



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Bicentennial Union High School District

March • 2013
Report No. 13-03



Debra K. Davenport
Auditor General

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March 27, 2013

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Bicentennial Union High School District

Mr. Byron Maynes, Superintendent
Bicentennial Union High School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Bicentennial Union High 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, Bicentennial UHSD's student AIMS scores in math and writing were lower than peer districts' averages, its reading scores were similar, and its graduation rate was higher. The District's cost-efficiency in noninstructional areas was mixed, with some costs higher and some lower than peer districts' averages. The District has experienced considerable management-level turnover during the last decade, which may have negatively impacted its operations as evidenced by auditors' having identified opportunities for improvement in multiple operational areas. For example, the District's administrative costs were slightly lower than peer districts averaged, but the District has poor controls over payroll and purchasing and lacks sufficient computer controls. Additionally, in fiscal years 2011 and 2012, the District failed to maintain documentation showing that bus driver certification requirements were met and bus preventative maintenance and repairs were performed. Finally, overproduction and uncollected food charges contributed to the District's need to subsidize its food service program.



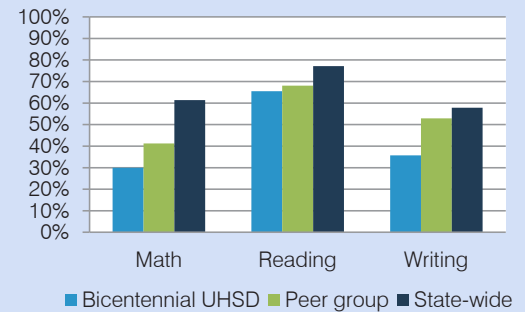
2013

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Student achievement and operational efficiency

Student achievement—In fiscal year 2011, Bicentennial UHSD's student AIMS scores in math and writing were lower than peer districts' averages, and its reading scores were similar. However, for very small districts, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores and graduation rates. Unlike two of the three peer districts' schools, Bicentennial UHSD's high school met "Adequate Yearly Progress" for the federal No Child Left Behind Act, and the District's fiscal year 2010 85-percent graduation rate was higher than the peer districts' 79-percent average and the State's 78-percent average.

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



Operational efficiencies mixed—In fiscal year 2011, Bicentennial UHSD spent less per pupil in the classroom when compared to the peer districts' average primarily because it spent less per pupil in total. Although the District's costs were lower than peer districts' in some of the nonclassroom spending areas, auditors identified several opportunities for improvement.

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

Operational area	Bicentennial UHSD	Peer group average
Administration	\$2,627	\$2,878
Plant operations	2,268	2,664
Food service	772	709
Transportation	1,599	1,207

Poor payroll and purchasing controls

Bicentennial UHSD's lack of controls over payroll processing exposes the District to an increased risk of errors and fraud, and resulted in incorrect and unsupported payments in fiscal year 2011. For example, some employees were paid without employment contracts and extra-duty approvals, some employees were not paid according to the Governing Board-approved salary schedule, and some employees were overpaid while others were underpaid. Additionally, in fiscal year 2011, the District lacked adequate controls over its purchasing process and did not always follow competitive procurement requirements.

Recommendations

The District should:

- Ensure that it has current employment contracts with each of its employees, that contracts and payments are based on Governing Board-approved salary schedules, and that employee compensation is based on contracts and actual hours worked.
- Ensure that it follows proper purchasing processes and procurement requirements as outlined in the *Uniform System of Financial Records for Arizona School Districts*.

District lacks sufficient computer controls to protect sensitive information

The District has weak controls over user access to its network and student information and accounting systems, increasing the risk of unauthorized access to these critical systems. Additionally, the District lacks antivirus software on many of its computers and uses outdated and unsupported operating systems on some of its computers and servers, placing the District at risk of having sensitive information compromised or the network damaged, resulting in costly repairs and service interruption. Additionally, the District's lack of a disaster recovery plan and backup procedures could result in interrupted operations or loss of data.

Recommendations

The District should:

- Restrict employee access to critical systems, install antivirus software on its computers and servers, and use currently supported operating system software.
- Create a formal disaster recovery plan and test it periodically and store backup tapes in a secure offsite location.

District needs to strengthen controls in its transportation program

In fiscal years 2011 and 2012, Bicentennial UHSD failed to maintain documentation to show that driver certification requirements were met and preventative maintenance and repairs were performed in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*. Additionally, the District lacked sufficient controls over its fuel inventory and could not account for 600 gallons of missing fuel over a 3-month period in fiscal year 2012.

Recommendations

The District should:

- Ensure that driver certification documentation is maintained and that drivers meet all requirements as specified in the *Minimum Standards*.
- Create and implement a preventative maintenance policy and ensure that documentation pertaining to bus preventative maintenance and repairs is maintained.
- Evaluate and implement additional controls over its fuel inventory, restrict access to fuel pumps, and ensure proper accounting of all fuel use.

