



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Hayden-Winkelman Unified School District

August • 2012
Report No. 12-10



Debra K. Davenport
Auditor General

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August 7, 2012

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Hayden-Winkelman Unified School District

Mr. Jeff Gregorich, Superintendent
Hayden-Winkelman Unified School District

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

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

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

This report will be released to the public on August 8, 2012.

Sincerely,

Debbie Davenport
Auditor General

**REPORT
 HIGHLIGHTS**
 PERFORMANCE AUDIT

Our Conclusion

In fiscal year 2010, Hayden-Winkelman Unified School District's student achievement was higher than peer districts' but lower than state averages. The District operated reasonably efficiently overall when compared to its peers. The District's administrative costs were similar to peer districts'. However, it needs to strengthen some accounting and computer controls. Further, despite higher per-pupil food service and transportation costs, both programs operated efficiently with lower per-meal and per-mile costs, respectively, than peer districts'. However, although the District's plant operations costs were similar per pupil and lower per square foot than peer districts', the District's facilities were poorly maintained.



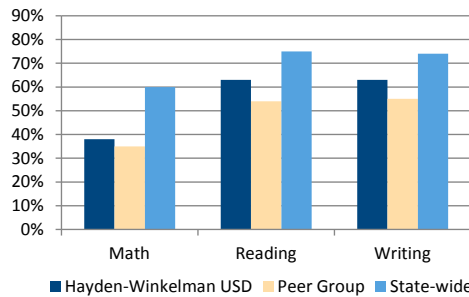
2012

August • Report No. 12-10

Higher student achievement and reasonably efficient operations

Student achievement higher than peer averages—In fiscal year 2010, Hayden-Winkelman USD's student AIMS scores were higher than peer districts' but lower than state averages. In addition, two of the District's three schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act, and the District's 81-percent high school graduation rate was much higher than the peer district average of 68 percent and the state average of 78 percent.

**Percentage of Students Who Met or Exceeded State Standards (AIMS)
 Fiscal Year 2010**



District operated reasonably efficiently—In fiscal year 2010, Hayden-

Winkelman USD's administrative costs were similar to peer districts'. Further, although food service and transportation per-pupil costs were higher than peer districts', both programs operated efficiently with lower per-meal and per-mile costs, respectively. The District's plant operations costs were similar per pupil and lower per square foot than peer districts'. However, the District's facilities were poorly maintained primarily because it operated considerably more square feet than peer districts, much of which was unnecessary because each of the District's schools operated far below their designed capacities and had done so for at least 10 years.

**Per-Pupil Expenditures by Operational Area
 Fiscal Year 2010**

Operational Area	Hayden-Winkelman USD	Peer Group Average
Administration	\$1,413	\$1,447
Plant operations	1,491	1,473
Food service	505	428
Transportation	570	468

Inadequate accounting and computer controls

Hayden-Winkelman USD lacks adequate controls over its computer systems. Four district employees have more access to the accounting system than is needed to perform their job duties. Although no improper transactions were detected in the sample we tested, access beyond that which is necessary to perform job functions exposes the District to increased risk of fraud and errors. In addition, the District did not properly separate its payroll and personnel functions, and the District needs to (1) ensure it pays credit

card and vendor balances in a timely manner to avoid finance charges and late fees, (2) strengthen password requirements for its computer network, and (3) create a formal disaster recovery plan.

Recommendations—The District should:

- Limit employees' access to only those accounting system functions needed to perform their work.
- Implement proper controls over payroll processing.

- Ensure that credit card and other vendor balances are paid in a timely manner.
- Increase the complexity requirements of

computer passwords.

- Create and implement a formal disaster recovery plan.

District's facilities are poorly maintained

During tours of Hayden-Winkelman USD's facilities, auditors observed several maintenance issues that could pose health and safety concerns. These issues ranged from water leaks that showed signs of mildew or mold growth (see photo below) to exposed wiring and unsafe electrical wall outlets to broken windows and mirrors.

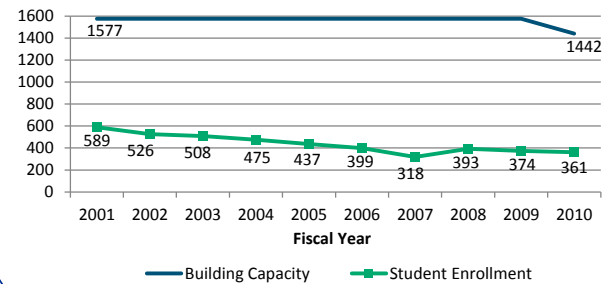
Water leak in middle school



Unnecessary excess space contributes to poor condition of facilities—The poor condition of the District's facilities occurred primarily because the District operated and maintained considerably more square feet in total and per pupil than peer districts. Because districts receive funding based primarily on their number of students, Hayden-Winkelman USD does not receive additional monies for its extra space and therefore does not have additional dollars available for operating and maintaining this extra space.

