

A REPORT  
TO THE  
ARIZONA LEGISLATURE

Division of School Audits

---

Performance Audit

# Cottonwood-Oak Creek Elementary School District

---

October • 2010  
Report No. 10-15



---

**Debra K. Davenport**  
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

## The Joint Legislative Audit Committee

---

Representative **Judy Burges**, Chair

Senator **Thayer Verschoor**, Vice Chair

Representative **Tom Boone**

Senator **John Huppenthal**

Representative **Cloves Campbell, Jr.**

Senator **Richard Miranda**

Representative **Rich Crandall**

Senator **Rebecca Rios**

Representative **Kyrsten Sinema**

Senator **Bob Burns** (*ex officio*)

Representative **Kirk Adams** (*ex officio*)

## Audit Staff

---

**Ross Ehrick**, Director

**Tara Lennon**, Manager and Contact Person

**John Ward**, Team Leader

**Kristen Conway**

**Anthony Glenn**

**Jennifer Wild**

Copies of the Auditor General's reports are free.

You may request them by contacting us at:

### **Office of the Auditor General**

**2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333**

Additionally, many of our reports can be found in electronic format at:

**[www.azauditor.gov](http://www.azauditor.gov)**



**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

October 29, 2010

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board  
Cottonwood-Oak Creek Elementary School District

Ms. Barbara U'Ren, Superintendent  
Cottonwood-Oak Creek Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Cottonwood-Oak 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.

This report will be released to the public on November 1, 2010.

Sincerely,

Debbie Davenport  
Auditor General

**REPORT  
 HIGHLIGHTS**  
 PERFORMANCE AUDIT

**Our Conclusion**

Cottonwood-Oak Creek Elementary School District's student achievement is similar to the averages of its peer districts' and the State, and the District generally operates efficiently. The District has slightly lower administrative costs than its peer districts, but needs to improve controls over its accounting system and computer network. The District also operates an efficient food service program by reducing food supply costs and by selling meals to other school programs. The low-cost operations allow the District to provide free breakfast to all of its students. Separately, the District has identified cost savings in a proposed unification plan with a neighboring union high school district.



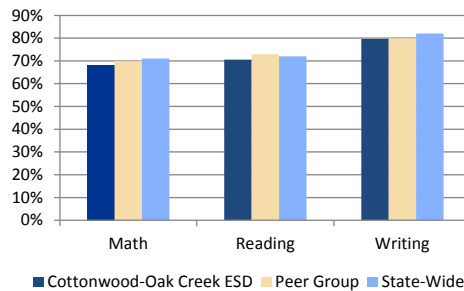
2010

**Student achievement similar to state and peer averages, and efficient operations**

In fiscal year 2009, Cottonwood-Oak Creek ESD's student AIMS scores were similar to those of peer districts' and state averages. Also similar to peer districts, one of the District's five schools failed to meet "Adequate Yearly Progress" (AYP) for the federal No Child Left Behind Act because some of its students did not demonstrate sufficient academic progress.

**District operates efficiently overall with similar or lower costs**—In fiscal year 2009, the District spent about the same per pupil as peer districts, but spent slightly more in the classroom. Costs for administration, food service, and transportation were lower than the peer districts' averages, and plant operation costs were similar.

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



**Expenditures by Function  
 Fiscal Year 2009**

Per Pupil	Cottonwood-Oak Creek ESD	Peer Group Average
Administration	\$823	\$882
Plant operations	894	863
Food service	458	518
Transportation	272	353

**Inadequate accounting and IT controls**

Controls over the accounting system ensure that transactions are authorized and accurate and that duties are segregated between employees. However, several employees had more access to the District's accounting system than their job responsibilities required. Although no improper transactions were found in our sample, such broad access increases the risk of errors, fraud, and misuse of monies.

Auditors also reviewed access to the District's computer network and discovered that three former employees

still had access even though they had left district employment 3 months earlier. In addition, IT network users are not required to change passwords periodically to avoid unauthorized use of the network.

**Recommendations**—The District should:

- Limit IT access to each employee's assigned functions.
- Remove former employees' IT network access.
- Create and implement policies to require password changes.