Improved oversight of food program needed to reduce \$26,000 shortfall

In fiscal year 2011, Bicentennial UHSD's food service program spent \$26,200 more than it received in food service-related revenues. As a result, the District had to subsidize the program with monies that otherwise potentially could have been spent in the classroom. The District's high food supply costs, which may be the result of producing too many daily meals and keeping poor records, contributed to its need to subsidize the program. Further, the District did not follow its policy regarding students' and staff's charging for meals and did not always collect payment for charges allowed.

Recommendations

The District should:

- Prepare accurate food production records and use these records to minimize waste from excess food production.
- Enforce its Governing Board-approved policy regarding the maximum meal credit balances that students can accrue and not allow staff to accrue balances.

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Fiscal year 2011
(Unaudited)

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Fiscal year 2011
(Unaudited)

1

♦ concluded

DISTRICT OVERVIEW

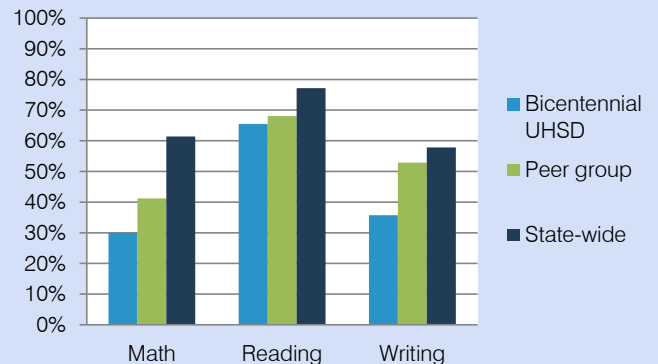
Bicentennial Union High School District is a very small, rural district in La Paz County located about 100 miles west of Phoenix in Salome, Arizona. In fiscal year 2011, the District operated one high school serving 135 students.

In fiscal year 2011, Bicentennial UHSD's student AIMS scores in math and writing were lower than the peer districts' averages, its reading scores were similar, and its graduation rate was higher.¹ The District's cost-efficiency in noninstructional areas was mixed, with some costs higher and some costs lower than peer districts' averages. The District has experienced considerable management-level turnover during the last decade, which may have negatively impacted its operations as evidenced by auditors' having identified opportunities for improvement in multiple operational areas.

Student achievement

In fiscal year 2011, 30 percent of the District's students met or exceeded state standards in math, 66 percent in reading, and 36 percent in writing. As shown in Figure 1, the District's math and writing scores were lower than peer districts' averages, and its reading scores were similar. However, for very small districts such as Bicentennial UHSD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores and graduation rates. Unlike two of the three peer districts' schools, Bicentennial UHSD's high school met "Adequate Yearly Progress" for the federal No Child Left Behind Act, and the District's fiscal year 2010 85-percent graduation rate was higher than the peer districts' 79-percent average and the State's 78-percent average.

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's operational efficiencies were mixed with some costs higher and some costs lower than peer districts'

As shown in Table 1 on page 2, in fiscal year 2011, Bicentennial UHSD spent \$3,577, or about 43 percent, less per pupil in the classroom when compared to the peer districts' average primarily because it spent \$4,233 less per pupil in total. Although the District's costs were lower than peer districts' in some

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.

of the nonclassroom spending areas shown in the table, auditors identified several opportunities for improvement.

Slightly lower administrative costs, but inadequate controls— Bicentennial UHSD’s administrative costs were slightly lower per pupil than peer districts averaged—\$2,627 compared to \$2,878. However, auditors identified administrative practices that need strengthening. Specifically, the District has an increased risk of errors, fraud, and unauthorized access to sensitive information because of its poor controls over payroll and purchasing and its lack of sufficient computer controls (see Finding 1, page 3, and Finding 2, page 7).

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

Spending	Bicentennial UHSD	Peer group average	State average
Total per pupil	\$13,031	\$17,264	\$7,485
Classroom dollars	4,742	8,319	4,098
Nonclassroom dollars			
Administration	2,627	2,878	728
Plant operations	2,268	2,664	927
Food service	772	709	375
Transportation	1,599	1,207	352
Student support	364	911	571
Instructional support	659	576	434

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

Mixed plant operations costs—Compared to peer districts’ averages, Bicentennial UHSD’s fiscal year 2011 plant operations costs were 15 percent lower per pupil and 8 percent higher per square foot. The District’s costs were lower per pupil in large part because it maintained 22 percent fewer square feet of building space per student. Although Bicentennial UHSD’s school operated far below its designed capacity, the peer districts’ average building capacity utilization rate was even lower. Specifically, Bicentennial UHSD’s school could have accommodated three times more students than were actually enrolled, whereas peer districts could have accommodated four times more students, on average. The District’s plant operations costs were slightly higher per square foot primarily because it had higher communications costs when compared with the peer districts’ average.

