



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Division of School Audits

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Performance Audit

# Patagonia Elementary and Union High School Districts

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September • 2013  
Report No. 13-08



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**Debra K. Davenport**  
Auditor General

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OFFICE OF THE  
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September 10, 2013

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The Honorable Janice K. Brewer, Governor

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Patagonia Elementary School District

Patagonia Union High School District

Ms. Denise Blake, Superintendent

Patagonia Elementary and Union High School Districts

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Patagonia Elementary and Union High School Districts*, 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 the response, the Districts agree 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

# Patagonia Elementary and Union High School Districts

## REPORT HIGHLIGHTS PERFORMANCE AUDIT

## Student achievement and operational efficiency

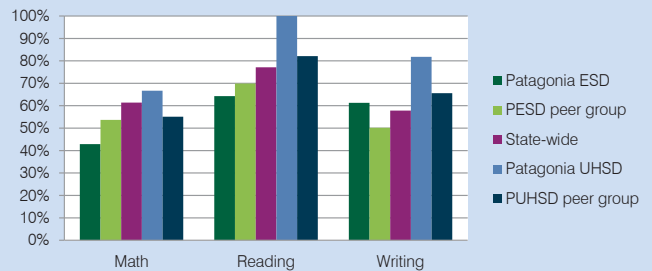
### Our Conclusion

In fiscal year 2011, Patagonia ESD's student AIMS scores in math and reading were lower than peer districts' averages, and its writing scores were higher. Patagonia UHSD's scores were higher than peer districts' averages in all three subject areas. However, for very small districts, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores and graduation rates. Both districts' schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act, and the high school's 95-percent graduation rate was higher than the 89-percent peer average and the 78-percent state average.

Auditors combined Patagonia ESD and Patagonia UHSD operations, henceforth referred to as Patagonia SD, for comparison purposes because these districts essentially operate as one. In fiscal year 2011, Patagonia SD's cost-efficiency in noninstructional areas was mixed, with some costs higher and some costs lower than peer districts', on average. The District's plant operations and food service costs were similar to peer districts', its administrative costs were slightly higher, and its transportation program was reasonably efficient despite its higher cost per student.

**Student achievement**—In fiscal year 2011, Patagonia ESD's student AIMS scores in math and reading were lower than peer districts' averages, and its writing scores were higher. Patagonia UHSD's scores were higher than peer districts' averages in all three subject areas. However, for very small districts, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores and graduation rates. Both districts' schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act, and the high school's 95-percent graduation rate was higher than the 89-percent peer average and the 78-percent state average.

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



**Operational efficiencies mixed, with some costs higher and some costs lower**—Auditors combined Patagonia ESD and Patagonia UHSD operations, henceforth referred to as Patagonia SD, for comparison purposes because these districts essentially operate as one. In fiscal year 2011, Patagonia SD's cost-efficiency in noninstructional areas was mixed, with some costs higher and some costs lower than peer districts', on average. The District's plant operations and food service costs were similar to peer districts', its administrative costs were slightly higher, and its transportation program was reasonably efficient despite its higher cost per student.

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

Per pupil	Patagonia SD	Peer group average
Administration	\$3,461	\$3,184
Plant operations	2,801	2,833
Food service	766	740
Transportation	2,080	1,165

## Combined operations saved money but more can be done

In fiscal year 2011, Patagonia ESD and Patagonia UHSD saved money by operating essentially as one district, sharing staff and a primary campus. Despite combined operations, Patagonia SD's administrative costs were slightly higher because it employed slightly more administrators and school and business office support staff. Further, the District operated two separate campuses despite both campuses operating below 25 percent of full student capacity. Downsizing to one campus and reducing excess building space would save money in multiple operational areas and increase available money for classroom spending, which was \$1,660 lower per pupil than peer districts', on average.



2013

## Recommendations

The District should:

- Review its administrative staffing levels for cost savings opportunities.
- Review its building usage and determine whether excess space can be closed to reduce costs.

### District lacked sufficient controls in multiple operational areas

In fiscal year 2011, Patagonia SD lacked sufficient controls over multiple operational areas, including controls over its payroll and accounts payable processing and controls over its computer network and student information and accounting systems. For example, some additional-duty pay and purchases lacked prior approval; some employees had more access to the District's accounting system than necessary to perform their job duties; password requirements were weak; a formal, up-to-date disaster recovery plan was not maintained; and there was no process to ensure security updates were performed. The District also had poor controls over facility keys because it left key-cutting machines and blank keys easily accessible and failed to inventory existing keys. Further, the District lacked sufficient transportation program controls. For example, the District failed to perform bus preventative maintenance in a timely manner, did not ensure that bus driver certification requirements were met, and did not implement proper controls over its fuel inventory.

## Recommendations

The District should:

- Ensure that all transactions are approved prior to being completed.
- Protect its computer systems with appropriate user-access levels, stronger password requirements, disaster recovery and backup procedures, and a process to ensure security updates are performed.
- Develop bus preventative maintenance schedules and ensure that its bus drivers meet eligibility requirements.
- Safeguard facilities and fuel inventory by implementing appropriate controls over access to them.

### Cooperatively providing transportation services likely saved the districts money, but raises funding questions

In fiscal year 2011, Patagonia UHSD provided student transportation services for Patagonia ESD and another nearby elementary school district. Students from the districts generally rode together on the same buses, which likely reduced the number of buses and bus drivers needed to transport the districts' students. All three districts submitted fiscal year 2011 transportation mileage reports used by the State to calculate transportation funding. Because most routes included students from at least two of the three districts, the miles traveled on most bus routes were claimed for funding purposes by two or three districts, as allowed by law. As a result, state and local taxpayers often funded the same miles two or three times. However, if the districts ceased their partnership and went back to operating their own transportation programs, the number of miles funded would likely be similar, but the districts' costs would increase. There is a potential for increased costs to the State if more districts began operating this way.