Further, the District's extra space is not needed. In fiscal year 2010, the District's schools had space for 1,442 students but a combined enrollment of only 361 students. The District's elementary, middle, and high school operated at only 51, 17, and 19 percent full, respectively. As shown in the following figure, the District has been operating with a considerable amount of excess space for at least 10 years.

School Building Capacity Versus Student Enrollment Fiscal Years 2001 through 2010



Inadequate maintenance practices—Further contributing to the poor condition of the District's facilities is its lack of a preventative maintenance plan and records of maintenance activities. Although district maintenance workers reviewed the facilities quarterly and noted the condition of various aspects of the facilities on checklists, we found that the maintenance workers noted that conditions were "okay" even though we observed the various problems noted earlier. The District also did not keep documentation of maintenance work performed, so we were not able to confirm what maintenance activities were actually performed.

Recommendations—The District should:

- Immediately address any health and safety hazards.
- Consider having its facilities inspected to determine if hazards could affect student health.
- Review its building capacity usage to determine whether any additional schools or sections of schools can be closed to reduce maintenance costs.
- Develop and implement a preventative maintenance program and a process to track maintenance work orders.

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DISTRICT OVERVIEW

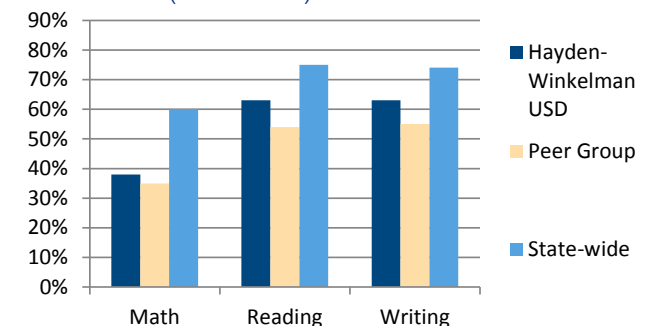
Hayden-Winkelman Unified School District is a rural district located in Gila County about 100 miles southeast of Phoenix. In fiscal year 2010, the District served 361 students in kindergarten through 12th grade at its three schools located on the same campus.

In fiscal year 2010, Hayden-Winkelman USD compared favorably to peer districts in student achievement with better AIMS scores and a higher graduation rate. Further, the District's nonclassroom operations were reasonably efficient when compared to its peers.¹ The District's administrative costs were similar to peer districts' and, despite higher per-pupil food service and transportation costs, both programs operated efficiently with lower per-meal and per-mile costs, respectively, than peer districts'. However, although the District's plant operations costs were similar per pupil and lower per square foot than peer districts', the District's facilities were poorly maintained.

Student achievement higher than peer districts'

In fiscal year 2010, 38 percent of the District's students met or exceeded state standards in math, 63 percent in reading, and 63 percent in writing. As shown in Figure 1, these scores were higher than the peer districts' averages but lower than the state averages. In that same fiscal year, two of the District's schools met all applicable "Adequate Yearly Progress" (AYP) objectives for the federal No Child Left Behind Act, while its high school did not because its fiscal year 2009 graduation rate of 69 percent was below its 2010 AYP target rate of 76 percent. The District's fiscal year 2010 81-percent graduation rate was much higher than the peer district's 69-percent average and higher than the State's 78-percent average.

Figure 1: Percentage of Students Who Met or Exceeded State Standards (AIMS) Fiscal Year 2010 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2010 test results on Arizona's Instrument to Measure Standards (AIMS).

District's operations reasonably efficient

As shown in Table 1 on page 2, in fiscal year 2010, Hayden-Winkelman USD spent \$211 less per pupil in total than peer districts and \$406 less per pupil in the classroom. The lower classroom spending was due, in part, to higher per-pupil costs in food service, transportation, and instructional

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.

support. Despite these higher per-pupil costs, most of the District's operational areas operated efficiently based on other cost measures. However, poorly maintained facilities indicate that improvements to plant operations are needed.

Similar administration costs—At \$1,413 per pupil, the District's administrative costs were similar to the peer districts' average of \$1,447. However, auditors identified some administrative practices that need strengthening (see Finding 1, page 3).

Mixed plant operations costs and poorly maintained facilities—Compared to peer districts, Hayden-Winkelman USD's fiscal year 2010 plant operations costs were similar per pupil and much lower per square foot, on average. However, the District's facilities are poorly maintained and include maintenance issues that raise concerns for student health and safety. The District operated considerably more square feet than peer districts, much of which was unnecessary because each of the District's schools operated far below their designed capacities. Because districts receive funding based primarily on their number of students, having this additional square footage means the District must spread its limited dollars more thinly across its building space than peer districts. As a result, the District's \$3.53 cost per square foot was 37 percent lower than peer districts', but its facilities are in poor condition. Further, the District did not follow a preventative maintenance plan or keep maintenance records (see Finding 2, page 7).

