



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Hillside Elementary School District

November • 2015
Report No. 15-214



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

Senator **Judy Burges**, Chair

Representative **John Allen**, Vice Chair

Senator **Nancy Barto**

Representative **Anthony Kern**

Senator **Lupe Contreras**

Representative **Debbie McCune Davis**

Senator **David Farnsworth**

Representative **Rebecca Rios**

Senator **Lynne Pancrazi**

Representative **Kelly Townsend**

Senator **Andy Biggs** (*ex officio*)

Representative **David Gowan** (*ex officio*)

Audit Staff

Ross Ehrick, Director

Ann Orrico, Manager and Contact Person

Dennis Tinney, Team Leader

Karl Calderon

Gerrad Cawley

Joshua Lykins

The Auditor General's reports are available at:

www.azauditor.gov

Printed copies of our reports may be requested by contacting us at:

Office of the Auditor General

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



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

November 25, 2015

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Hillside Elementary School District

Ms. Pamela Hampton, Administrator
Hillside Elementary School District

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

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

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

Sincerely,

Debbie Davenport
Auditor General

REPORT HIGHLIGHTS PERFORMANCE AUDIT

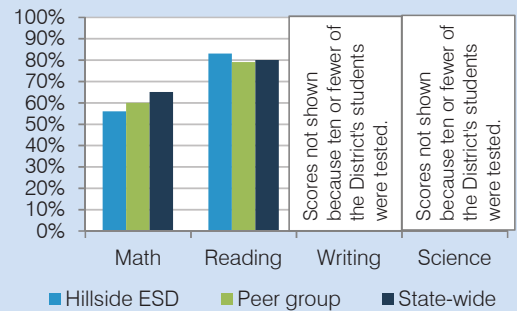
Student achievement and operational efficiency

Our Conclusion

In fiscal year 2013, Hillside Elementary School District's student AIMS scores were similar to the peer districts' averages, and the District operated efficiently overall, with lower per pupil costs than peer districts', on average. The District's administrative cost per pupil was lower primarily because it was able to operate with only two part-time employees because, like many of the very small Yavapai County school districts, most of Hillside ESD's business office functions were performed by the Yavapai County Education Service Agency. The District's plant operations were also efficient with lower costs per pupil and per square foot than peer district averages, and it did not have any food-service-related costs because it did not operate a food service program. Hillside ESD's transportation program was reasonably efficient, but the District did not conduct required random drug and alcohol testing for its bus drivers, and it needs to strengthen controls over its fuel inventory.

Student achievement—For very small districts such as Hillside ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. In fiscal year 2013, Hillside ESD's student AIMS scores for math and reading were similar to the peer districts' averages. Scores for writing and science are not reported because ten or fewer of the District's students were tested in these areas. Under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of B. Of the ten districts in the peer group receiving letter grades, five districts also received Bs, one received an A, three received Cs, and one received a D.

Percentage of students who met or exceeded state standards (AIMS)
Fiscal year 2013



Efficient operations overall—In fiscal year 2013, Hillside ESD operated efficiently overall, with per pupil costs that were lower than peer district averages. The District spent almost \$5,000 less per pupil than its peer districts, on average, partly because the District did not operate a food service program, but also because it operated efficiently overall. The District had lower costs per pupil in administration, plant operations, and transportation.

Comparison of per pupil expenditures by operational area
Fiscal year 2013

	Hillside ESD	Peer group average
Administration	\$2,085	2,572
Plant operations	1,330	2,148
Food service	0	851
Transportation	735	1,056

Transportation program oversight needs strengthening

District did not conduct random drug and alcohol testing—We reviewed driver files for the District's one regular bus driver and one substitute bus driver for fiscal years 2013 and 2014 and found that the District lacked complete records demonstrating that its bus drivers met the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)* for the random drug and alcohol testing requirement. The District did not have a process in place to ensure that the required random drug and alcohol testing of bus drivers was completed. As a result, neither of its two drivers were randomly tested for drug and alcohol use in fiscal years 2013 and 2014.