## Recommendation

The Legislature may want to consider whether the intent of A.R.S. §15-901 et seq was to allow districts to jointly operate transportation programs but continue to receive full funding as if they were separately operating their routes.

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# DISTRICT OVERVIEW

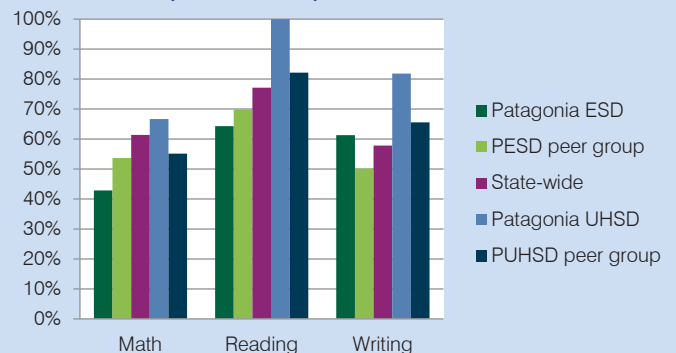
Patagonia Elementary School District and Patagonia Union High School District are very small rural districts located about 60 miles south of Tucson in Santa Cruz County. In fiscal year 2011, Patagonia ESD had 72 students in preschool through 8th grade, and Patagonia UHSD had 70 students in grades 9 through 12. Despite having separate governing boards, the two districts operate essentially as one district. They share a superintendent and staff and comingle costs. Further, although the districts operate schools at two sites, nearly all of their students attend school at the same site. Therefore, auditors determined that it would be more accurate to leave the two districts' operations combined rather than attempt to split them when making comparisons with peer districts. However, because student achievement measures can be accurately separated by grade, auditors compared each district separately to peer districts for student achievement purposes.

In fiscal year 2011, Patagonia ESD's student AIMS scores were mixed compared to peer districts', with higher scores in writing and lower scores in reading and math.<sup>1</sup> Patagonia UHSD's student AIMS scores were higher than the peer districts' averages in all three subject areas. Regarding cost efficiency in noninstructional areas, the combined Patagonia ESD and Patagonia UHSD district (henceforth referred to as the Patagonia School District or Patagonia SD) had mixed results with some costs higher and some costs lower than peer districts' averages. Additionally, auditors identified several opportunities for improvement and greater efficiency.

## Student achievement

In fiscal year 2011, 43 percent of Patagonia Elementary School District's students met or exceeded state standards in math, 64 percent in reading, and 61 percent in writing. As shown in Figure 1, Patagonia ESD's writing scores were higher than the peer districts' average, but its math and reading scores were lower. For Patagonia Union High School District, 67 percent of its students met or exceeded state standards in math, 100 percent in reading, and 82 percent in writing. As shown in Figure 1, these scores were higher than the peer districts' averages in all three areas. However, for very small districts, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores and graduation rates. Both districts'

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



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

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



schools met “Adequate Yearly Progress” for the federal No Child Left Behind Act, and the high school’s 95-percent graduation rate was higher than the peer districts’ 89-percent average and the State’s 78-percent average.

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

Spending	Patagonia SD	Peer group average	State average
Total per pupil	\$18,235	\$19,191	\$7,485
Classroom dollars	7,818	9,478	4,098
Nonclassroom dollars			
Administration	3,461	3,184	728
Plant operations	2,801	2,833	927
Food service	766	740	375
Transportation	2,080	1,165	352
Student support	889	1,058	571
Instruction support	420	733	434

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

## District’s operational efficiencies were mixed, and some improvements needed

As shown in Table 1 and based on auditors’ review of various performance measures, in fiscal year 2011, Patagonia SD’s cost-efficiency in noninstructional areas was mixed, with some costs higher and some costs lower than peer districts’ averages. Additionally, auditors identified several opportunities for improvement and potential opportunities for greater efficiency.

**Slightly higher administrative costs**—The District’s \$3,461 administrative costs per pupil were nearly 9 percent higher than the \$3,184 peer district average primarily because it employed more administrators and more school and business office support staff (see Finding 1, page 3). Additionally, auditors identified administrative practices that need strengthening (see Finding 2, page 7).

**Similar plant operations costs, but control improvements needed**—Patagonia SD’s fiscal year 2011 per-pupil and per-square-foot plant operations costs were similar to peer districts’ averages. However, the District operated far below its designed capacity and could reduce its plant operations costs by reducing some of its excess space (see Finding 1, page 3). Additionally, the District should improve controls to ensure that facility keys are secure and only accessible to appropriate personnel (see Finding 2, page 7).

**Similar food service costs**—Patagonia SD’s per-meal and per-pupil costs were similar to peer districts’ averages. Still, the District’s food service program operated at a \$19,500, or 18 percent, loss in fiscal year 2011. As noted in Finding 1, on page 3, the District could reduce its food service costs by downsizing to one campus.

**Transportation program reasonably efficient, but some improvements needed**—In fiscal year 2011, Patagonia UHSD provided student transportation services for Patagonia ESD and another elementary school district. Because students from multiple districts rode the same buses and costs could not be accurately separated among the districts, auditors included the combined routes’ miles, riders, and costs in determining program efficiency. Patagonia SD’s \$1.76 cost per mile was much higher than the peer districts’ \$1.21 average, but its \$1,693 cost per rider was slightly lower than the peer districts’ \$1,789 average, likely because the peer districts transported their students farther, on average. Auditors determined that cooperatively providing transportation services saved the districts money, but did not result in savings to local or state taxpayers (see Finding 3, page 13). Auditors also identified several instances where the District needs to strengthen controls in its transportation program (see Finding 2, page 7).