Mixed food service costs—Bicentennial UHSD’s food service costs were 9 percent higher per pupil and 10 percent lower per meal in fiscal year 2011 when compared with peer districts’ averages. Despite its lower cost per meal, the District’s food service program had high food supply costs, which may be the result of producing too many daily lunches and keeping poor records. Further, the District did not follow its policy related to charging for meals and did not always collect charges for credit extended to students and staff. Overproduction and uncollected food charges contributed to the District’s need to subsidize its food service program with monies that otherwise potentially could have been spent in the classroom. In fiscal year 2011, Bicentennial UHSD’s food service program expenditures exceeded its related revenues by \$26,200 (see Finding 4, page 15).

Slightly higher transportation costs—In fiscal year 2011, Bicentennial UHSD’s \$2,012 cost per rider was 11 percent higher than the peer districts’ average, and its \$1.47 cost per mile was 9 percent higher. The District’s slightly higher costs occurred primarily in salaries and benefits. Additionally, the District failed to maintain documentation to show that bus driver certification requirements were met and bus preventative maintenance and repairs were performed. Further, the District lacked sufficient controls over its fuel inventory as illustrated by 600 gallons of missing fuel during a 3-month period (see Finding 3, page 11).

FINDING 1

Poor payroll and purchasing controls increase risk of errors and fraud

Bicentennial UHSD lacks adequate controls over its payroll and purchasing. Although no fraudulent transactions were detected in the fiscal year 2011 transactions auditors reviewed, these poor controls expose the District to an increased risk of errors and fraud. Additionally, in fiscal year 2011, the District did not always follow procurement requirements or accurately report its costs. One of the possible reasons for this extensive lack of controls is the discontinuity in district leadership over the last decade. In the 9 years between fiscal years 2004 and 2013, the District has had seven changes in superintendents.

Lack of controls over:

- Payroll
- Purchasing
- Procurement
- Cost reporting

Poor controls over payroll processing contributed to improper payments

Bicentennial UHSD's lack of controls over payroll processing exposes the District to increased risk of errors and fraud, and resulted in incorrect and unsupported payments in fiscal year 2011.

Employees paid without employment contracts and extra duty approvals—

Auditors reviewed payroll and personnel documentation for 30 employees who received payments in fiscal year 2011 and found that 6 of the employees did not have current employment contracts that stipulated the terms of their employment with the District or were working under contracts that, contrary to district practice, were never approved by the District's Governing Board. Auditors also determined that there were no Governing Board-approved contracts in fiscal year 2012 for any of the District's employees. District officials stated that the Governing Board was hesitant to sign any employment contracts in fiscal year 2012 because of concerns over the propriety of contracts in prior years. Finally, 15 of the 30 employees reviewed received extra duty pay during the year, and 6 of these employees received at least one payment that did not have any supporting documentation showing that the additional duties and pay were approved prior to services being rendered. To help ensure that all pay is properly authorized and employees are paid correctly, the District should document additional duties and related pay in the employees' contracts or personnel/payroll action forms and ensure that these documents are properly approved prior to payment as required by the *Uniform System of Financial Records for Arizona School Districts* (USFR).

Some employees not paid according to Governing Board-approved salary schedule—In fiscal year 2011, some employees' pay was not supported by the District's salary schedule. Auditors reviewed 15 teacher contracts and found that 4 teachers' salaries did not correspond to any steps on the District's salary schedule. According to district officials, the superintendent at the time, without Governing Board approval, set these employees' salaries at amounts different from what they otherwise would have been eligible for under the District's salary schedules.

Some employees improperly paid for unsupported work—In fiscal year 2011, the superintendent authorized \$24,156 in payments to three individuals for work he believed they performed in prior years before he was superintendent. However, there was neither Governing Board approval nor supporting documentation for these payments, and the superintendent was not employed by the District when these duties were purportedly performed. Further, according to Attorney General Opinion I84-034, all compensation provided to an employee should be agreed to before services are performed. Failure to do so can lead to a violation of the State Constitution's prohibition on gifts of public monies.

District compensated employee twice for the same contracted hours—In fiscal year 2011, the District paid 1 employee a \$6,300 stipend beyond his regular salary to perform other duties during his regular contracted day. This resulted in the District's paying the employee twice for the same contracted hours. Had the stipend required duties beyond the employee's normal work hours, the stipend would have been appropriate.