## Food service program operates efficiently

In fiscal year 2009, Cottonwood-Oak Creek ESD offered free breakfast to all students. Although only 55 percent of the District's students qualified for free breakfast under a federal program, the District was able to extend this program to all students because of its food service program's self-sufficiency. The District achieved a cost-savings of 14 cents per meal by using more United States Department of Agriculture (USDA) food commodities than its peer districts. In addition, the District maximized its savings by planning meals around the availability of USDA commodities. As a result, the District's \$2.12 cost per meal was 11 percent less than the \$2.37 average for peer districts. The District also

generated additional revenue by selling meals to preschool programs and a charter school.

### Examples of Commodity Savings Fiscal Year 2009 (Unaudited)

Commodity (Weight Per Case)	Market Value	District Cost
Frozen peas (30 lbs.)	\$21.24	\$2.79 shipping per case
Beef patties (40 lbs.)	83.30	
Canned peach slices (39.75 lbs.)	27.82	
Total	\$132.36	\$8.37

## Unification being considered to increase efficiency and instructional spending

Cottonwood-Oak Creek ESD has been discussing unification with a neighboring union high school district, which would increase efficiency. The districts have identified almost \$372,000 in administrative cost savings by eliminating duplicate and other administrative positions such as a superintendent, business manager, assistant principal, and warehouse supervisor. The districts would save an additional \$319,000 by eliminating duplicate positions in other areas such as student transportation and plant operations and maintenance.

However, the districts would need to implement the cost-saving measures they had identified to realize those cost savings. Auditors reviewed the fiscal year 2002 unification of two districts similar to

Cottonwood-Oak Creek and the union high school district. Not only did that unification not result in any cost savings, but expenditures in the classroom actually decreased from the percentage that had occurred in both districts prior to the unification. The reason for the lack of savings and fewer dollars spent in the classroom was that the districts failed to implement any of the staff reductions they had identified.

**Recommendations**—The District should:

- Continue to consider all opportunities for cost savings as part of its unification planning.
- Follow through on proposed reductions in non-instructional staffing levels if unification occurs.

# TABLE OF CONTENTS



<b>District Overview:</b>	<b>1</b>
Student achievement similar to state and peer districts' averages	1
District operates efficiently with costs similar to or below peer districts'	1
<b>Finding 1: Inadequate accounting and IT controls increased risk of errors and fraud</b>	<b>3</b>
Overly broad access to computerized accounting system	3
Terminated employees have access to IT network	4
Inadequate controls over employee passwords to network	4
<b>Recommendations</b>	<b>5</b>
<b>Finding 2: Food service program operates efficiently</b>	<b>7</b>
Low-cost operations allow District to offer free breakfast	7
District's use of commodities enhances cost effectiveness	8
District increases revenue by selling meals to other entities	8
<b>Finding 3: District considering unification to increase efficiency and instructional spending</b>	<b>9</b>
Districts identified potential savings by reducing noninstructional positions	9
Failure to reduce staff could result in lower classroom spending	10
<b>Recommendations</b>	<b>11</b>

♦ continued



# TABLE OF CONTENTS

<b>Other Findings:</b>	13
District did not accurately report its costs	13
Recommendation	13
<b>Appendix</b>	a-1
Objectives, Scope, and Methodology	a-1
<b>District Response</b>	
<b>Tables:</b>	
1 Comparison of Per-Pupil Expenditures by Function Fiscal Year 2009 (Unaudited)	2
2 Number of Meals Served and Food Service Costs Comparison Fiscal Year 2009 (Unaudited)	7
3 Examples of Commodity Savings Fiscal Year 2009 (Unaudited)	8
<b>Figures:</b>	
1 Percentage of Students who Met or Exceeded State Standards (AIMS) Fiscal Year 2009 (Unaudited)	1

concluded ♦

# DISTRICT OVERVIEW

Cottonwood-Oak Creek Elementary School District is a rural district covering 428 square miles located 42 miles northeast of Prescott in Yavapai County. In fiscal year 2009, the District served 2,308 students in kindergarten through grade 8 at its five schools. Its student achievement was similar to the state and peer districts' averages.<sup>1</sup> Overall, the District operated efficiently, but auditors noted areas for improvement. Specifically, the District should improve controls over access to its accounting system and network to diminish the risk of errors or fraud.