# FINDING 1

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## Districts saved money by combining operations and sharing staff, but could reduce costs further

In fiscal year 2011, despite having two separate governing boards, Patagonia Elementary School District and Patagonia Union High School District operated essentially as a single preschool through 12th-grade school district. Combining operations and sharing staff saved the districts money, but costs were still slightly higher in administration due to higher staffing levels. Additionally, eliminating excess building capacity and operating schools at just one site rather than two would reduce costs in multiple operational areas and allow the District to increase the amount of money it could spend in the classroom.

### Combining operations and sharing staff saved the districts money

According to district officials, the two Patagonia school districts have combined operations and shared staff for decades as a natural outcome of two districts sharing the same primary campus and student population but without the interest in unifying. In fiscal year 2011, both districts had approximately 70 students each, and Patagonia Union High School District encompassed both the Patagonia Elementary School District and another elementary school district. The two Patagonia districts shared a primary campus with some buildings allocated to the high school district and other buildings allocated to the elementary school district. Additionally, the elementary school district had a smaller, separate campus. Combining operations and sharing staff resulted in cost savings in the following areas:

- **Administration**—Because school districts often employ a full-time superintendent regardless of district size, by combining operations and sharing a superintendent, the Patagonia school districts saved money. Further, the two districts shared business office staff and contracted together for certain administrative services, such as annual information technology services, saving them from each having to separately expend monies for these services.
- **Food service program**—Similarly, although most school districts with food service programs employ a full-time food service manager or director to manage operations, the two districts cooperatively shared a food service program managed by a single director. Food service employees prepared meals for both elementary and high school students in the high school kitchen and then transported meals to the smaller elementary school. If the districts operated separately, it is likely that they each would have employed a full-time food service manager or

director, and the elementary district would have operated its own kitchen. Additionally, the districts likely saved money by combining food purchases, which resulted in larger purchase quantities.

- **Transportation and plant operations management**—Although small school districts often assign transportation and plant operations management duties to a single manager or director, as a result of combined operations, in fiscal year 2011, the two districts employed only one individual over these areas. However, in fiscal year 2013, the districts employed one position to manage their plant operations program and a part-time position to oversee their transportation program, which will increase salary costs in these areas. District officials stated that they increased staffing to help ensure that preventative maintenance is performed in a timely manner.
- **Bus drivers and buses**—Although school districts typically operate their own bus routes, Patagonia Union High School District operated a transportation program for Patagonia Elementary School District and another elementary school district, which are encompassed in Patagonia UHSD's geographical boundaries. Students from the elementary districts rode with the high school district students on the same bus routes. Because the three districts combined their transportation programs, the bus drivers had to travel routes only once to pick up and drop off all three districts' students. The combined transportation program likely reduced the number of buses and drivers needed to transport the three districts' students as well as saved the districts money on fuel and maintenance costs.

## Despite combined operations, administrative costs were still slightly higher due to higher staffing levels

In fiscal year 2011, Patagonia SD's administrative costs per pupil were nearly 9 percent higher than its peer districts averaged primarily because it employed more administrators and more school and business office support staff. For very small districts such as Patagonia SD, having even one additional position can have a large impact on per-pupil costs. Had the District spent the same per-pupil amount on administration in fiscal year 2011 as its peer districts averaged, it would have saved \$39,200, which otherwise potentially could have been spent in the classroom.

**District employed more administrators**—In fiscal year 2011, Patagonia SD had three administrators—a full-time superintendent, a 0.8 full-time equivalent (FTE) principal, and a 0.65 FTE athletic director. The superintendent was primarily responsible for the District's pre-school-through-8th-grade program, and the principal was primarily responsible for the 9th-through-12th-grade program. By comparison, only one of the four peer districts employed both a superintendent and principal, and it employed them at a 1.0 FTE position combined. Having two schools may have impacted Patagonia SD's decision to have both positions; however, auditors noted that neither of the two peer districts that also had two schools employed both a superintendent and principal. Further, only one of the peer districts employed

an athletic director, and this was only a 0.25 FTE position. The other three peer districts paid an employee a stipend to perform these duties.

District employed more school and business office support staff—In fiscal year 2011, Patagonia SD employed a full-time business manager and 4.4 FTE school and business office support staff who were responsible for activities such as payroll, purchasing, and receptionist duties. On average, the peer districts had only 2.7 FTE school and business office support positions. As a result, each support staff position at peer districts served 49 students, on average, while each Patagonia SD’s support staff position served 32 students.

## Downsizing to one campus would save money in multiple operational areas and increase money available for the classroom

As discussed on page two of this report, Patagonia SD’s fiscal year 2011 food service and plant operations and maintenance costs were similar to peer district averages, and its transportation costs were mixed with some costs higher and some costs lower than peer district averages. However, only 42.9 percent of the District’s operational spending was in the classroom compared with 49.4 percent spent in the classroom by the peer districts, on average.<sup>1</sup> Had Patagonia SD spent an equivalent percentage of its operating dollars in the classroom, it would have spent an additional \$1,188 per student in the classroom. Patagonia SD maintained a substantial amount of excess building space and operated its schools far below their designed capacities. Downsizing to one campus and reducing other excess building space would save the District in multiple operational areas and increase the money available to be spent in the classroom.