Employees overpaid and underpaid—The District's hourly employees prepared biweekly time sheets and calculated the total number of hours worked each pay period. Supervisors were then supposed to review and approve these time sheets before submitting them to payroll for processing. Auditors reviewed one pay period's time sheets for 11 employees who worked in fiscal year 2011 and found that 6 of the 11 time sheets lacked any evidence that supervisors reviewed and approved them. Further, auditors found that 6 of the 11 employees were paid amounts that were not supported by the number of hours they reported working—3 employees were paid for 0.5 to 30 hours more than they reported working, and 3 employees were paid for 0.5 to 3.75 hours less than they reported working.

Performance pay plan not Governing Board approved and documentation supporting payment not retained—In fiscal year 2011, the District distributed its performance pay according to the performance pay plan that had been in place since 2003. However, the District was unable to provide documentation showing that its Governing Board approved the plan for fiscal year 2003 or any year since then. Further, although the District provided auditors with a memorandum from the superintendent showing how much performance pay to give each employee in fiscal year 2011, the District was unable to provide documentation showing that the employees actually met the goals to receive these monies. Additionally, some of the amounts paid to employees appear to have been miscalculated. For example, one of the performance goals was worth 20 percent of total performance pay and had four sub-goals each worth 5 percent. However, 1 employee was paid the equivalent of 17 percent of performance pay for meeting this goal. Because the District's plan does not allow for partial payment of goals, this payment does not seem appropriate.

Poor controls over district purchasing increases risk of errors and fraud

In addition to a lack of controls over its payroll processing, the District also lacks adequate controls over its purchasing. Auditors reviewed supporting documentation for 30 fiscal year 2011 accounts payable transactions and determined that the District was unable to demonstrate that it followed its own policies and procedures, as well as the USFR, by providing evidence of properly approved purchase requisitions, purchase orders, invoices, or payment authorizations. Specifically, of the 30 sampled transactions:

- 14 did not have evidence of proper supervisory approval;
- 3 exceeded the amount approved on the purchase order, were for different items than approved, or were purchased after the purchase order expired;
- 8 did not have invoices, despite being paid;
- 8 had invoices that were dated prior to the approval of requisitions or purchase orders by a supervisor; and
- 11 did not have evidence that items or services were received.

Although no fraudulent transactions were detected in the fiscal year 2011 payroll and accounts payable transactions auditors reviewed, these poor controls increase the risk of errors and fraud, such as the District's paying for items or services that are inappropriate or were never received, or the creating and paying of fictitious vendors.

District did not always follow proper procurement requirements

As discussed in this report's Overview on page 2, in fiscal year 2011, the District had slightly lower administrative costs than its peer districts' average. However, it spent more on purchased professional services. These higher costs may be related to the District's not following the USFR competitive procurement requirements when it purchased consulting services. In fiscal year 2011, the District paid over \$26,000 to a business consulting firm without obtaining written price quotations from other firms as required by the USFR. Similarly, in fiscal year 2012, the District authorized and planned to spend over \$32,000 for services from the same consulting firm but did not obtain written price quotations from other firms. Following procurement requirements promotes open and fair competition among vendors and helps ensure that districts receive the best possible value for the public monies they spend. Had Bicentennial UHSD followed competitive procurement requirements as it should have, it may have obtained a better price for these consulting services.

District did not accurately report its costs

Bicentennial UHSD did not consistently 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 classification errors totaling \$243,354 of the District's total \$1,754,412 of operational spending.¹ When corrected, these changes decreased the District's reported instructional expenditures by \$108,977, or 5 percentage points. The dollar amounts shown in the table in this report reflect the necessary adjustments.

Recommendations

1. The District should ensure that it has current employment contracts with each of its employees that stipulate the terms of their employment with the District.
2. The District should ensure employees' contracts are based on Governing Board-approved salary schedules and policies.
3. The District should ensure that employee compensation is based on negotiated contracts and agreements prior to employees performing services.
4. The District should ensure that any additional compensation is for duties performed outside of an employee's regular contracted duties.
5. The District should require supervisors to thoroughly review time sheets and pay employees based on the number of hours actually worked.
6. The District should obtain Governing Board approval for its performance pay plan, retain documentation supporting performance payments, and ensure that payments made to eligible employees are consistent with its Governing Board-approved plan.
7. The District should ensure that it follows proper purchasing processes as outlined in the *Uniform System of Financial Records for Arizona School Districts*, including ensuring proper approval before purchases are made, ensuring that goods and services are received before payments are made, and ensuring that all supporting documentation is retained.
8. To help ensure it receives the best price for goods and services, the District should follow the competitive procurement requirements in the *Uniform System of Financial Records for Arizona School Districts* when purchasing goods and services.
9. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

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

FINDING 2

District lacks sufficient computer controls to adequately protect sensitive information

Bicentennial UHSD lacks adequate controls over its computer network and systems. These poor controls expose the District to an increased risk of unauthorized access to critical systems. Additionally, the District's lack of a disaster recovery plan and backup procedures could result in interrupted operations or loss of data.