Food service program efficient despite higher per-pupil costs—Hayden-Winkelman USD's \$505-per-pupil food service cost was 18 percent higher than peer districts' average cost because the District served more meals per student. Specifically, the District served more breakfasts, likely because it served breakfast in the classroom to all students each day. Despite the higher per-pupil cost, the District's \$2.20 cost per meal was much lower than the peer districts' \$3.04 per-meal average. The District was able to keep its food costs low, in part, by preparing only enough meals for the students it knew would be eating a school lunch based on teacher counts taken during breakfast deliveries to the classrooms.

Low per-mile transportation costs and efficient bus routes—Although costs were higher per pupil, Hayden-Winkelman USD's transportation program operated efficiently with a \$2.37 cost per mile that was 6 percent lower than peer districts'. Further, the District's cost per rider was 24 percent lower than peer districts'. In addition to low costs, the District operated efficient bus routes, filling most buses to an average of 84 percent of seat capacity.

Table 1: Comparison of Per-Pupil Expenditures by Operational Area Fiscal Year 2010 (Unaudited)

Spending	Hayden-Winkelman USD	Peer Group Average	State Average
Total per pupil	\$9,676	\$9,887	\$7,609
Classroom dollars	4,610	5,016	4,253
Nonclassroom dollars			
Administration	1,413	1,447	721
Plant operations	1,491	1,473	914
Food service	505	428	366
Transportation	570	468	342
Student support	581	625	581
Instructional support	506	430	432

Source: Auditor General staff analysis of fiscal year 2010 Arizona Department of Education student membership data and district-reported accounting data.

FINDING 1

Inadequate accounting and computer controls increase risk of errors and fraud

Hayden-Winkelman USD lacks adequate controls over its payroll and accounts payable processing and its computer network. Although no improper payroll or accounts payable transactions were detected in the sample auditors reviewed, these poor controls expose the District to an increased risk of errors and fraud. Further, the District has increased its risk of unintentionally releasing sensitive information because it maintains student and other records containing sensitive information beyond the legally allowed time limits.

Payroll process lacks proper separation of duties

The District does not separate payroll and personnel functions. One district employee, with little or no supervisory review, is responsible for entering new employees into the computerized accounting system, modifying employee information, entering and editing employees' time sheets, recording payroll expenses, and distributing checks. Allowing an individual the ability to initiate and complete a transaction without independent supervisory review could allow the person to process false payments or create nonexistent employees.

Authorization for additional pay inadequately documented

The District does not always have adequate documentation showing that additional duties and pay are approved prior to services being rendered. Auditors reviewed detailed payroll and personnel records for 30 employees and found that there was no documentation showing prior approval for some of the additional pay for 15 of the 16 employees who received it in fiscal year 2010. For example, 7 employees each earned \$300 for helping develop the District's Web site without documentation of prior approval for the additional duties or pay. In all 15 cases, the District had proper documentation showing that the employees performed the activities for which they were paid. However, to 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). This documentation should be maintained in employees' personnel files.

Finance and late charges incurred because of untimely payments

In the process of scanning the District's accounts payable transactions, auditors determined that the District paid over \$1,300 in late fees and finance charges to utilities and credit card companies during fiscal year 2010 because it did not make payments in a timely manner. In order to avoid late fees and charges, the USFR states that credit card payments and payments for blanket purchase orders for items or services purchased on a recurring basis from the same vendor, such as electricity and gas payments, should be made promptly.

Increased risk of unauthorized access to critical systems

Weak controls over user access to the District's accounting system and computer network increases the risk of unauthorized access to these critical systems.

Broad access to accounting system—Auditors reviewed the District's user access report for the six users with access to the accounting system and found that four district employees have more access to the accounting system than they need to perform their job duties. Having employees with system access beyond what is required for their job duties exposes the District to increased risk of errors, fraud, and misuse of information, such as processing false invoices or adding nonexistent vendors or employees. The District should review and further restrict its employees' access to the computerized accounting system to ensure no one employee has the ability to initiate and complete a transaction without independent review and approval.

Weak password requirements—The District needs stronger password requirements for its computer network. Although the District's network passwords are user-defined and must be changed periodically, the passwords have a low-complexity requirement—that is, the passwords need not contain numbers or symbols. Common practice requires passwords to be at least eight characters and contain a combination of alphabetic and numeric characters. This practice would decrease the risk of unauthorized persons gaining access to the District's systems.