District schools operated far below designed capacities—In fiscal year 2011, Patagonia SD’s two schools operated far below their designed student enrollment capacities. As shown in Table 2, the elementary school, which was used for students in preschool through grade 2, operated at only 16 percent of its designed capacity, and the high school, which was used for students in grades 3 through 12, operated at only 24 percent of its designed capacity. Overall, the District used only 22 percent of its total designed student enrollment capacity. In fact, the high school campus, which was designed for 496 students, could easily accommodate all 142 of the District’s elementary and high school students and still have space for an additional 354 students. The high school, which was built in fiscal year 2006, appears to have been built far beyond the District’s needs. Auditors reviewed student enrollment numbers dating back to fiscal year 2001 and found that student enrollment for the two districts

**Table 2: Number of students, capacity, and capacity usage rate by school  
Fiscal year 2011  
(Unaudited)**

School name	Number of students <sup>1</sup>	Capacity	Capacity usage rate
Patagonia Elementary School	23	141	16%
Patagonia High School	119	496	24%
<b>Total</b>	<b>142</b>	<b>637</b>	

<sup>1</sup> In fiscal year 2011, preschool through 2nd-grade students attended the elementary school and 3rd- through 12th-grade students attended the high school.

Source: Auditor General staff analysis of district-reported fiscal year 2011 average daily membership information obtained from the Arizona Department of Education and fiscal year 2011 capacity information obtained from the Arizona School Facilities Board.

<sup>1</sup> Operational spending includes costs incurred for the District’s day-to-day operations. For further explanation, see Appendix, page a-1.

combined was never above 230 students during this time. Maintaining excess building space is costly because the majority of school district funding is based on a district's number of students, not its amount of square footage.

Downsizing to one campus would save the District in multiple operational areas—In response to the audit process, in fiscal year 2013, the District moved its 1st- and 2nd-grade students from the elementary school campus to the high school campus. This has allowed the District to shut down some excess buildings on the elementary campus; however, the District still has a substantial amount of excess capacity at the high school. Further, keeping its preschool and kindergarten students at the smaller elementary campus means the District still incurs costs to heat, cool, and maintain that facility. Additionally, the District incurs additional costs to bus students and deliver meals to this separate campus. Downsizing to one campus would save the District in multiple operational areas including transportation, food service, and plant operations and maintenance. This would allow the District to potentially use these savings in the classroom for expenses such as teacher pay, classroom supplies, or additional classroom technology needs. Further, reducing excess square footage on the high school campus would decrease plant operations maintenance and utility costs.

## Recommendations

1. The District should review its administrative staffing levels to determine if savings can be achieved and if some of these monies can be redirected to the classroom.
2. The District should review its building capacity usage to determine whether the elementary school or unused sections of both the elementary and high schools can be closed to reduce costs.

# FINDING 2

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## District lacked sufficient controls in multiple operational areas

In fiscal year 2011, Patagonia SD lacked sufficient controls over multiple operational areas, including controls over its payroll and accounts payable processing and controls over its computer network and student information and accounting systems. Although no fraudulent transactions were detected in the fiscal year 2011 transactions auditors reviewed, these poor controls exposed the District to an increased risk of errors, fraud, and unauthorized access to critical systems and sensitive information. Additionally, the District's poor controls over district keys and building access increased the District's risk of theft and misuse. Finally, the District failed to perform regular preventative maintenance on its buses, lacked procedures to ensure bus driver certification requirements were met, and lacked sufficient controls over its fuel inventory.

### Inadequate controls over payroll and accounts payable processing resulted in increased risk of errors and fraud

The District had an increased risk of errors and fraud because it did not have adequate controls over its payroll and accounts payable processing. Although no instances of fraud were detected in the sample transactions auditors reviewed, these poor controls exposed the District to increased risk.

**Some additional-duty pay inadequately documented**—The District did not have adequate documentation to support pay rates for additional duties performed by employees. Auditors reviewed payroll and personnel documentation for 30 employees who received payments in fiscal year 2011 and found that 25 of the employees were paid for additional duties. However, for 15 of these 25 employees, there was no documentation indicating that the additional duties and pay were approved prior to services being rendered. To help ensure that all pay is properly authorized and employees are paid correctly, the District should document additional duties and related pay in the employees' contracts or personnel/payroll action forms and ensure that these documents are properly approved prior to payment and services being rendered as required by the *Uniform System of Financial Records for Arizona School Districts* (USFR).

**Some purchases lacked proper approval**—The District had an increased risk of errors and fraud because it did not always require proper approval prior to purchases being made. Auditors

reviewed 30 fiscal year 2011 accounts payable transactions and found that 3 transactions were for purchases made without prior approval. Although no inappropriate purchases were detected in the items auditors reviewed, the District should prepare purchase orders and have them approved by an authorized supervisor prior to ordering goods or services, as required by the USFR. This helps ensure that purchases are appropriate and that the District has adequate budget capacity prior to ordering goods or services.

**District did not accurately report its costs**—Patagonia SD did not consistently classify its fiscal year 2011 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its annual financial report did not accurately reflect its costs, including both classroom and nonclassroom expenditures. Auditors identified errors totaling approximately \$183,000 of the District's total \$2.6 million of operational spending. When corrected, these changes decreased the District's reported instructional expenditures by 1.5 percentage points. The dollar amounts shown in the tables in this report reflect the necessary adjustments.

## Increased risk of unauthorized access to critical systems and lack of disaster recovery plan

Weak controls over user access to the District's network and student information and accounting systems increased the risk of unauthorized access to these critical systems. Additionally, the District did not have a process to ensure that critical software updates were properly installed on its computers, placing the District at risk of having sensitive information compromised or the network damaged, resulting in costly repairs and service interruption. Finally, the District's lack of a disaster recovery plan and backup procedures could result in interrupted operations or loss of data.