Increased risk of unauthorized access to critical systems

The District has weak controls over user access to its network and student information and accounting systems, increasing the risk of unauthorized access to these critical systems. Additionally, the District lacks antivirus software on many of its computers and uses outdated and unsupported operating systems on some of its computers and servers, placing the District at risk of having sensitive information compromised or the network damaged, resulting in costly repairs and service interruption.

Broad access to accounting system—Two of the District's three accounting system users have access beyond what is required to perform their job duties. One of these employees has the ability to perform all accounting system functions. Although no fraudulent transactions were detected in the fiscal year 2011 payroll and purchasing transactions auditors reviewed, numerous errors were found. Granting employees system access beyond what is required for their job duties, especially full system access, exposes the District to increased risk of errors, fraud, and misuse of sensitive information, such as processing false invoices or adding nonexistent vendors or employees. According to a district business official, as of December 2012, the District was working with the La Paz County Education Service Agency (Agency) to adjust access for these individuals because this agency hosts the District's accounting system on its servers and is responsible for granting individuals access to the system.

Increased risk of unauthorized access to critical systems caused by:

- Employees' having too much access to accounting system
- Very weak password requirements
- No antivirus software
- Outdated and unsupported operating systems
- No procedures for removing access to student information system
- No disaster recovery plan

Very weak password requirements—The District needs to strengthen its password controls over access to its student information system and network. The District uses a standardized password naming convention that uses an employee's name and initials when assigning passwords to student information system users. These users are never required by the system to change their passwords, which can be easily determined by other system users who are all familiar with the password naming convention. Common practice is for IT administrators to establish system rules that require users to change their initially assigned passwords at first logon to ensure that users have a unique password known only to them. Further, passwords for the student information system have no minimum-length requirement and do not require a combination of alphanumeric characters for password complexity. Common practice requires passwords to be at least eight characters, contain a combination of alphabetic and numeric characters, and be changed periodically.

Additionally, the District's network does not even require a password. As a result, the District is at a high risk of errors, fraud, and unauthorized access occurring in the network because any employee could log onto another employee's computer making it very difficult to verify who is accessing or manipulating certain sensitive information.

Finally, password controls over access to the District's accounting system are weak. The District's accounting system passwords are created by the Agency, which hosts the District's accounting system on its servers. The Agency assigns the passwords, but the passwords are not required to be changed at first logon and do not expire after a certain usage period. According to one district official, she has never been required to change her password during the 2 years that she has had access to the accounting system. Moreover, she stated that her agency-assigned password is the same password used by a previous district employee.

District computers lack antivirus software—The District installs Web-filtering and antivirus software on its 16 laptops, which are assigned to teachers. However, it does not install antivirus software on its 101 desktop computers used by students and noninstructional staff. This places the District's network at risk of having sensitive information compromised or the network damaged, resulting in costly repairs and service interruption.

Outdated and unsupported operating systems increase vulnerability—Auditors noted that some of Bicentennial UHSD's computers and one of its servers were running on outdated operating systems. Specifically, auditors' review of district documentation revealed that 6 of the District's 117 network-connected computers, or 5 percent, and 1 of its 4 network-connected servers were using outdated and unsupported operating systems as of December 2012. The use of outdated and unsupported operating systems could compromise the computer network and its sensitive information. Further, outdated and unsupported operating systems are at higher risk of computer-related attacks because software manufacturers no longer provide fixes for vulnerabilities discovered in the systems.

No procedures for removing terminated employees' access to student information system—The District does not have procedures in place to ensure that only current employees have access to the student information system. Auditors found four user accounts in the District's student information system that were linked to employees who no longer worked for the District. To reduce the risk of unauthorized access, the District should promptly remove an account when its user is no longer employed by the District.

Lack of disaster recovery plan and backup procedures could result in interrupted operations or loss of data

Bicentennial UHSD does not have a formal, up-to-date, and tested disaster recovery plan, even though it maintains critical student information on its student information system 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. The plan should include detailed information on how systems could be restored if the current administrators were unavailable. Additionally, the District does not have proper backup procedures for its student information system. The District backs up the system's data on the same desktop computer that runs the system's software. Although the District creates backup copies of the data, the backup data is not stored in a separate and secure location, which could result in the loss of sensitive and critical data during a disaster. Disaster recovery plans should be tested periodically, and modifications should be made to correct any problems and to ensure their effectiveness. Additionally, backup tapes should be stored in a secure offsite location to ensure that data can be restored in the event that a server at the district office is destroyed.