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

The District does not have a formal, up-to-date, and tested disaster recovery plan even though it maintains critical financial and student information on its systems and network. A written and properly designed disaster recovery plan would help ensure continued operations in the case of

a system or equipment failure or interruption. Although the District creates backups of critical data and stores the backups in a secure location, the District does not regularly test its ability to restore electronic data files from the backups, which could result in the loss of sensitive and critical data. Disaster recovery plans should be tested periodically, and modifications made to correct any problems and ensure their effectiveness.

Increased risk of unintentional release of sensitive information because District maintained records well beyond legal time limits

Hayden-Winkelman USD retained documents containing student records and other sensitive information beyond legal time limits. For example, the District maintained files containing National School Lunch Program (NSLP) reimbursement applications and claims as well as personnel and accounts payable files dating back to the 1960s. The Arizona State Library, Archives, and Public Records issues records retention schedules for various types of records. School districts and other public entities are required to destroy records after the scheduled retention period expires. For example, the schedules state that documents such as the NSLP reimbursement claims and purchase documents should be destroyed 4 years after the fiscal year in which they were created or received.¹ Not only is maintaining these records beyond the periods listed in the retention schedules illegal, it increases the likelihood that sensitive information from the records could get unintentionally released.

¹ Arizona State Library, Archives, and Public Records. General Records Retention Schedule for School Districts and Charter Schools, Student Records. Schedule Number 00-11-53 and General Records Retention Schedule for All Public Bodies, Finance Records. Schedule Number 00-11-76.

Recommendations

1. The District should implement proper controls over its payroll processing to ensure adequate separation of duties or alternatively establish an appropriate review process as a compensating control.
2. The District should ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.
3. The District should ensure that credit card and other vendor balances are paid in a timely manner to avoid finance charges and late fees.
4. The District should review employee access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction without independent review and that each employee has only the access necessary to meet their job responsibilities.
5. The District should implement and enforce password length and complexity requirements.
6. The District should create a formal disaster recovery plan and test it periodically to identify and remedy any deficiencies.
7. The District should dispose of records according to the Arizona State Library, Archives, and Public Records retention schedules.

FINDING 2

Excess square footage and inadequate maintenance practices led to poorly maintained facilities

Hayden-Winkelman USD's buildings and grounds appear poorly maintained and raise concerns for student health and safety. The poor conditions are caused, in part, by the District's operating and maintaining considerably more square footage per pupil than peer districts and by its inadequate maintenance practices. Further, the District has a large amount of additional space that it uses to store outdated equipment, computers, unused furniture, and other items at a cost to the District. These items could be sold as surplus and the proceeds used to help maintain the District's facilities.

Poorly maintained facilities create concern for student health and safety

During tours of Hayden-Winkelman USD's facilities, auditors observed several maintenance issues that could pose health and safety concerns. Specifically, as shown in Photo 1, toilets and showers in both the middle school and high school had water leaks and showed signs of possible mildew or mold growth creating potential health and safety hazards and unsanitary conditions for students. Other potential health and safety hazards observed by auditors include exposed wiring and unsafe electrical wall outlets (see Photo 2), broken windows and mirrors, rusted metal door kick plates and plumbing fixtures with sharp edges, broken or missing drain grates underneath drinking fountains and in other areas regularly accessed by students (see Photo 3, page 8), and damaged walls (see Photo 4, page 8).

Photo 1: Water leak in middle school



Source: Auditor General staff.

Photo 2: Exposed electrical wiring at high school



Source: Auditor General staff.

Photo 3: Broken drain grate at middle school



Source: Auditor General staff.

Photo 4: Damaged wall at high school



Source: Auditor General staff.

District's excess space contributes to poor condition of facilities and is not needed

The poor condition of the District's facilities occurred primarily because of the District's excess square footage, which has been in existence for at least 10 years. Because districts are funded primarily on their number of students, Hayden-Winkelman USD does not receive additional monies for its excess space and therefore does not have additional dollars available for operating and maintaining this excess space. Further, the District's larger facilities are unnecessary because all three of its schools have operated at far below their designed capacities for at least 10 years.

Similar dollars spread over more square feet—As shown in Table 2, in fiscal year 2010, Hayden-Winkelman USD spent a similar amount in total and per pupil on plant operations as peer districts spent, but the District operated and maintained considerably more square feet in total and per pupil. With so many square feet over which to spread costs, the District's cost per square foot was low. However, operating more building space per pupil is costly to the District since the majority of its funding is based on its number of students, not its amount of square footage. Because the District does not receive funding for

Table 2: Comparison of Plant Operations Total Costs, Cost Per Pupil, Cost Per Square Foot, Square Feet Per Pupil, and Total Square Feet
Fiscal Year 2010
(Unaudited)

District Name	Total Expenditures	Cost Per Pupil	Cost Per Square Foot	Square Feet Per Pupil	Total Square Feet
Hayden-Winkelman USD	\$538,852	\$1,491	\$3.53	423	152,773 ¹
Average of the peer group	585,287	1,473	5.57	283	115,160

¹Does not include 26,449 square feet of closed space.