**Broad access to accounting system**—Two of the District's five accounting system users had access beyond what was required to perform their job duties. One of these users had the ability to perform all accounting system functions. Although no improper transactions were detected in the samples of payroll and accounts payable transactions auditors reviewed, granting employees system access beyond what is required for their job duties, especially full system access, exposes the District to increased risk of errors, fraud, and misuse of sensitive information, such as processing false invoices or adding nonexistent vendors or employees.

**Minimal password requirements**—The District needs to strengthen controls over its computer system passwords. The District required network passwords to be a minimum-length of only five characters. Additionally, network and student information system passwords did not require the combination of alphanumeric characters for password complexity. Common practice requires passwords to be at least eight characters in length and contain a combination of alphabetic and numeric characters.

**Security updates not performed**—The District did not have a process to ensure that critical software updates were properly installed on its computers. Failure to install critical updates can result in an increased risk of security vulnerabilities.

**Lack of disaster recovery plan and backup procedures could result in interrupted operations or loss of data**—Patagonia SD did not have a formal, up-to-date, and tested disaster recovery plan, even though it maintained critical financial and student information on its system and network. A written and properly designed disaster recovery plan would help ensure continued operations in the case of a system or equipment failure or interruption. The plan should include detailed information on how systems could be restored if the current administrators were unavailable. Additionally, the District did not have proper backup procedures for its network and student information system. In fiscal years 2011 and 2012, the District created backup tapes of the data; however, the tapes were not stored in a separate and secure location, which could result in the loss of sensitive and critical data during a disaster. Further, the District has not attempted to restore data from these backups. Disaster recovery plans should be tested periodically, and modifications should be made to correct any problems and to ensure their effectiveness.

## Poor controls over district keys and building access increased the District's risk of theft and misuse

The District needs to strengthen its process for producing, distributing, and tracking keys for district buildings. The District's process for making and distributing building keys did not include oversight or process controls to ensure that only authorized employees were given keys to buildings or areas within the District. Additionally, the District did not maintain an inventory log of keys issued. Because of the lack of controls, the District did not know at any point in time how many district keys existed and who had them.

**Key-cutting machine and blank keys too accessible**—The District had two locations at the high school where it maintained key-cutting machines and uncut, blank keys. During two visits to the high school, auditors observed that the key-cutting machines and blank keys were in areas that were not secure. Blank keys were not kept in locked cabinets, and the cutting machines were in unlocked areas with no supervisors around. As a result, someone could have made copies of district keys without proper approval and without the knowledge of district officials.

**No inventory of keys**—The District did not maintain a log showing keys made and distributed to employees and did not maintain an inventory of its blank keys. Employees receiving keys were not required to sign user agreements, which would clearly outline the rules and policies an employee must follow regarding the use of a district key. Additionally, the District did not have a formal procedure in place for ensuring that keys were collected from employees when they left district employment.



Providing keys to nondistrict individuals—The District provided keys to one of the District’s vendors so that it could make deliveries during times that district employees were not there. Additionally, the District provided keys to an outside group that rented the District’s locker rooms for a weekend athletic event. This was especially concerning because, as stated earlier, the District did not maintain an inventory of its keys or have a procedure to ensure that keys were collected from individuals when they were no longer needed.

## District should strengthen some controls in its transportation program

The District also needs to strengthen controls in its transportation program. For example, the District failed to perform preventative maintenance in a timely manner and did not ensure that driver certification requirements were met. Additionally, the District lacked sufficient controls over its fuel inventory.

District failed to perform regular preventative maintenance in a timely manner—According to the State’s *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*, districts must demonstrate that their school buses receive systematic preventative maintenance and inspections. Preventative maintenance and inspections include periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. These standards are designed to help ensure the safety and welfare of school bus passengers, as well as extend the useful life of buses. However, in fiscal year 2011, Patagonia SD did not systematically conduct preventative maintenance activities on a regular basis. Auditors reviewed maintenance files for 6 of the District’s 12 buses and found that the mileage between services ranged from 1,461 miles to 23,443 miles. According to district officials, the District did not have preventative maintenance schedules outlining what work should be done at each service and at how many miles, or how often, buses should be maintained. Instead, the District tried to perform maintenance on each bus twice a year. The District should develop a preventative maintenance schedule for its buses and ensure that the buses do not exceed the maximum mileage or time between services.

District lacked procedures to ensure bus driver certification requirements were met—The State’s *Minimum Standards* require districts to ensure that bus drivers are properly certified and receive periodic physical examinations, drug tests, refresher training, and CPR and first aid certification. Auditors reviewed employment files of the District’s 13 bus drivers and found that the District failed to maintain complete records demonstrating that its bus drivers met *Minimum Standards*. Specifically, auditors found that:

- 3 drivers’ files did not have evidence that the bus drivers had current Commercial Driver’s Licenses,
- 1 driver’s file did not contain evidence that the bus driver had a current annual drug test, and

- 1 driver's file contained a biennial first aid training certificate that had been expired for 17 months.

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

**Inadequate controls over fuel inventory increased risk of theft**—The District did not implement proper controls over its fuel inventory. The District has two 5,000 gallon tanks—one unleaded gasoline tank and one diesel fuel tank—located on its high school campus. Although bus drivers filled out logs when they filled their buses, these logs were not compared to fuel inventory records or fuel purchase invoices to ensure that all fuel was accounted for. Further, the District did not maintain any fuel logs for its cars and trucks used by staff. This increased the risk of fuel being stolen without timely detection by the District.