Recommendations

1. The District should continue to review employee access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction without an independent review.
2. The District should require users to create network passwords and require users to change initially assigned passwords for all systems at first logon.
3. The District should implement and enforce password requirements related to password length, complexity, and expiration.
4. The District should install antivirus software on its computers and servers to safeguard its sensitive information and protect against costly damage or interruption.
5. The District should ensure that its servers and computers are using currently supported operating system software.

6. The District should develop and implement a formal process to ensure that terminated employees are promptly removed from its student information system.
7. The District should create a formal disaster recovery plan and test it periodically to identify and remedy deficiencies. Additionally, backup tapes should be stored in a secure offsite location.

FINDING 3

District did not meet state transportation safety requirements and needs to strengthen controls in its transportation program

In fiscal years 2011 and 2012, Bicentennial UHSD failed to maintain documentation to show that driver certification requirements were met and preventative maintenance and repairs were performed in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*. Additionally, the District lacked sufficient controls over its fuel inventory.

District lacked adequate procedures to ensure driver certification requirements were met

To help ensure student safety, the *Minimum Standards* administered by the Department of Public Safety require that bus drivers be properly certified and receive periodic physical examinations, drug tests, refresher training, and CPR and first aid certification. Auditors reviewed driver files for all seven of the District's bus drivers from fiscal years 2011 and 2012 and found that the District failed to maintain complete records demonstrating that its bus drivers met *Minimum Standards*. Specifically, auditors found that:

- No drivers had current fiscal year 2012 annual drug test documentation, despite requirements that all drivers be tested annually;
- No drivers had a random drug test in fiscal years 2011 or 2012, despite requirements that districts randomly test 50 percent of drivers annually;
- Five of seven drivers did not have a current fiscal year 2012 Commercial Driver's License (CDL) on file or had a lapse in their CDL;
- Six of seven drivers did not have evidence of required biennial physical performance tests; and
- Three of seven drivers did not have evidence of required biennial refresher trainings.

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

District failed to document bus preventative maintenance and repairs

In addition to requirements for bus drivers, the *Minimum Standards* require that districts demonstrate that their school buses receive systematic preventative maintenance and inspections. Preventative maintenance and inspections include 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. Additionally, the *Minimum Standards* require that districts maintain records of bus repairs for 3 years from the date of the repair.

In fiscal years 2011 and 2012, Bicentennial UHSD did not maintain required documentation demonstrating that preventative maintenance and repairs had been performed on its buses. Of its eight buses, the District had no repair or maintenance records for six buses and only limited records for the remaining two buses. Further, the District did not have formal policies pertaining to preventative maintenance intervals. To comply with the *Minimum Standards*, the District should ensure that it maintains all maintenance records for its buses and performs preventative maintenance based on a policy that ensures the safe operation of its buses.

Poor controls over fuel inventory increases risk of theft

The District did not implement proper controls over its fuel inventory. The District has a 1,000-gallon unleaded fuel tank and a 1,500-gallon diesel fuel tank located at a nearby automotive repair garage and fueling station. The tanks are located in the company's fueling yard along with other tanks that are used by other nearby school districts and businesses. The fueling yard is surrounded by a high chain link fence secured with a padlock. Additionally, both of the District's pumps are secured with padlocks so that only district employees can access the district pumps. However, the integrity of these security measures is diminished because the District issued keys to all plant operations and transportation employees. These employees retained the keys at all times instead of checking them out when they needed to fuel their buses or district vehicles. Further, neither the District nor the company maintains security cameras for the fuel yard.

Additionally, Bicentennial UHSD did not monitor fuel deliveries from the fueling station. According to district officials, it was the fueling station and not the District that decided when to fill the tanks and did so without prior district approval. The company filled the tanks based on its fuel supplier's delivery schedule and did not notify the District until after filling the tanks. However, neither the company nor the District took a reading of the fuel inventory level before and after the tanks were filled. Further, although district employees maintained logs of the fuel they pumped, the District did not have a process to compare fuel usage to fuel purchased to determine whether fuel levels in the tanks were appropriate. By not performing fuel level readings before

and after the tanks were filled and not monitoring fuel logs, the District could not verify whether fuel billings were accurate. This lack of control over the District's fuel inventory placed the District at risk for theft and fraud.

Auditors reviewed vendor fuel invoices and fuel logs maintained by employees for a 3-month period in fiscal year 2012 and determined that the diesel tank should have contained 600 gallons more than it did. District officials were unable to explain the 600 gallons of missing fuel. The 600 gallons that were not accounted for could be due to reporting errors on the employee fuel logs, employee theft, or fuel vendor fraud. Further, auditors could not determine whether the unleaded tank's fuel level was appropriate because the District did not require its employees to maintain sufficient fuel logs for its unleaded vehicles. Not having controls over keys, not having security cameras, and poor recordkeeping increases the risk that employees could fuel their personal vehicles during nonbusiness hours without detection.