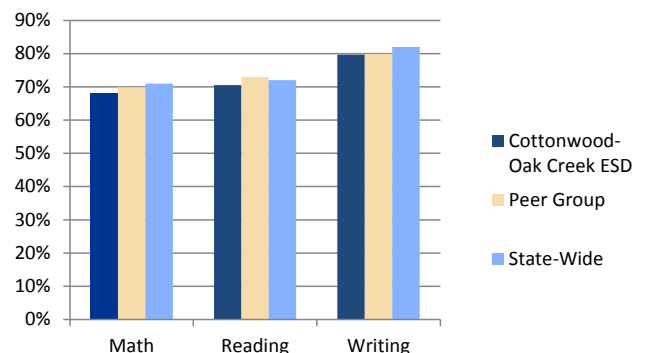
## Student achievement similar to state and peer districts' averages

In fiscal year 2009, 68 percent of the District's students met or exceeded state standards in math, 71 percent in reading, and 80 percent in writing. These scores were similar to the state and peer districts' averages. Also similar to peer districts, one of the District's five schools failed to meet "Adequate Yearly Progress" (AYP) for the No Child Left Behind act because some of its students did not demonstrate sufficient academic progress.

## District operates efficiently with costs similar to or below peer districts'

As shown in Table 1 on page 2, and based on auditors' reviews of various performance measures, in fiscal year 2009, Cottonwood-Oak Creek ESD operated its administration, plant operations, food service, and student transportation programs efficiently at costs that were similar to, or below, its peer districts'. As a result, although Cottonwood-Oak Creek ESD spent a similar amount per pupil, it was able to spend more of its resources in the classroom. The District is also considering unification with a neighboring high school district in order to improve curriculum design and student achievement monitoring across elementary and secondary grades. This would also further improve both districts' efficiency by eliminating duplicative non-instructional positions between the two districts (see Finding 3 on page 9).

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



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

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



**Administrative costs slightly lower, but improvements needed**—The District spent less per pupil on administration than its ten peer districts, on average. Although the District operates its administration efficiently, it needs to improve controls over access to its accounting system and computer network to reduce the risk of errors and fraud (see Finding 1 on page 3).

**Plant operation costs similar**—The District’s plant operations appeared efficient with costs that were similar to its peer districts’, both per square foot and per pupil. The District’s schools appeared well maintained and operated at a reasonable 82 percent of capacity.

**Lower food service costs**—Cottonwood-Oak Creek ESD’s food service program operated efficiently with costs that were 11 percent lower per meal than its peer districts’ average, primarily due to lower food supply costs and revenue from additional meals sold to other school programs. As a result of low costs and efficient operations, the District was able to offer free breakfast to all of its students (see Finding 2 on page 7).

**Transportation program operates efficiently**—Cottonwood-Oak Creek ESD spent significantly less per pupil on transportation than its peer districts primarily because it transported fewer of its students, but also because it operated its program efficiently. Cottonwood-Oak Creek ESD’s \$2.98 cost per mile was slightly lower than the peer average of \$3.12 per mile, and its routes operated fairly efficiently, filling buses to 74 percent of capacity.

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

Spending	Cottonwood-Oak Creek ESD	Peer Group Average	State Average
Total per pupil	\$7,580	\$7,549	\$7,908
Classroom dollars	4,316	4,096	4,497
Nonclassroom dollars			
Administration	823	882	729
Plant operations	894	863	920
Food service	458	518	382
Transportation	272	353	343
Student support	495	459	594
Instructional support	322	378	431
Other	0	0	12

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

# FINDING 1

---

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

In fiscal year 2009, Cottonwood-Oak Creek ESD was exposed to an increased risk of errors and fraud because it did not adequately limit access to its accounting system and information technology (IT) network. Although auditors did not identify any false payroll payments or inappropriate transactions with vendors, the potential for improper payments remains high under the current procedures, and the District should take steps to strengthen its system controls. The District also needs to strengthen its IT security controls over employee passwords to the computer network.