## Recommendations

1. As recommended by the *Uniform System of Financial Records for Arizona School Districts*, the District should prepare and retain in employee personnel files a current personnel/payroll action form or contract for each employee to document employment terms.
2. The District should ensure that all purchases are approved by appropriate supervisors prior to being made.
3. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
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 an independent review.
5. The District should implement and enforce password requirements related to password length and complexity.
6. The District should develop and implement a process to ensure critical updates are installed on its computers.
7. The District should create a formal disaster recovery plan and test it periodically to identify and remedy deficiencies. Additionally, backup tapes should be stored in a secure offsite location.
8. The District should implement controls over its process for securing, producing, and distributing facility keys, including establishing a distribution log, and creating and following a procedure for ensuring that keys are returned when an employee leaves district employment.

9. The District should create a formal preventative maintenance policy and schedule and ensure that bus preventative maintenance is conducted in a systematic and timely manner in accordance with its policy and the State's *Minimum Standards*.
10. The District should implement a process to ensure that bus driver requirements are met and documented in accordance with the State's *Minimum Standards*.
11. The District should evaluate its controls over fuel inventory and ensure proper accounting of all fuel use.

# FINDING 3

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## Cooperatively providing transportation services likely saved the districts money, but raises funding questions

In fiscal year 2011, Patagonia UHSD provided student transportation services for Patagonia ESD and another elementary school district. Cooperatively providing transportation services likely saved the districts money, but the arrangement raises funding questions because, as allowed by state law, the majority of reported miles were claimed for funding by more than one district. Although this is allowed by law, it resulted in the districts receiving considerably more funding than needed to operate their joint transportation program and may be a disincentive for districts like these to unify.

## Cooperatively providing transportation services likely saved the districts money

In fiscal year 2011, Patagonia UHSD provided student transportation services for Patagonia ESD and another elementary school district. As discussed in Finding 1, Patagonia UHSD operated the transportation program, and students from the districts generally rode together on the same buses. Because the three districts combined their transportation programs, they likely reduced the number of buses and drivers needed to transport the three districts' students and likely saved on fuel and maintenance costs.

## Combining transportation programs raises funding questions

In fiscal year 2011, as allowed by law, Patagonia UHSD, as well as the two elementary school districts, each submitted transportation mileage reports to the Arizona Department of Education (ADE) for funding for some of the same miles. Districts receive student transportation funding based on a formula that uses primarily the number of route miles traveled and secondarily the number of eligible students transported. Each school district reported to ADE the miles traveled for bus routes where their students were on the bus. Because most routes included students from at least two of the three districts, the miles traveled on most bus routes were claimed for funding purposes by at least two of the three districts. As a result, the State and local taxpayers often funded the same miles at least twice and sometimes three times. This also allowed the districts to maintain their prior levels

of transportation funding and, as shown in Table 3, partly explains why, combined, the three districts received over \$860,000 more in transportation funding than it cost them to operate the

**Table 3: Comparison of estimated current funding for joint miles, estimated funding if districts were unified, and costs  
Fiscal year 2011  
(Unaudited)**

	Pagagonia UHSD	Patagonia ESD	Other elementary district	Total
Joint route miles reported <sup>1</sup>	94,253	82,506	81,374	<u>258,133</u>
Estimated funding generated by joint route miles	\$420,865	\$279,778	\$369,946	\$1,070,589
Total estimated costs to operate joint route miles				<u>\$210,026</u>
Difference between estimated funding and costs				<u>\$860,563</u>
Estimated funding if districts were unified				\$479,319
Estimated decrease in transportation funding if districts were unified				\$591,270

<sup>1</sup> Miles reported for funding purposes by more than one district because more than one district had riders on the same bus during these miles.

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

program. However, if the districts ceased their partnership and went back to operating their own transportation programs, there likely would be no decrease in the combined funding that the three districts would receive, but their costs would increase. Further, if the districts chose to unify, the transportation miles could be claimed only once and funding may be greatly diminished. This serves as a disincentive for districts to unify. Finally, there is the potential for increased costs to the State for student transportation if more districts began operating in this manner. Therefore, the Legislature may want to consider whether the intent of A.R.S. §15-901 et seq was to allow districts to jointly operate transportation programs but continue to receive full funding as if they were separately operating the routes.

## Recommendation

The Legislature may want to consider whether the intent of A.R.S. §15-901 et seq was to allow districts to jointly operate transportation programs but still receive full transportation funding as if multiple districts were separately running such programs.

# APPENDIX

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## Objectives, Scope, and Methodology

The Office of the Auditor General has conducted performance audits of the Patagonia Elementary and Patagonia Union High School Districts pursuant to A.R.S. §41-1279.03(A)(9). During the audits, auditors determined that, despite having separate governing boards, the two districts operate essentially as one district. In fiscal year 2011, 54 of the districts' 75 employees provided services to both districts. This included administrative, plant operations, food service, transportation, support services, and instructional employees. Business staff processed payroll and accounts payables for both districts, maintenance staff maintained both districts' facilities, food service employees prepared meals for both elementary and high school students, bus drivers transported both districts' students on the same bus routes, and teachers often taught multiple courses in both elementary and high school grades. Further, the two districts combined costs, and nearly all of their students attended school on the same campus. Therefore, auditors determined that it would be more accurate to leave the two districts' operations, and resulting costs, combined rather than attempt to split them when making comparisons with peer districts. However, because student achievement measures can be accurately separated by grade, auditors compared each district separately to peer districts for student achievement purposes. Throughout the report, auditors referred to the combined district as the Patagonia School District, or Patagonia SD.

Based in part on their effect on classroom dollars, as previously reported in the Auditor General's annual report, *Arizona School District Spending (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2011, was considered.<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.

For very small districts, such as Patagonia SD, increasing or decreasing student enrollment by just five or ten students, or employing even one additional part-time position can dramatically impact the district's costs per pupil in any given year. As a result and as noted in the fiscal year 2012 *Classroom Dollars* report, spending patterns of very small districts are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of Patagonia SD's operations, less weight was given to various cost measures and more weight was given to auditors' observations made at the District.