Source: Auditor General staff analysis of fiscal year 2010 Arizona School Facilities Board and district square footage reports and district-reported accounting data.

its additional square footage, its ability to properly clean, repair, and maintain the extra square footage is negatively impacted. For example, although the District employs a similar number of plant operations staff, each employee is responsible for maintaining more square footage than employees at the peer districts, on average. Specifically, the District employed one plant operations employee for every 25,700 square feet of building space, while the peer districts employed one plant operations employee for every 17,400 square feet. In addition, the District also has fewer dollars available per square foot to heat, cool, and purchase repair and maintenance supplies, further impacting its ability to properly care for its facilities.

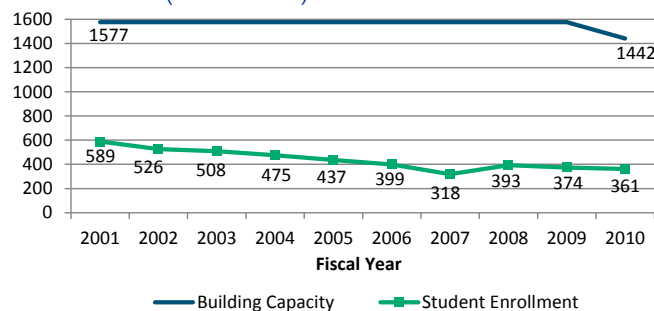
District's excess space is not needed because schools operate far below capacity—As shown in Table 3, the District's three schools were each operating at well below their designed capacities, ranging from 17 percent full to 51 percent full. For example, according to Arizona School Facilities Board reports, the high school was designed for 746 students. Yet, in fiscal year 2010, the District had only 139 high school students and only 361 students in total. The District's student enrollment has been well below its buildings' capacities for many years. For example, the cumulative capacity for the District's three schools is 1,442 students. However, as shown in Figure 2, the District's fiscal year 2001 student enrollment of 589, which was already below building capacity, decreased by 39 percent to 361 students in fiscal year 2010. In fiscal year 2009, the District closed its intermediate school because of declining enrollment. Since the District continues to have a considerable amount of excess space despite the closure of one school, it should consider whether it should close additional schools or unused sections of schools to help reduce maintenance costs.

Table 3: Number of Students, Capacity, and Capacity Usage by School Fiscal Year 2010 (Unaudited)

School Name	Number of Students	Capacity	Capacity Usage
Hayden High School	139	746	19%
Leonor Hamblly Middle School	67	395	17%
Winkelman Elementary School	155	301	51%
Total	361	1,442	

Source: Auditor General staff analysis of district-reported fiscal year 2010 average daily membership information obtained from the Arizona Department of Education and fiscal year 2010 capacity information obtained from the Arizona School Facilities Board.

Figure 2: School Building Capacity Versus Student Enrollment Fiscal Years 2001 through 2010 (Unaudited)



Source: Auditor General staff analysis of district-reported fiscal years 2001 through 2010 average daily membership (student enrollment) information obtained from the Arizona Department of Education and fiscal year 2010 capacity information obtained from the Arizona School Facilities Board.

Inadequate maintenance practices contribute to poor condition of facilities

The District does not have adequate maintenance practices to ensure its facilities are properly maintained. The District does not follow a preventative maintenance plan or keep records of its maintenance activities. Following a preventative maintenance plan is an important component in facilities management because it helps protect the facilities, minimizes costly emergency repairs,

and helps protect the safety of students and employees. District officials stated they were more reactive than proactive with building repairs but that maintenance workers reviewed the District's facilities quarterly and noted on checklists the conditions of various aspects of the facilities, including plumbing fixtures, electrical equipment, and heating and cooling equipment. However, auditors reviewed the checklists and found that maintenance workers indicated that plumbing fixtures throughout the District were "okay" even though auditors' observations of those same areas found leaking toilets and showers as indicated earlier.

Further, although the District has a manual work order process, documentation of the work performed is not kept. District officials stated that once a work order is completed, the work order documentation is thrown away. Additionally, the District does not track the work orders from start to finish or track maintenance trends. Considering the unsanitary and potentially unsafe conditions previously mentioned and the District's lack of maintenance or work order documentation, auditors were unable to confirm what maintenance activities employees were actually performing.