Poor controls over fuel inventory—Hillside ESD did not implement proper controls over its fuel inventory. The District has a 500-gallon, above-ground diesel fuel tank located on its campus. The tank is surrounded by a low chain link fence secured with a



2015

padlock. However, the pump itself is not locked and the surrounding fence is short enough that we were able to reach over the fence and access the pump and pump controls without unlocking the surrounding fence. District employees complete fuel usage logs when fueling the District's bus, and according to district officials, the District compares the gallons of fuel pumped, as recorded on logs, to the gallons of fuel purchased, based on vendor invoices, to verify that fuel billings are accurate. However, the District did not document these reviews. Although we did not identify any fuel theft or inappropriate fuel usage, this lack of control over the District's fuel inventory placed the District at an increased risk for theft and fraud.

Recommendations

The District should:

- Ensure that it conducts all required random drug and alcohol testing as specified in the State's *Minimum Standards*, and
- Evaluate and implement additional controls over its fuel inventory to help ensure proper accounting of all fuel deliveries and usage, including documenting its reconciliations of fuel usage to fuel purchases and locking its fuel pump when not in use.

TABLE OF CONTENTS



District Overview	1
Student achievement	1
District operated efficiently overall	1
Finding 1: Transportation program oversight needs strengthening	3
District did not conduct random drug and alcohol tests	3
Poor controls over fuel inventory increased risk of fraud and theft	3
Recommendations	4
Other Findings	5
1. Some purchases lacked proper approval	5
Recommendation	5
2. Physical access to computer server was not limited	5
Recommendation	5
Appendix	
Objectives, Scope, and Methodology	a-1
District Response	
Table	
1 Comparison of per pupil expenditures by operational area Fiscal year 2013 (Unaudited)	2

TABLE OF CONTENTS



Figure

- 1 Percentage of students who met or exceeded state standards (AIMS)
Fiscal year 2013
(Unaudited)

1

DISTRICT OVERVIEW

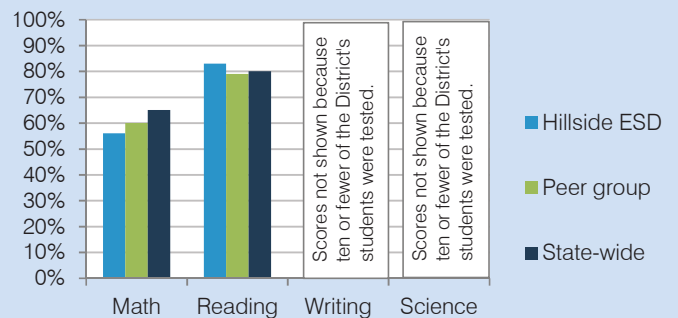
Hillside Elementary School District is a very small rural district located about 45 miles west of Prescott in Yavapai County. In fiscal year 2013, the District served 29 students in preschool through 6th grade at its one school.

In fiscal year 2013, Hillside ESD's student test scores on Arizona's Instrument to Measure Standards (AIMS) were similar to peer district averages and the District operated efficiently overall with lower per pupil costs than its peer districts', on average.¹ However, auditors identified some areas for improvement.

Student achievement

In fiscal year 2013, 56 percent of the District's students met or exceeded state standards in math and 83 percent in reading. As shown in Figure 1, Hillside ESD's math and reading scores were similar to peer districts' averages. However, for very small districts such as Hillside ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. Scores for writing and science are not reported because ten or fewer of the District's students were tested in these areas. Under the Arizona Department of Education's A-F Letter Grade Accountability System, Hillside ESD received an overall letter grade of B for fiscal year 2013. Of the ten districts in the peer group receiving letter grades, five districts also received Bs, one received an A, three received Cs, and one received a D.

Figure 1: Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2013 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2013 test results on Arizona's Instrument to Measure Standards (AIMS).

District operated efficiently overall

As shown in Table 1 on page 2, in fiscal year 2013, Hillside ESD spent almost \$5,000 less per pupil than its peer districts, on average, partly because the District did not operate a food service program, but also because it operated efficiently overall. However, auditors identified a few opportunities for improvement.