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<sup>1</sup> 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.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2011 summary accounting data for all districts and Patagonia SD's fiscal year 2011 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To compare districts' academic indicators, auditors developed two student achievement peer groups 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. Patagonia Elementary School District's student achievement peer group includes Patagonia ESD and the 13 other elementary districts that also served student populations with poverty rates between 35 and 42 percent in towns and rural areas. Patagonia Union High School District's student achievement peer group includes Patagonia UHSD and the 2 other union high districts that also served student populations with poverty rates less than 20 percent in towns and rural areas. Auditors compared the districts' student AIMS scores to those of their peer group averages. Generally, auditors considered the districts' 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 their peer averages. Auditors also reported Patagonia UHSD's graduation rate and whether or not the districts' schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

To analyze Patagonia SD'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 Patagonia SD and 4 unified school districts that also served fewer than 200 students and were located in town and rural areas. Auditors compared Patagonia SD's costs to its peer group averages. Generally, auditors considered Patagonia SD'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 Patagonia SD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency, such as square footage per student, meal participation rates, and bus capacity utilization, as well as auditors' observations and any unique or unusual challenges the District had. 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 the District's fiscal year 2011 administration costs and staffing levels 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 75 individuals who received

payments through the District's payroll system and reviewed supporting documentation for 30 of the 5,967 accounts payable transactions in fiscal year 2011. Auditors also evaluated other internal controls that were considered significant to the audit objectives.

- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical 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 plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2011 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'. Auditors also reviewed the District's controls over district keys and building access.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, reviewed the District's controls over its fuel inventory, reviewed driver files for the District's 13 bus drivers, and reviewed bus maintenance and safety records for 6 of the District's 12 buses. Auditors also reviewed fiscal year 2011 transportation costs and compared them to peer districts'.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2011 food service revenues and expenditures, including labor and food costs; compared costs to peer districts'; reviewed the Arizona Department of Education's food service monitoring reports; and observed food service operations.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2011 expenditures to determine whether they were appropriate and if the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed. 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 Patagonia Elementary School District's and Patagonia Union High School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.





# DISTRICT RESPONSE

DISTRICT RESPONSE

# Patagonia School Districts

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August 29, 2013

State of Arizona  
Office of the Auditor General  
Debra Davenport, Auditor General  
2910 North 44th Street, Suite 410  
Phoenix, Arizona 85018

Ms. Davenport,

On July 23, 2013, Patagonia Union High School District # 20 (PUHS) and Patagonia Elementary School Dist #6 (PES), received your draft preliminary report of our FY 2011 District performance audit.

We would like to thank the Auditor General's staff of Vicki Hanson, Manager, John Ward, Audit Senior and Julia Coulombe, that were assigned to our Districts for their professionalism while interacting with our staff, their leadership and direction with regard to this audit.

PUHS & PES both welcome the opportunity to improve our organizations so that we will be a better and more efficient running entity. We are committed to fiscal responsibility, transparency and effective stewards of our taxpayers' funds that are entrusted to the Districts.

Patagonia Union High School District # 20 (PUHS) and Patagonia Elementary School Dist #6 (PES), respectfully submits our response to the Performance Audit for Fiscal Year 2011, which was conducted in conformity with Arizona Revised Statute (A.R.S.) §41-1279.03. PUHS & PES both understand that this Statute requires all Arizona public school districts to undergo a performance audit to assess a District's comparative expenditure patterns with similar sized districts.

Attached is the District's response to the findings and recommendations as outlined in the report. You will find that the Districts concur with the findings of the audit team. In addition, each District has already implemented most of the recommendations and is working on implementing the remainder.

On the following pages, PUHS & PES have addressed each recommendation in the report, and have stated that the Districts:

1. Agree with the findings and recommendations, and
2. Have already or plan to implement the recommendations.

Please contact us if you have any questions regarding our response.

Sincerely,

Denise J. Blake  
Superintendent  
Patagonia Union High School Dist. #20  
Patagonia Elementary School Dist. #6

Cc: Therese Whitney, Business Manager  
Governing Board, Patagonia Elementary School Dist. #6  
Governing Board, Patagonia Union High School Dist. #20

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## Elementary School District Governing Board

Brenda Somoza, President  
Jan Johnson, Clerk  
Bernice Pomeroy  
Janet Winans  
Cynthia Matus-Morriss

## High School District Governing Board

Clare Bonelli, President  
Julie Hendricks, Clerk  
Annette Brink  
Deborah Echeverria-Fain  
Fred Sang

## District Superintendent

Denise Blake

# Patagonia School Districts

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District Superintendent  
Denise J. Blake

## FINDING 1

Districts saved money by combining operations and sharing staff, but could reduce costs further.

### Response

We greatly appreciate that the #1 finding states that we have saved money by combining our operations, but we also understand that we must continue to look for ways to reduce costs so that these savings can then be directed into the classrooms.

**The Districts agree with this finding and have or will implement the recommendations.**

### Recommendation 1:

The District should review its administrative staffing levels to determine if savings can be achieved and if some of these monies can be redirected to the classroom.

### Response

The Districts have and will continue to implement this recommendation. As of FY2012 to the present, we have 1 full time Superintendent/Principal and 1 FTE. Athletic Director/Asst. Principal, serving both Districts We are continuing to look at ways to reduce our non-instructional costs and increase funding directed to classrooms.

### Recommendation 2:

The District should review its building capacity usage to determine whether the elementary school or unused sections of both the elementary and high schools can be closed to reduce costs.