### Overly broad access to computerized accounting system

The District did not establish proper user access controls to protect the integrity of its accounting system. Specifically:

- **Some employees have access to both the human resources and payroll functions—**The District has four employees who have access to both the human resources and payroll functions. All four employees have accounting system access that would allow them to enter new employees into the system, update pay rates, and authorize payments to employees. This broad level of access across payroll and human resources functions exposes the District to increased risk of errors and fraud, because an individual could create nonexistent employees and then authorize payments to them in a bank account of his or her choosing.
- **Purchasing and accounts payable employees can complete transactions without supervisory review—**The District has two employees responsible for making district purchases and another employee responsible for processing payments for those purchases. All three employees have accounting system access that would allow them to create a vendor, create and approve purchase orders, and complete a payment to a vendor. Allowing an individual the ability to initiate and complete a transaction without independent review and approval exposes the District to increased risk of errors and fraud, such as processing false invoices or adding nonexistent vendors.

- **Three employees have full access to all functions**—Three additional employees have the ability to perform 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. It also provides the ability to add new employees, set employee pay rates, and process payroll payments. Allowing any employee to have full access to these functions exposes the District to increased risks of errors or fraud occurring and remaining undetected.
- **District maintains three generic user accounts with full access**—Additionally, the District maintains three generic user accounts that are not assigned to specific individuals and provided full, anonymous access to the accounting system. These generic accounts were not used during the audit period, and, according to district officials, only one employee knew about these generic accounts. Allowing an anonymous employee to have full access to all functions in the accounting system undermines accountability if errors or fraud occur because it would be difficult and potentially impossible to identify which user committed the error or fraud.

District officials stated that multiple users with full access ensures that accounting system administrative changes, such as establishing system users' access levels or modifying transaction approval thresholds, can be made quickly if one full-access user is unavailable. Although district officials provided a rationale for the extensive amount of access granted to some employees, the need for good accounting controls outweighs this rationale. As discussed previously, the District's assigned level of accounting system access for many users does not sufficiently protect against errors and fraud.

## Terminated employees have access to IT network

In addition to granting broad access within its accounting system, Cottonwood-Oak Creek ESD's procedures do not ensure that only current employees have access to its information technology network. Although the District has informal procedures to remove terminated employees' network access, auditors found that some terminated employees still have access. Auditors reviewed network access for 44 terminated employees and found 3 of them still had access to the District's network despite having left district employment 3 months to 1 year earlier.

## Inadequate controls over employee passwords to network

The District should also improve controls over employees' passwords to access its IT network. First, the network administrator develops and assigns user names and passwords, but users are not required to change their passwords to a confidential one. Second, the District does not require that passwords be changed periodically or meet any minimum complexity requirements. Passwords should be user-defined, based upon specific composition requirements, known only

to the user, and periodically changed. These practices would decrease the risk of unauthorized persons knowing a user's password to gain access to the IT network.

## Recommendations

- 1.1 The District should limit employees' access to only those accounting system functions needed to perform their work and should remove all generic user accounts.
- 1.2 The District should develop and implement a system of formal written policies to ensure that terminated employees have their IT network access promptly removed.
- 1.3 The District should require user-defined passwords for IT network access and ensure that users periodically change these passwords.



# FINDING 2

## Food service program operates efficiently

In fiscal year 2009, Cottonwood-Oak Creek ESD's food service program operated efficiently with a cost per meal of \$2.12, which was 11 percent lower than its peer districts', on average. The District uses federally subsidized commodities to reduce food supply costs and receives additional revenue by serving meals to other entities. As a result, the program is not only self-supporting, but also generates enough revenue to offer free breakfast to all district students.

## Low-cost operations allow District to offer free breakfast

In fiscal year 2009, Cottonwood-Oak Creek ESD offered free breakfast to all of its students. Approximately 55 percent of the District's students were already eligible for free breakfast through the national School Breakfast Program, and the District paid the costs for the remaining students. In order to maintain a self-sufficient food service program and provide this additional benefit to all of its students, the District used a combination of cost-reduction and revenue-generating techniques, including maximizing its usage of United States Department of Agriculture (USDA) food commodities and serving meals to local preschool programs and a charter school. As seen in Table 2, the District's supply costs, which are mostly food costs, were 16 percent lower per meal than peer districts' costs.