Lower administrative costs but improvements needed—At \$2,085, Hillside ESD's administrative costs per pupil were 19 percent lower than peer districts', on average. The District

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.

spent less on administration primarily because it operated with only two part-time administrative employees. The District was able to employ fewer administrative employees because, like many of the very small school districts within Yavapai County, most of Hillside ESD's business office functions, such as recording payroll and purchasing transactions, were performed by the Yavapai County Education Service Agency at a cost of about \$1,000 for the fiscal year. Similarly sized school districts in some other counties employed more administrative employees because similar services were not always available within their counties. For example, six very small recently audited school districts in a southern Arizona county employed an average of 2.4 administrative full-time positions, including positions that provided business office functions. Despite the lower administrative costs, the District should strengthen some of its purchasing and computer controls. (see Other Findings, page 5).

Table 1: Comparison of per pupil expenditures by operational area Fiscal year 2013 (Unaudited)

Spending	Hillside ESD	Peer group average	State average
Total per pupil	\$10,467	\$15,203	\$7,496
Classroom dollars	5,934	7,647	4,031
Nonclassroom dollars			
Administration	2,085	2,572	746
Plant operations	1,330	2,148	924
Food service	0	851	396
Transportation	735	1,056	369
Student support	255	548	582
Instruction support	128	381	448

Source: Auditor General staff analysis of fiscal year 2013 Arizona Department of Education student membership data and district-reported accounting data.

Lower plant operations costs—Hillside ESD's \$5.27 cost per square foot was 20 percent lower than the peer districts' average, and its \$1,326 cost per pupil was 38 percent lower. The District's costs were lower partly because it operated 27 percent fewer square feet per student than the peer districts, on average. In addition, the District employed only one part-time plant employee who performed custodial and groundskeeping duties. As a result, the District's plant operations salaries and benefits costs were 65 percent lower per square foot than the peer districts' average. Also, rather than employing someone to perform maintenance and repair tasks, district employees, including teachers, performed simple maintenance tasks, such as changing light bulbs. Then, every few months after it had accumulated a list of more difficult repairs, the District would hire a contracted maintenance vendor to perform those repairs.

District did not operate a food service program—In fiscal year 2013, Hillside ESD did not have any food-service-related expenditures because the District did not operate a food service program. According to district officials, the District has not operated a food service program for at least several years. Peer districts spent an average of \$851 per pupil on food service programs in fiscal year 2013.

Transportation program reasonably efficient, but some improvements needed—Hillside ESD's \$1.89 cost per mile was 15 percent higher than the peer districts' average, and its \$1,110 cost per rider was 6 percent lower. The District's transportation costs were mixed primarily because it transported its riders fewer miles, on average, than the peer districts. Overall, the District's transportation program was reasonably efficient, operating one bus route and employing one part-time bus driver. However, the District failed to maintain documentation to show that its bus driver and substitute bus driver met certain certification requirements, and its controls over its fuel inventory need strengthening (see Finding 1, page 3).

FINDING 1

Transportation program oversight needs strengthening

In fiscal years 2013 and 2014, Hillside ESD failed to ensure that all bus driver certification requirements were met in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*, and it lacked sufficient controls over its fuel inventory.

District did not conduct random drug and alcohol tests

To help ensure student safety, the State's *Minimum Standards*, administered by the Department of Public Safety, require districts to ensure that drivers are properly certified and receive random drug and alcohol tests, periodic drug tests, physical examinations, refresher training, and CPR and first aid certification. Auditors reviewed files for the District's one regular bus driver and one substitute bus driver for fiscal years 2013 and 2014 and found that the District lacked complete records demonstrating that its bus drivers met *Minimum Standards* for the random drug and alcohol testing requirement. The District did not have a process in place to ensure that the required random drug and alcohol testing of bus drivers was completed. As a result, neither of its two drivers were randomly tested for drug and alcohol use in fiscal years 2013 and 2014.