### Response

The Districts are reviewing building capacity usage and agree with this finding. We have and will continue working towards implementing these recommendations to a further extent. As of FY2013, 1<sup>st</sup> and 2<sup>nd</sup> grades were moved from Old Main to the New Main Campus. The Governing Boards have committed to examining data and discussing at designated study sessions, other possible actions for using building space more efficiently.

## FINDING 2

District lacked sufficient controls in multiple operational areas.

### Response

**The Districts agree with this finding and have or will implement the recommendations.**

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Patagonia Elementary School District #6  
P.O. Box 295 Patagonia AZ. 85624

Patagonia Union High School District #20  
P.O. Box 254 Patagonia, AZ. 85624

District Office (520) 394-3050 Fax (520) 394-3051  
High School and Elementary School Student Office (520)-394-3000 Fax (520) 394-3001

# Patagonia School Districts

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## Recommendation 1:

As recommended by the Uniform System of Financial Records for Arizona School Districts, the District should prepare and retain in employee personnel files a current personnel/payroll action form or contract for each employee to document employment terms.

## Response

The Districts plan to implement the personnel/payroll action (PAR) form as recommended by the Spring of 2014. Currently, the HR Manager is learning the procedural steps in developing and issuing PAR's.

## Recommendation 2:

The District should ensure that all purchases are approved by appropriate supervisors prior to being made.

## Response

The Districts are making sure that no purchase is being made prior to appropriate supervisor's signatures being obtained. All purchase requisitions (PR) are required to have an administrator's signature prior to becoming a purchase order (PO). This process has been in place since the Fall of 2011.

## Recommendation 3:

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

## Response

After detailed discussions with the AG staff regarding the proper classifications of expenditures, the Districts have made changes to the areas recommended by them, staff training, transportation central services, financial software and outsourced IT services.

We will continue to monitor, review and identify coding practices throughout both districts. We will also take advantage of the training opportunities available to ensure compliance with the Uniform Chart of Accounts and any revisions that are made.

## Recommendation 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 an independent review.

## Response

The Districts have implemented this recommendation by initiating additional restricted access within our accounting system, so that a single employee cannot complete a full transaction without a supervisor's review and approval. We will continue to maintain appropriate access levels for all employees in relationship to their job responsibilities.

# Patagonia School Districts

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## Recommendation 5:

The District should implement and enforce password requirements related to password length and complexity.

## Response

The Districts have implemented the recommended password requirement of eight characters, which will include alphanumeric and capital letter characters, to increase the complexity of each employee's password.

## Recommendation 6:

The District should develop and implement a process to ensure critical updates are installed on its computers.

## Response

In FY2013, the Districts hired an onsite IT technician to oversee all of the Districts computers/servers. In doing so, he programmed the server to update all network computers and to date, all computers have been checked and have had all crucial updates installed. We are now on a maintenance plan to ensure this security and safety procedure is on-going.

## Recommendation 7:

The District should create a formal disaster recovery plan and test it periodically to identify and remedy deficiencies. Additionally, backup tapes should be stored in a secure offsite location.

## Response

The Districts have done 2 things to address this area. First, the Districts installed a virtual server in June 2013 which is backed up with a physical server that is located in a separate area of the school and thereby making tapes no longer necessary. Second, we've hired our own onsite IT technician who monitors the system on a regular basis so that we can fully maintain, upgrade and/or repair everything related to technology.

## Recommendation 8:

The District should implement controls over its process for securing, producing, and distributing facility keys, including establishing a distribution log, and creating and following a procedure for ensuring that keys are returned when an employee leaves district employment.

## Response

The key cutting machine and all blank keys have been moved into the Transportation Supervisor's office and are locked up. To assist with the inventory control of keys, we are also looking into purchasing a software program that will provide us with information pertinent to key security. The duties for maintaining key security will reside with the Human Resources Manager.

# Patagonia School Districts

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## Recommendation 9:

The District should create a formal preventative maintenance policy and schedule and ensure that bus preventative maintenance is conducted in a systematic and timely manner in accordance with its policy and the State's Minimum Standards.

## Response

The Districts met and discussed this situation with Auto Safety House. As of July 2012, the Districts have implemented a comprehensive preventative maintenance schedule for all aspects of our buses with Auto Safety House.

## Recommendation 10:

The District should implement a process to ensure that bus driver requirements are met and documented in accordance with the State's Minimum Standards.

## Response

The Districts are currently updating and reorganizing all bus drivers files and implementing the use of a spreadsheet to keep track of all the requirements necessary to assure that all drivers are in compliance per the State's Minimum Standards. The duties for maintaining these files and notifying bus drivers of requirements, now resides with the Transportation Coordinator.

## Recommendation 11:

The District should evaluate its controls over fuel inventory and ensure proper accounting of all fuel use.

## Response

The Districts have taken the following steps to ensure the proper accounting of fuel used. First, fuel pumps are now always locked. It is up to the Transportation Supervisor or the Transportation Coordinator, to unlock the pumps when fuel is needed and then lock them afterwards. Second, a log is being used to monitor fuel usage. Third, we will also be implementing a monthly dip stick check on our fuel levels and this will be noted on the fuel log.

## FINDING 3

Cooperatively providing transportation services likely saved the districts money, but raises funding questions.

## Response

The Districts appreciate the Auditor General for acknowledging that we are trying to save the Districts money. Most recently, we examined bus routes and were able to reduce one route in FY2014. In addition, on a route

# Patagonia School Districts

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with less than 15 students, we have offered families mileage reimbursement rather than send a bus and driver.

## Recommendation 1:

The Legislature may want to consider whether the intent of A.R.S. § 15-901 et seq was to allow districts to jointly operate transportation programs but still receive full transportation funding as if multiple districts were separately running such programs.

## Response

The Districts will comply with Legislation in reference to A.R.S. § 15-901 et seq



