannot complete transactions without independent review.

Response: The District has restricted access to our accounting system and hired an independent company, ADI Business Solutions which reviews our accounting system.

Recommendation 5 The District should implement and enforce stronger password controls, requiring employees to regularly change their passwords and require more complex passwords.

Response: The District is in the process of requiring more secure passwords and having passwords changed on a regular basis.

Recommendation 6 The District should establish a written agreement with the Cochise County School Superintendent's Office that outlines each party's responsibilities for its accounting system.

Response: The District will work with Cochise County School Superintendent Office to implement a written agreement.

Recommendation 7 The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

Response: The District is working with an independent company to insure all transactions are coded in accordance with the Uniform Chart of Accounts for school districts.

Finding 3 Improvement needed for transportation program recordkeeping.

The District agrees with the finding and will implement the recommendations.

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Recommendation 1 The District should maintain its records supporting the reported number of eligible riders transported and actual miles driven as required by the Arizona State Library, Archives, and Public Records retention schedule.

Response: The District has begun ensuring that log records are being kept.

Recommendation 2 The District should ensure that pre-trip inspections and bus preventative maintenance are conducted and documented as specified in the Minimum Standards.

Response: The District is now ensuring that pre-trip inspections and bus preventative maintenance is conducted and recorded in log books.

Other Findings: District may be able to improve efficiency and lower costs through the use of cooperative agreements.

Recommendation The District should continue to look for ways to improve efficiency and lower costs, including the possibility of cooperatively providing services with other school districts or the County School Superintendent's Office.

Response: The District will continue to look for ways to improve efficiency and lower costs.