Closed facilities used to store items that could be sold as surplus

In addition to the excess space in its schools, an additional 26,500 square feet of excess space resulted when the District closed buildings because of declining enrollment. Although the District's decision to close a school appears to have been necessary and has resulted in reduced plant operations costs, the closed school is still owned by the District and affects the District's building maintenance efforts and costs in the following ways:

- **Closed facilities must still be maintained at minimum levels**—Although this space is closed, it still must be maintained at minimum levels. For example, one of the closed buildings is the District's former intermediate school. Because the District still needs to continue operating the school's fire suppression system, it could not shut off water and electricity to the building, and it still must heat and cool the building, although at minimum temperatures. The District sets the building's temperature at 90 degrees during the hotter months and at 55 degrees during the cooler months. Therefore, the closed space still generates costs for the District.
- **District uses space to store items that could be sold as surplus**—The District uses the closed buildings to store unneeded and outdated items, such as extra filing cabinets, desks, and tables; old computer and office equipment; and outdated textbooks. Although the District has a surplus policy, district officials stated that they did not know how to properly dispose of unused furniture and equipment. According to Arizona Administrative Code R7-2-1131, school districts should dispose of surplus property through competitive sealed bids, public auctions, or other approved methods. Selling these surplus items could raise some additional monies that the District could potentially use to help improve the condition of its facilities. As shown in the pictures on page 11, these unused items are not stored in any organized manner, making it difficult for the District to (1) know what items it has available, (2) determine the condition and value of the items, and (3) protect the items from theft.

Photo 5: Surplus items stored in unused intermediate school



Source: Auditor General staff.

Photo 6: Surplus items stored in unused intermediate school



Source: Auditor General staff.

Recommendations

1. The District should immediately address any health and safety hazards, such as those observed by auditors, including water leaks, exposed electrical wiring, and other hazards.
2. Because signs of possible mold growth and other potential health hazards were identified, the District should consider having its buildings inspected by a qualified individual with sufficient knowledge and experience to determine if the potential health hazards could affect student health.
3. The District should review its building capacity usage to determine whether additional schools or unused sections of schools can be closed to reduce maintenance costs.
4. To ensure that its buildings are properly maintained and that no further health and safety hazards recur, the District should develop and implement a preventative maintenance program, including a process to ensure that maintenance work orders are tracked and maintained for the appropriate amount of time.
5. The District should follow its surplus property policy and properly dispose of its surplus property in accordance with the policy and Arizona Administrative Code R7-2-1131.
6. Because its closed school continues to generate costs, district officials should consider options that could potentially generate additional income such as renting out the facility to a local group, business, or government entity.

FINDING 3

District's Proposition 301 performance pay goals easily met and pay records incomplete

In fiscal year 2010, Hayden-Winkelman USD spent its Classroom Site Fund (CSF) monies for purposes authorized by statute.¹ However, the District's performance goals for middle and high school teachers were easily met and did not have specific measurement criteria. Further, the District did not maintain documentation showing whether elementary school teachers who received performance pay monies actually met their goals and did not account for some of its CSF monies to the extent required by statute and the *Uniform System of Financial Records for Arizona School Districts* (USFR).

Performance pay goals were easily met and pay records were incomplete

In fiscal year 2010, the District's CSF performance pay plan goals for the middle school and high school were easily met because they required only that middle school teachers incorporate math skills into their curriculum and high school teachers incorporate vocabulary skills into their curriculum. However, students were not required to show improvement in either of these areas. Awarding teachers performance pay for such easily obtained goals seems contrary to the goal of performance pay systems, which are to provide powerful incentives for improved outcomes. Further, the goals did not include specific measurement criteria for determining whether eligible employees met the goals. For example, rather than requiring pre- and post-test scores to demonstrate improvement, the District's goals required only that teachers collect students' work throughout the school year. Despite the absence of measurement criteria, each middle school and high school teacher received an average of \$1,648 for achieving these goals.

Additionally, the District did not always maintain documentation showing that elementary school teachers met their goal of integrating technology into their classrooms and how the amount of performance pay paid to them was determined. As a result, the District could not show that its employees had met the required performance measures for the performance pay monies they received for fiscal year 2010. School districts are required to retain this type of documentation for 4 years as required by state records retention schedules.²

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

² Arizona State Library, Archives, and Public Records. General Records Retention Schedule for All Public Bodies, Finance Records. Schedule Number 000-11-76.

District accounting for CSF monies not timely

In fiscal year 2010, the District did not record detailed salary and benefit payments from Proposition 301 base pay in the specific fund designated for it, as required by statute and the USFR. Instead, employee salaries and benefits were initially paid from the Maintenance and Operation Fund, and the base pay amount was subsequently transferred to the appropriate fund at fiscal year-end. Documentation was not available to show which employees actually received CSF base pay monies and how much each employee was paid. Further, because the District did not maintain detailed records to document that the amount transferred to the base pay fund was properly calculated, auditors could not determine whether the transferred amount matched the amounts that should have been paid to each eligible employee.