**Table 2:** Number of Meals Served and Food Service Costs Comparison  
Fiscal Year 2009  
(Unaudited)

District Name	Number of Meals Served	Cost per Meal		
		Labor <sup>1</sup>	Supplies	Total
Cottonwood-Oak Creek ESD	497,071	\$1.22	\$0.90	\$2.12
Peer Average	437,982	1.31	1.07	2.37
Percentage difference from peer average	13%	-7%	-16%	-11%

<sup>1</sup> Includes district employees' salaries and benefits and the costs of contracted services. One of the ten peer districts contracted with a food service management company to manage and provide staff for its program.

Source: Auditor General staff analysis of fiscal year 2009 school district Annual Financial Reports and accounting data.

## District's use of commodities enhances cost effectiveness

In fiscal year 2009, the District's use of USDA food commodities provided a cost savings of about 14 cents per meal. Districts participating in the National School Lunch Program (NSLP) can obtain USDA food commodities for the cost of the shipping charges. Districts receive allocations of USDA commodities and may also obtain additional commodities that are not claimed by other participants. Cottonwood-Oak Creek ESD maximized its cost savings by planning its menus around available USDA commodities. By doing so, the District was able to use not only nearly 100 percent of its allotted share of commodities, but also commodities left unclaimed by other NSLP participants. In contrast, peer districts used about 93 percent of their allotted commodities and 22 percent fewer unclaimed commodities.

**Table 3: Examples of Commodity Savings  
Fiscal Year 2009  
(Unaudited)**

Commodity (Weight Per Case)	Market Value	District Cost
Frozen peas (30 lbs.)	\$21.24	\$2.79 shipping per case
Beef patties (40 lbs.)	83.30	
Canned peach slices (39.75 lbs.)	27.82	
<b>Total</b>	<b>\$132.36</b>	<b>\$8.37</b>

Source: Auditor General staff analysis of fiscal year 2009 USDA Commodity Prices provided by the Arizona Department of Education.

## District increases revenue by selling meals to other entities

In fiscal year 2009, Cottonwood-Oak Creek ESD's food service program also generated revenue by selling daily meals to local preschool programs and a charter school. These meals required fewer labor hours by Cottonwood-Oak Creek staff than is typical because the preschool and charter school staff generally delivered and served the meals, cleaned and maintained the dining spaces, and handled all related meal counts and reimbursements. The additional catering revenues were used to help pay for the District's free breakfast program for all students.

# FINDING 3

---

## District considering unification to increase efficiency and instructional spending

Cottonwood-Oak Creek ESD has been discussing unification with a neighboring union high school district to create a single unified district offering instruction in kindergarten through 12th grade. In addition to improved curriculum design and student achievement monitoring, both districts have identified potential savings from unification, including the reduction of duplicate positions within administration, plant operations, transportation, and instructional support services. The districts estimate a combined annual savings of over \$690,000, monies that could be redirected into the classroom to further support student achievement. However, auditors identified a past instance in which two other unifying districts did not reduce their staffing levels, which resulted in increased noninstructional salary costs and decreased classroom dollars percentages. Therefore, if Cottonwood-Oak Creek ESD unifies with the union high school district, it is important that the districts implement their plan to reduce noninstructional staffing levels in order to realize the potential cost-savings benefits of unification.

## Districts identified potential savings by reducing noninstructional positions

The districts identified the potential for over \$690,000 in administrative and other noninstructional cost savings across both districts, primarily by reducing duplicate positions after unification. If the proposed staffing reductions had been made in fiscal year 2009 and all savings had been redirected to the classroom, the estimated classroom dollar percentage for the combined districts would have increased from 58.8 percent to 61.4 percent, on average. The governing boards' proposed reductions include:

**Proposed administrative savings**—The districts have identified almost \$372,000 in administrative cost savings by eliminating duplicate and other administrative positions. According to proposals presented at joint governing board meetings in January 2010, the administrative positions recommended for elimination include:

- **Superintendent**—Both districts employ a superintendent, but the January 2010 proposals recommend employing only one superintendent and a secretary across the



unified district and no associate superintendents. Similar unified districts employed one superintendent and a secretary. Some also employed associate superintendents and secretaries.

- **Business Manager**—Both districts have a business manager, but the January 2010 proposals recommend employing only one for the unified district. Similar unified districts employed one business manager to oversee business operations and the central business office.
- **Assistant Principal**—There are two assistant principals at the union high school district, which operates one high school. The January 2010 proposals identify the need for only one assistant principal at the high school. Similar districts had only one assistant principal per school at their junior high and high schools.
- **Warehouse Supervisor**—Both districts have a warehouse supervisor, but the January 2010 proposals recommend employing one warehouse supervisor for the unified district. Similar unified districts employed up to one warehouse supervisor.