Recommendations

1. The District should ensure that documentation pertaining to driver certifications is maintained and that drivers meet all requirements as specified in the State's *Minimum Standards for School Buses and School Bus Drivers*.
2. The District should create and implement a preventative maintenance policy and ensure that documentation pertaining to bus preventative maintenance and repairs is maintained.
3. The District should evaluate and implement additional controls over its fuel inventory, restrict access to fuel pumps, and ensure proper accounting of all fuel use.

FINDING 4

Improved oversight of food service program needed to reduce \$26,000 shortfall

In fiscal year 2011, Bicentennial UHSD's food service program spent \$26,200 more than it received in food service-related revenues. As a result, the District had to subsidize the program with monies that otherwise potentially could have been spent in the classroom. The District's high food supply costs, which may be the result of producing too many daily meals and keeping poor records, contributed to its need to subsidize the program. Further, the District did not follow its policy related to charging for meals and did not always collect charges for credit extended to students and staff.

Overproduction and lack of accurate records may have contributed to high food supply costs

In fiscal year 2011, Bicentennial UHSD spent 22 percent more on food supply costs per meal than peer districts averaged. Auditors observed the District's food service operations on two days in fiscal year 2012 and noted a large amount of food left over after all students had been served. For example, during one of the days, auditors observed that one of five pans containing a main dish, or 20 percent, and one of seven pans of a side dish, or 14 percent, were left over and thrown away. This overproduction of food needlessly increases the District's food supply costs. Based on food service director interviews in fiscal year 2012, the District's food service operations had not substantially changed since fiscal year 2011. Therefore, it appears likely that overproduction of meals also occurred in fiscal year 2011, and thereby may explain the District's high food supply costs in that year. To mitigate overproduction, some districts use daily production records to monitor how food production compares to consumption. This information is then used to help determine future levels of food preparation to minimize overproduction and waste. Bicentennial UHSD's food service staff prepare production reports; however, they do not appear to be accurate. For the two days when auditors observed large amounts of leftover food, the District's production sheets indicated that there was no leftover food.

Auditors reviewed a month of fiscal year 2012 production records and noted that the District's food service staff prepare the same number of meals irrespective of the type of meal served. Prior audits have noted that some efficient food service programs vary meal production levels based on how popular a particular meal is—more meals are prepared on days when more popular meals are

served, and fewer meals are prepared on days when less popular meals are served. Tracking and monitoring the number of meals prepared and served can help limit the District's food costs resulting from waste and assist the District in future menu planning by determining the popularity of various meals.

Further, it appears that the District is consistently preparing more meals than needed. During the 1-month period in fiscal year 2012 reviewed by auditors, district production records indicated that the District consistently prepared 120 lunches per day; however, records from the District's point-of-sale system, which records the number of meals served, indicated that the District served only 105 lunches daily, on average. Overall, the District served 3,633 meals during the month but prepared 4,017 meals, for a total overproduction of 384 meals or 11 percent. To minimize overproduction, some districts have classroom teachers take morning counts of students intending to eat a district-served lunch that day. Those counts are then provided to food service staff to guide them in determining the proper number of lunches to prepare that day.

District's meal-tracking process puts District at risk for inaccurately recording meals

The District needs to improve its process for recording the number of meals served. One food service employee serves as the cashier and operates the point-of-sale system and is responsible for recording the meals served. However, auditors noted that the cashier was stationed a considerable distance from the food service line, and students were not required to go to the cashier to register their meals. Rather, the cashier took visual notice of meals served to students as they left the serving line and recorded the meals to the students' food service accounts in the District's point-of sale system. Auditors noted that there was a lot of student movement in and around the serving line and between tables in the cashier's line of vision that made identifying students who were served meals difficult. The District has the software and equipment to allow students to enter a personal identification number (PIN) to register their meals electronically, but chooses not to use the technology and equipment. According to district officials, it is too difficult to get students to comply with the requirement of registering their meals at the cashier's station.

Poor controls over meal tracking could result in collecting incorrect meal revenues. Moving the cashier and point-of-sale system to a location in the cafeteria that is more appropriate for recording meals served and using its available technology would allow the District to ensure that it appropriately charges for meals served.