Recommendations

1. To promote improved performance, the District should establish meaningful performance goals that specify the level of student improvement required and provide specific measurement criteria.
2. The District should ensure that it retains adequate documentation for the required time period to demonstrate that performance pay goals were met.
3. To ensure that accounting records are maintained in sufficient detail to demonstrate that CSF monies were spent in accordance with statute and the District's plan, the District should record and account for all revenues and expenditures in the separate Classroom Site Funds throughout the year and not just at year-end.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Hayden-Winkelman Unified School District pursuant to A.R.S. §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the Auditor General's annual report, *Arizona School District Spending (Classroom Dollars)* report), this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only current expenditures, primarily for fiscal year 2010, were considered.¹ Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how it accounted for dollars spent in the classroom.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2010 summary accounting data for all districts and Hayden-Winkelman USD's fiscal year 2010 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 Hayden-Winkelman USD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes Hayden-Winkelman USD and 17 other union high school and unified school districts that also served between 200 and 599 students and were located in town/rural areas.² To compare districts' academic indicators, auditors developed a separate student achievement peer group using poverty as the primary factor because poverty has been shown to be strongly related to student achievement. Auditors also used secondary factors such as district type, size, and location to further refine these groups. Hayden-Winkelman USD's student achievement peer group includes Hayden-Winkelman USD and the 20 other unified districts that also served student populations with poverty rates greater than 33 percent. Additionally:

- To assess the District's student achievement, auditors reviewed the Arizona's Instrument to Measure Standards (AIMS) passing rates, "Adequate Yearly Progress" for the federal No Child Left Behind Act, and high school graduation rates. AIMS passing rates were compared to the state-wide average and the average of the student achievement peer districts.

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

² The operational peer group excludes two districts that each received such high levels of additional funding that they skewed the peer-spending averages.

- 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 2010 administration costs and compared these to peer districts'.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 90 employees who were paid at least \$1,000 and reviewed supporting documentation for 30 of the 2,263 accounts payable transactions. Auditors also evaluated other internal controls that were considered significant to the audit objectives. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2010 spending and prior years' spending trends across functional spending areas.
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical system, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the system such as data sensitivity, backup, and recovery.
- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2010 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2010 expenditures to determine whether they were properly accounted for and appropriate. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2010 food service revenues and expenditures, including labor and food costs, compared costs to peer districts', reviewed the Arizona Department of Education's food service monitoring reports and observed food service operations.
- To assess 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, bus routing, and bus capacity usage. Auditors also reviewed fiscal year 2010 transportation costs and compared them 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 Hayden-Winkelmann Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

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HAYDEN-WINKELMAN UNIFIED SCHOOL DISTRICT NO. 41

DISTRICT OFFICE

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JEFF GREGORICH

Superintendent of Schools

July 23, 2012

Ms. Debra K. Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

The Hayden-Winkelman Unified School District respectfully submits its response to the Performance Audit conducted by the Office of the Auditor General for the 2010 Fiscal Year. The District Governing Board and Administration would like to thank the Auditor General's staff for all of the recommendations discussed within this audit which will help make our District more efficient, effective, and safer for our students.

The District is pleased with the finding regarding our students' academic achievement in comparison to that of its peer group, but the District is not content with its overall academic achievement scores and will continue to work diligently to maximize funding to enhance learning opportunities for our students.

The District would like to thank the Auditor General's staff for their professionalism and diligence throughout the Performance Audit conducted under Arizona Revised Statute (ARS) 41-1279.03. The District concurs with their findings and has begun to develop plans to address each of the recommendations.

District Response to Findings and Recommendations

Finding #1: Inadequate accounting and computer controls increase risk of errors and fraud

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

District Response: The District agrees with the finding and recommendation. The District has developed a plan to place a level of separation within the payroll process to ensure proper controls are in place to safeguard its integrity and to prevent fraud.

2. The District should ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.

District Response: The District agrees with the finding and recommendation. The District will immediately implement a personnel/payroll action form that is approved in advance of work being performed and is included in the individuals personnel file.

3. The District should ensure that credit card and other vendor balances are paid in a timely manner to avoid finance charges and late fees.

District Response: The District agrees with the finding and recommendation. The District will review its process and procedures for processing payments and work diligently to avoid late fees and charges over the coming school year.

4. The District should review employee access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction without independent review and that each employee has only the access necessary to meet their job responsibilities.

District Response: The District agrees with the finding and recommendation. The District will develop an action plan to create a separation of duties within the District Office to ensure safeguards are in place to not allow any one employee to have the ability to initiate and complete any transaction. In addition, the District will complete an audit of its access to specific accounting and payroll programs.

5. The District should implement and enforce password length and complexity requirements.

District Response: The District agrees with the finding and recommendation. The District will implement the password policy of a minimum of 8 characters and numbers in length. The password must have at least one alpha character and a number. The password will expire every 180 days and will lock the account after 5 unsuccessful login attempts.