Poor controls over fuel inventory increased risk of fraud and theft

Hillside ESD did not implement proper controls over its fuel inventory. The District has a 500-gallon, above-ground diesel fuel tank located on its campus. The tank is surrounded by a low chain link fence secured with a padlock. However, the pump itself is not locked, and the surrounding fence is short enough that auditors were able to reach over the fence and access the pump and pump controls without unlocking the surrounding fence. Further, the vendor filled the District's fuel tank based on its own schedule instead of waiting until a district employee was available to determine fuel inventory levels before and after the vendor filled the tank. District employees complete fuel usage logs when fueling the District's bus, and according to district officials, the District compares the gallons of fuel pumped, as recorded on logs, to the gallons of fuel purchased, based on vendor invoices, to verify that fuel billings are accurate. However, the District did not document these reviews. Although auditors did not identify any fuel theft or inappropriate fuel usage, this lack of control over the District's fuel inventory placed the District at an increased risk for theft and fraud.

Recommendations

1. The District should ensure that it conducts all required random drug and alcohol testing as specified in the State's *Minimum Standards*.
2. The District should evaluate and implement additional controls over its fuel inventory to help ensure proper accounting of all fuel deliveries and usage, including documenting its reconciliations of fuel usage to fuel purchases and locking its fuel pump when not in use.

OTHER FINDINGS

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

1. Some purchases lacked proper approval

The District needs to strengthen its purchasing controls to ensure that all purchases are properly approved prior to being made. Auditors examined 30 fiscal year 2013 purchases and found that 29 of the 30 purchases were made without proper prior approval. Of those purchases, 20 lacked purchase orders entirely, and 9 had purchase orders that were created and approved by the same employee. Although no inappropriate items were detected in the items reviewed, the District should ensure that all purchases are properly approved prior to being made, as required by the *Uniform System of Financial Records for Arizona School Districts (USFR)*. Although the District is very small, it has adequate staffing to ensure proper approval. For example, the District's administrative secretary could prepare purchase orders and have them approved by an authorized employee, such as the District's head teacher, prior to ordering goods or services. This helps ensure that the District has adequate budget capacity and that expenditures are appropriate and properly supported.

Recommendation

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

2. Physical access to computer server was not limited

The District's computer server was not adequately secured. Specifically, the District's computer server was located on a desk in the District's business office and was accessible to all staff and students. Allowing such broad access to the computer server increased the risk of network interruption due to intentional or accidental equipment damage.

Recommendation

The District should ensure that its computer server is stored in a secured manner and that only appropriate personnel have access.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Hillside Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the Office of the Auditor General's annual report, *Arizona School District Spending (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in three operational areas: administration, plant operations and maintenance, and student transportation. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2013, was considered.¹ Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how it accounted for dollars spent in the classroom.

For very small districts, such as Hillside ESD, increasing or decreasing student enrollment by just five or ten students, or employing even one additional part-time position can dramatically impact the district's costs per pupil in any given year. As a result and as noted in the fiscal year 2013 Classroom Dollars report, spending patterns of very small districts are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of Hillside ESD's operations, less weight was given to various cost measures and more weight was given to auditor observations made at Hillside ESD.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2013 summary accounting data for all districts and Hillside ESD's fiscal year 2013 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To compare districts' academic indicators, auditors developed a student achievement peer group using poverty as the primary factor because poverty has been shown to be associated with student achievement. Auditors also used secondary factors such as district type and location to further refine these groups. Hillside ESD's student achievement peer group includes Hillside ESD and the 11 other elementary districts that also served student populations with poverty rates between 17 and 21 percent in towns and rural areas. Auditors compared Hillside ESD's student AIMS scores to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Hillside ESD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8. Generally, auditors considered Hillside ESD's student AIMS scores to be similar if they were within 5 percentage points of peer averages and higher/lower if they were more than 5 percentage points higher/lower than peer averages. Auditors also reported the District's Arizona Department of Education-assigned letter grade.²

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

² The Arizona Department of Education's A-F Letter Grade Accountability System assigns letter grades primarily based on academic growth and the number of students passing AIMS.