Lack of enforcement of Governing Board-approved policy puts District at risk of not collecting unpaid balances

Bicentennial UHSD did not enforce its Governing Board-approved policy regarding students' and staff's charging meals. The District's policy allows the District to provide up to \$5 in credit to students who have insufficient funds to purchase meals. The policy does not provide for credit to be extended to district employees likely because the *Uniform System of Financial Records for Arizona School Districts* does not allow this practice. However, in fiscal years 2011 and 2012, the District provided credit above the \$5 limit to students and also allowed staff to charge meals. Specifically, according to records from the District's point-of-sale system, there were 15 students and 6 employees who had balances totaling \$832 that had not been paid by the end of fiscal year 2011. In fact, one staff member had a balance of \$54.50. Further, the District's January 2012 records showed that the District had \$626 in outstanding credit extended to students and staff. Twenty-one of 23 students with balances were extended credit above the \$5 policy, with one student having an \$89 balance. Seven staff members also had balances. Additionally, the District's food service employees did not pay for their meals during fiscal years 2011 or 2012 even though they did not have contracts that included free meals as an employer-provided benefit. Not enforcing credit limits established by the Governing Board and not requiring food service employees to pay for meals increases the risk that the District will not collect meal charges and cover program costs.

Recommendations

1. The District should prepare accurate food production records and use these records to minimize waste from excess food production.
2. The District should consider additional food production controls, such as having classroom teachers submit expected lunch counts, to help reduce overproduction and waste.
3. The District should move its point-of-sale system and cashier to a more appropriate location for recording meals and improve its process to ensure that it accurately counts and charges for meals served.
4. The District should enforce its Governing Board-approved policy regarding the maximum meal credit balances that students can accrue and not allow staff to accrue balances.
5. The District should ensure that food service employees pay for their meals or that their contracts indicate that they are provided meals free of charge as part of their compensation.

OTHER FINDINGS

In addition to the four 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 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 Bicentennial UHSD, 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 reduce 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 Bicentennial Union High 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 operational spending, primarily for fiscal year 2011, was 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 Bicentennial UHSD, 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 2012 *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 Bicentennial UHSD's operations, less weight was given to various cost measures and more weight was given to auditor observations made at the District.

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 Bicentennial UHSD'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 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. Bicentennial UHSD's student achievement peer group includes Bicentennial UHSD and the three other union high districts that also served student populations with poverty rates greater than 26 percent in town and rural areas. Auditors compared Bicentennial UHSD's student AIMS scores to those of its peer group averages. Generally, auditors considered Bicentennial UHSD's student AIMS scores 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.

¹ Operational spending includes costs incurred for the District's day-to-day operations. It excludes 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.

Auditors also reported the District's graduation rate and whether or not the District's schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

To analyze Bicentennial UHSD'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 Bicentennial UHSD and six other unified or union high school districts that also served fewer than 200 students and were located in town and rural areas. Auditors compared Bicentennial UHSD's costs to its peer group averages. Generally, auditors considered Bicentennial UHSD'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/lower if they were more than 30 percent higher/lower than peer averages. However, in determining the overall efficiency of Bicentennial UHSD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as square footage per student, meal participation rates, and bus capacity utilization, as well as auditor observations and any unique or unusual challenges the District had. Additionally:

- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 36 individuals who received payments through the District's payroll system and reviewed supporting documentation for 30 of the 872 accounts payable transactions for fiscal year 2011. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2011 spending across operational areas. Auditors also evaluated other internal controls that were considered significant to the audit objectives.
- 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 if the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.
- 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's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, reviewed bus driver files for the District's seven fiscal year 2011 and 2012 drivers, and reviewed fiscal year 2011 and 2012 bus maintenance and safety records for the District's eight buses. Auditors also reviewed fiscal year 2011 transportation costs and compared them to peer districts'. To analyze the District's fuel purchases and usage, auditors reviewed vendor fuel invoices and fuel logs maintained by employees for November and December 2011 and January 2012.

- 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 district meal production records and the Arizona Department of Education's food service monitoring reports; reviewed point-of-sale system reports; and observed food service operations. Auditors also reviewed district food service policies and practices, especially as they related to students' and staff's charging for meals.
- To assess opportunities for the District to mitigate some of the inherently higher costs faced by small Arizona districts, auditors reviewed cost savings opportunities that have been identified in previous audit reports of small districts and included those that may be beneficial for Bicentennial UHSD to consider.
- 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 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'.

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 Bicentennial Union High School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

DISTRICT RESPONSE

Bicentennial Union High School District #76

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SALOME HIGH SCHOOL "HOME OF THE FROGS"

March 18, 2013

Office of the Auditor General
Vicki Hanson, Manager
Division of School Audits

Dear Ms. Hanson,

Please find below the District's response to the performance audit.

Finding 1: Agree

Recommendations 1-9: The District will implement all of the recommendations.

Finding 2: Agree

Recommendations 1-7: The District will implement all of the recommendations

Finding 3: Agree

Recommendations 1-3: The District will implement all of the recommendations

Finding 4: Agree

Recommendations 1-5: The District will implement all of the recommendations

Other Findings: Agree

Recommendation: The District will implement the recommendation

Byron Maynes
Superintendent
Bicentennial Union High School District #76

BM/kd

"THE PURSUIT OF EXCELLENCE IS OUR ONLY CHOICE"