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

District Response: The District agrees with the finding and recommendation. The District has adopted the practice of running the verification tool for all the backups to ensure all the files in the backup are physically intact, readable and can be restored in the event that it is needed. In addition, the backups will be tested on a monthly basis to ensure the integrity of the data. The District is in the process of deploying and adding an additional server to hold replicas of all the virtual machines and use in the case of hardware failure to ensure business continuity.

7. The District should dispose of records according to the Arizona State Library, Archives, and Public Records retention schedules.

District Response: The District agrees with the finding and recommendation. The District will destroy all documents and records according to the Arizona State Library, Archives, and Public Records retention schedules within the next 6 months.

Finding #2: Excessive square footage and inadequate maintenance practices led to poorly maintained facilities

1. The District should immediately address any health and safety hazards, such as those observed by auditors, including water leaks, exposed wiring, and other hazards.

District Response: The District agrees with the finding and recommendation. The District has begun to correct the problems identified by the Auditor General. Specific emphasis is on all areas identified as a health and safety issue. The District will work diligently to address all areas of concern over the next few months. The District has made new management changes and has worked to address the areas discussed with the Auditor General's Staff.

2. Because signs of possible mold growth and other potential health hazards were identified, the District should consider having its buildings inspected by a qualified individual with sufficient knowledge and experience to determine if the potential health hazards could affect student health.

District Response: The District agrees with the finding and recommendation. The District will have an independent health inspector complete an inspection of the areas identified by the Auditor General's staff as a potential health or safety risk to the students within 6 months.

3. The District should review its building capacity usage to determine whether additional schools or unused sections of schools can be closed to reduce maintenance costs.

District Response: The District agrees with the finding and recommendation. The District will review its classroom space and the potential to close a school or section of a school based on enrollment and program needs over the school year.

4. To ensure that its buildings are properly maintained and that no further health and safety hazards recur, the District should develop and implement a preventative maintenance program, including a process to ensure that maintenance work orders are tracked and maintained for the appropriate amount of time.

District Response: The District agrees with the finding and recommendation. The District will develop a complete maintenance plan that addresses the items identified within the Audit and create a road map to keep District facilities in proper condition

over the coming years. The District's Maintenance Plan will be presented to the Governing Board within three months.

5. The District should follow its surplus property policy and properly dispose of its surplus property in accordance with the policy and Arizona Administrative Code R7-2-1131.

District Response: The District agrees with the finding and recommendation. The District will complete a thorough inventory of excess furniture, equipment and instructional-related items and follow its surplus property policy and Arizona Administrative Code R7-2-1131 in order to hold an auction during the 2012-13 school year. Monies collected from the auction will be used to target health and safety issues discussed within this Audit.

6. Because its closed school continues to generate costs, district officials should consider options that could potentially generate additional income such as renting out the facility to a local group, business, or government entity.

District Response: The District agrees with the finding and recommendation. The District has made an effort over the years to work with Government agencies to possibly lease portions of the District. Unfortunately, none of the entities were able to rent or lease the property due to budget issues during the recent difficult financial times. The District will continue to make efforts to work with Government agencies that would be able to meet school safety concerns, such as fingerprints screening. All available space is located within twenty-five yards of buildings being used for classrooms and instruction.

Finding #3: District's Proposition 301 performance pay goals easily met and pay records incomplete

1. To promote improved performance, the District should establish meaningful performance goals that specify the level of student improvement required and provide specific measurement criteria.

District Response: The District agrees with the finding and recommendation. The District has made significant changes to its 301 Performance Plan and has specifically addressed this issue. More emphasis has been placed on measurable academic goals based on AIMS and other reliable assessments. The District recognized the need to make the performance goals measurable and will continue to strengthen performance goals and criteria to measure achievement.

2. The District should ensure that it retains adequate documentation for the required time period to demonstrate that performance pay goals were met.

District Response: The District agrees with the finding and recommendation. The District will retain all records and documentation of all performance goals for each individual teacher. The Superintendent will review and ensure that the 301 documentation for all individual and site performance goals is retained for future audits and review.

3. To ensure that accounting records are maintained in sufficient detail to demonstrate that CSF monies were spent in accordance with statute and the District's plan, the District should record and account for all revenues and expenditures in the separate Classroom Site Funds throughout the year and not just at year-end.

District Response: The District agrees with the finding and recommendation. The District has consulted with the District's legal counsel to help properly identify and document 301 based salary monies paid to teachers. The District will pay out 301 monies directly from each of the 301 funds.

Once again, we thank you for your thorough and diligent review. The District is committed to maximizing its financial resources and improving our academic and business systems.

Sincerely,

Jeff Gregorich, Superintendent