To analyze Hillside ESD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size and location. This operational peer group includes Hillside ESD and 42 other school districts that also served less than 200 students and were located in towns and rural areas. Auditors compared Hillside ESD's costs to its peer group averages. Generally, auditors considered Hillside ESD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 15 percent of peer averages, higher/lower if they were within 16 to 30 percent of peer averages, and much higher/lower if they were more than 30 percent higher/lower than peer averages. However, in determining the overall efficiency of Hillside ESD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as square footage per student and bus capacity utilization as well as auditor observations and any unique or unusual challenges the District had. Additionally:

- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required fiscal year 2013 transportation reports, reviewed bus driver files for the District's two bus drivers for fiscal years 2013 and 2014, and reviewed fiscal year 2013 bus maintenance and safety records and bus routing. Auditors also reviewed fiscal year 2013 transportation costs and compared them to peer districts'. To analyze the District's fuel purchases and usage, auditors reviewed vendor fuel invoices and fuel logs maintained by employees for fiscal year 2013.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2013 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for all 11 individuals who received payments in fiscal year 2013 through the District's payroll system and reviewed supporting documentation for 30 of the 438 fiscal year 2013 accounts payable transactions. No improper transactions were identified. Auditors also evaluated other internal controls that were considered significant to the audit objectives and reviewed fiscal year 2013 spending and prior years' spending trends across operational 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 systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the system such as data sensitivity, backup, and recovery.
- To assess whether the District's 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 2013 administration costs and compared these to peer districts'.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2013 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 2013 expenditures to determine whether they were appropriate and if the District properly accounted for them. No issues of noncompliance were identified.

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

The Auditor General and her staff express their appreciation to the Hillside Elementary School District's board members, administrator, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

DISTRICT RESPONSE



HILLSIDE ELEMENTARY SCHOOL DISTRICT #35

8615 S. DATE CREEK RD
HC01 BOX 3056
Bagdad, AZ. 86321
(928)442-3416 / FAX (928)442-9591
Hillside_School@hotmail.com

November 19, 2015

Debbie Davenport,
Auditor General
2910 N 44th Street, Suite 410
Phoenix, AZ 85018

RE: Response to Hillside Elementary School District's Performance Audit

Dear Ms. Davenport,

Hillside Elementary School District respectfully submits its response to the Performance Audit of fiscal year 2013. The Performance Audit listed three findings that are in the process of being corrected. Attached is the response to each of the findings and recommendations, and the District's plan to implement the recommendations. The Hillside Elementary School District is committed to operating efficiently and effectively. Although I was not with the District at the time of the audit I would like to thank you and your team for all of your hard work and helping us find areas where improvement is needed. We value the data and findings presented in the final report. If you have any questions regarding any of the responses contained in the attachment, please do not hesitate to contact us.

Sincerely,

Pamela Hampton, Administrator

Finding 1: Transportation program oversight needs strengthening

District Response: The District agrees with these findings.

Recommendation 1: The District should ensure that it conducts all required random drug and alcohol testing as specified in the State's Minimum Standards.

District Response: The District agrees with this recommendation and is pleased to report that in the fiscal year 2015 Hillside Elementary School District joined into a consortium for random drug testing for our schools bus drivers.

Recommendation 2: The District should evaluate and implement additional controls over its fuel inventory to help ensure proper accounting of all fuel deliveries and usage, including documenting its reconciliations of fuel usage to fuel purchases and locking its fuel pump when not in use.

District Response: The District agrees with this recommendation. The District will now be reviewing the fuel inventory logs on a quarterly basis. The fuel tank located on the school grounds now has a lock not only on the fence but also on the pump.

Other Findings 1: Some purchases lacked proper approval.

District Response: The District agrees with these findings.

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

District Response: The District will implement the recommendation. All purchases will require approval and a signature by the district administrator prior to purchases being made.

Other Findings 2: Physical access to computer server was not limited

District Response: The District agrees with this finding.

Recommendation: The District should ensure that its computer server is stored in a secured manner and that only appropriate personnel have access.

District Response: The District agrees that the server should be stored in a more secured place. Due to the age of our buildings and lack of space, there is not another area that would be sufficient. An area around the server has been made to conceal all of the components.

