

REPORT HIGHLIGHTS PERFORMANCE AUDIT

Student achievement and operational efficiency

Our Conclusion

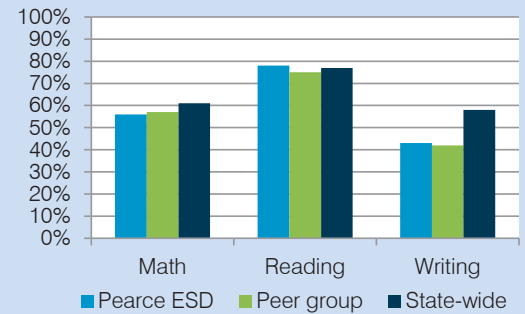
In fiscal year 2011, Pearce Elementary School District's student AIMS scores were similar to peer districts' averages. Although per pupil costs were high in some operational areas, the District was reasonably efficient overall. Pearce ESD's per pupil administration costs were similar to the peer districts' average, and although its plant operations, food service, and transportation program operated with higher per pupil costs than peer districts, these areas operated in a reasonably efficient manner considering factors such as the age of the District's buildings, number of meals served, and transportation miles driven. Although relatively efficient, the District should strengthen some of its accounting controls, including ensuring proper separation of duties for its payroll and purchasing processes and ensuring purchases are properly approved before they are made. The District should also strengthen some of its computer controls, such as the requirements for network passwords.

Student achievement—In fiscal year 2011, Pearce ESD's student AIMS scores were similar to peer districts' averages. However, for very small districts such as Pearce ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. The District's school met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

District was reasonably efficient overall

In fiscal year 2011, Pearce ESD's administrative costs per pupil were similar to peer districts' averages, and although its plant operations, food service, and transportation costs were higher per pupil, these areas operated in a reasonably efficient manner overall. Pearce ESD's plant costs were higher, in part, because the District's buildings were twice as old as the peer districts', on average, and its transportation costs were higher per pupil because the District drove nearly twice the miles per rider. Lastly, we did not identify any overstaffing or unusually high salaries or food waste in the District's food service program.

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



Comparison of per pupil expenditures by operational area
Fiscal year 2011

Per pupil	Pearce ESD	Peer group average
Administration	\$2,423	\$2,505
Plant operations	2,020	1,681
Food service	838	764
Transportation	1,106	743

District had inadequate accounting and computer controls

Payroll and purchasing processes lacked proper separation of responsibilities—In fiscal year 2011, Pearce ESD lacked adequate controls over its payroll process. More specifically, the District allowed one employee to perform all payroll and personnel functions with little or no supervisory review. Additionally, one district employee, with little or no supervisory review, was responsible for completing all purchasing functions. Allowing an individual the ability to initiate and complete a transaction without an independent supervisory review could allow the processing of false payments.

Lack of payroll review resulted in incorrect payments—In fiscal year 2011, Pearce ESD did not have an adequate review process that included a supervisory review and approval of hourly employee time sheets. From a sample of ten timesheets, we found that six were not reviewed by a supervisor and two contained inaccurate calculations of hours worked, which resulted in two employees' being paid incorrect amounts.



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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. We reviewed 30 fiscal year 2011 accounts payable transactions and found that 18 transactions were for purchases made without prior approval. No inappropriate transactions were detected in the items reviewed. However, preparing purchase orders and having an authorized employee approve them prior to making a purchase would help the District ensure that it has adequate budget capacity and that expenditures are appropriate and properly supported. Additionally, the District needs to improve procedures for credit card purchases. We reviewed three credit card statements for fiscal year 2011 and found over \$950 in credit card expenditures that were missing receipts or invoices, and all of the purchases were made without an approval indicating prior authorization.

Inadequate computer controls—The District lacked adequate controls over user access to its accounting system. More specifically, three employees had full access to the accounting system that would allow them to complete transactions without an independent review and approval. Although no improper transactions were detected in the items we tested, access beyond that which is necessary to perform job functions exposes the District to an increased risk of fraud and errors. In addition, the District needs stronger controls over passwords for its computer network. The District allows passwords to be short, does not require passwords to contain numbers or symbols, and does not prompt employees to periodically change their passwords. Further, the District does not have a formal and up-to-date data backup plan, and instead relies on its accounting system and student information system software vendors to back up its data without written agreements stipulating this requirement. Failure to ensure data backups could result in interrupted service or loss of data. Lastly, the District's accounting system resides at the Cochise County School Superintendent's Office, but there is no written agreement describing the responsibilities of the District and the Superintendent's Office regarding software licensing; user access; data security, backup, storage, and recovery; and removing former employees' access.

Costs not accurately reported—In fiscal year 2011, the District did not always properly classify its 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.

Recommendations

The District should:

- Implement proper controls over payroll and purchasing.
- Establish procedures to review and approve employee time sheets to help ensure that employees are paid correctly.
- Ensure all purchases have prior approval.
- Limit employee access to the accounting system so that one employee cannot complete transactions without an independent review.
- Implement and enforce stronger password controls.
- Establish written agreements with its software vendors for data backup.
- Establish an agreement with the Cochise County School Superintendent's Office that outlines each party's responsibilities for the District's accounting system.
- Classify all transactions in accordance with the Uniform Chart of Accounts for school districts.