**Proposed savings in other operational areas**—Separate from the administrative cost savings, the districts also identified about \$319,000 in potential savings by eliminating duplicate positions in other noninstructional areas, including plant operations and maintenance, transportation, and instructional support services. Specifically, Cottonwood-Oak Creek ESD identified potential savings from eliminating or reassigning positions for plant operations and maintenance directors, groundskeepers, transportation secretaries, bus drivers, mechanics, and curriculum directors.

## Failure to reduce staff could result in lower classroom spending

Auditors identified one example of school districts that unified in fiscal year 2002 that were similar in size to Cottonwood-Oak Creek ESD and the union high school district. That unification did not result in noninstructional savings or higher classroom spending. Auditors found that the unified district's classroom dollars percentage was lower than the districts' classroom dollars percentages before unification. Specifically, classroom spending a year after unification was 55.8 percent, or 1.4 percentage points below the unifying districts' classroom dollars percentages the year prior to unification, which was 57.2 percent for both districts.

According to former business office personnel from the unifying districts, unification did not result in duplicate positions being eliminated, despite cost savings being the primary purpose of unification. Rather, the new unified district chose to operate with duplicate positions by simply dividing up program areas among more employees. Additionally, all staff members were placed on the higher of the two districts' salary schedules, resulting in additional expenditures. As a result, 1 year after unification, and for the next 2 years, administrative staffing levels were higher than pre-unification levels despite stable student enrollment. Reducing administrative staffing

provides the best opportunity for cost savings when unifying because this operational area typically has key duplicate positions, including superintendents, business managers, and directors.

## Recommendations

- 3.1 As part of its unification planning, the District should continue to consider all opportunities for cost savings, such as streamlining staffing levels and eliminating duplicate positions.
- 3.2 If the District unifies with the union high school district, it should follow through on proposed reductions in noninstructional staffing levels in order to realize unification's cost-savings benefits.



# 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 did not accurately report its costs

Cottonwood-Oak Creek ESD did not consistently classify its fiscal year 2009 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its annual financial report did not accurately reflect its costs, including both classroom and nonclassroom expenditures. Auditors identified classification errors totaling approximately \$569,000 of the District's total \$17.5 million in current spending.<sup>1</sup> Of the total, the District misclassified over \$400,000 of instructional support salaries and related benefits as either administrative or instructional costs. Instructional support positions assist instructional staff with the content and process of providing learning experiences for students and include positions such as librarians, teacher coaches, curriculum developers, and technology employees who support student computer systems. The dollar amounts shown in the tables in this report reflect the necessary adjustments.

## Recommendation

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

---

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



# APPENDIX

---

## Objectives, Scope, and Methodology

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

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2009 summary accounting data for all districts and the Cottonwood-Oak Creek ESD's fiscal year 2009 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To analyze Cottonwood-Oak 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 Cottonwood-Oak Creek ESD and the other 10 elementary school districts that also served between 600 and 7,999 students and were located in town/rural areas. To compare districts' academic indicators, auditors developed a separate student achievement peer group using the same size and location categories as in the operational peer group, but with the additional consideration of each district's poverty rate because poverty rate has been shown to be strongly related to student achievement. Cottonwood-Oak Creek ESD's student achievement peer group includes Cottonwood-Oak Creek ESD and the other districts that also served between 600 and 7,999 students, were located in town/rural areas, and had poverty rates at or below the state average of 19 percent. Additionally:

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2009 administration costs and compared these to similar districts'.

---

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

- To assess whether the District's plant operation and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2009 plant operation and maintenance costs and district building space, and compared these costs and capacities to peer districts'.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2009 food service revenues and expenditures, including labor and food costs, and compared costs to peer districts', reviewed the Arizona Department of Education's food service monitoring reports, and observed food service operations.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus capacity usage. Auditors also reviewed fiscal year 2009 transportation costs and compared them to peer districts'.
- To assess the potential cost-savings impact of the District's possible unification with a neighboring union high school district, auditors reviewed the districts' plans for cost savings and compared them to fiscal year 2009 costs for positions targeted for reduction. To describe challenges related to other districts' unification efforts, auditors reviewed these districts' administrative staffing information reported to the National Center for Education Statistics' for fiscal years 2001 through 2006.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2009 expenditures to determine whether they were appropriate, properly accounted for, and remained within statutory limits. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed. No issues were identified that warranted disclosure in this report.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and reviewed transactions for proper account classification and reasonableness. Auditors also evaluated other internal controls that were considered significant to the audit objectives.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and her staff express their appreciation to the Cottonwood-Oak Creek Elementary School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

# DISTRICT RESPONSE

DISTRICT RESPONSE





# COTTONWOOD-OAK CREEK SCHOOL DISTRICT NO. 6

*"THE DISTRICT OF OPPORTUNITIES"*

1 NORTH WILLARD STREET • COTTONWOOD, ARIZONA • 86326

(928) 634-2288 • (928) 634-2309 (facsimile) • [www.cocsd.k12.az.us](http://www.cocsd.k12.az.us)

Superintendent  
**Barbara U'Ren**

Director of Educational Services  
**Patricia Osborne**

Director of Business Services  
**David Snyder**

October 5, 2010

Debra Davenport  
Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

RE: Response to Cottonwood-Oak Creek Elementary District #6 Performance Audit

Dear Ms. Davenport,

Cottonwood-Oak Creek ESD respectfully submits its response to the Performance Audit of fiscal year 2008-2009. The Performance Audit listed three main findings and one less significant area of concern.

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

The Cottonwood-Oak Creek School District is committed to operational efficiencies, effective stewardship of taxpayer funds, and increasing the amount of dollars to the classroom. We appreciate the professionalism of your staff, and their willingness to provide input and engage in dialogue during the audit process.

Please contact me if you have questions regarding the District response.

Sincerely,

Barbara U'Ren  
Superintendent  
Cottonwood Oak Creek School District

---

Governing Board Members

Randall W. Garrison, President ♦ M. Jason Finger ♦ Janice Rollins ♦ Lori Simmons ♦ Eric Wyles

*"Tradition . . . Experience . . . Opportunities"*

## COTTONWOOD-OAK CREEK SCHOOL DISTRICT #6

### Performance Audit Responses

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

**Recommendations:**

- 1.1 The District should limit employees' access to only those accounting systems functions needed to perform their work and should remove all generic users accounts.
- 1.2 The District should develop and implement a system of formal written policies to ensure that terminated employees have their IT network access promptly removed.
- 1.3 The District should require user-defined passwords for IT network access and ensure that users periodically change these passwords.

**Response:**

- 1.1 The District concurs with this finding and will review all user functions to ensure access is limited to only needed functions. The District will remove all generic user accounts.
- 1.2 The District concurs with this finding and will include in the IT policies written guidance addressing removal of employee access after termination.
- 1.3 The District concurs with the finding and has implemented an automated system that requires users to periodically change passwords.

**Finding 2:** Food service program operates efficiently

**Response:**

The District appreciates recognition of the efficient operation of the food service program, and the efforts to effectively use commodities, generate revenue by selling meals to preschool and charter programs, and using those revenues to provide a free breakfast for all students.

**Finding 3:** District considering unification to increase efficiency and instructional spending

**Recommendations:**

- 3.1 As part of its unification planning, the District should continue to consider all opportunities for cost savings, such as streamlining staffing levels and eliminating duplicate positions.

3.2 If the District unifies with the union high school district, it should follow through on proposed reductions in noninstructional staffing levels in order to realize unification's cost-savings benefits.

**Response:**

3.1 The District concurs with the finding. During Governing Board discussions with the union high school district, it became very clear that any savings potential would come as a result of the elimination of duplicate positions. In a decision made earlier this year, the Governing Board of the Cottonwood-Oak Creek School District will not proceed toward unification with the high school district.

3.2 The District concurs with the finding, and if unification is considered in the future the proposed reductions in noninstructional staffing levels will be implemented.

**Other Findings:** District did not accurately report its costs

**Recommendation:**

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

**Response:**

The District concurs with the finding and will properly classify expenditures according to the Uniform Chart of Accounts.

